MIDWAY CITY SANITARY DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2015

MIDWAY CITY SANITARY DISTRICT

TABLE OF CONTENTS

For the year ended June 30, 2015

INDEPENDENT AUDITORS' REPORT

Board of Directors
Midway City Sanitary District
Westminster, California

We have audited the accompanying financial statements of the Midway City Sanitary District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

2875 Michelle Drive, Suite 300, Irvine, CA 92606 • Tel: 714.978.1300 • Fax: 714.978.7893

Offices located in Orange and San Diego Counties

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Midway City Sanitary District as of June 30, 2015 and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

Emphasis of Matters

As discussed in Notes 1b and 11 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, *"Accounting and Financial Reporting for Pensions"* and Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68."* The adoption of these standards required retrospective application resulting in a $2,903,804 reduction of previously reported net position. Our opinion is not modified with respect to this matter.

Other Matter

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plans, and the other post-employment benefit plan - schedule of funding progress, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

White Nelson Diehl Evans LLP

Irvine, California
November 3, 2015

June 30, 2015

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Statements

This discussion and analysis provides an introduction and a brief description of the District's financial statements, including the relationship of the statements to each other and the significant differences in the information they provide. The District's financial statements include four components:

- Statement of Net Position
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows
- Notes to the Financial Statements.

The statement of net position includes all the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. The District's Net Position may be displayed in the categories:

- Net Investment in Capital Assets
- Restricted Net Position
- Unrestricted Net Position

The statement of net position provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses and changes in net position presents information which shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The statement of revenues, expenses and changes in net position measures the success of the District's operations over the past year and determines whether the District has recovered its costs through service fees, franchise fees, and other changes.

The statement of cash flows provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operations
- Noncapital financing
- Capital and related financing
- Investing

This statement differs from the statement of revenues, expenses and changes in net position because the statement accounts only for transactions that result in cash receipts or cash disbursements.

The notes to the financial statements provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

- The District's net position increased by $3,952,343.
- During the year, the District's total revenues were $10,722,856 while expenses totaled $6,770,513.

Financial Analysis of the District

Net Position

The following is a summary of the District's statement of net position:

	June 30, 2015	June 30, 2014	Dollar Change
Assets:			
Current assets	$ 31,437,883	$ 32,275,013	$ (837,130)
Restricted assets	979,229	979,128	101
Capital assets, net	24,549,892	21,676,498	2,873,394
Total Assets	56,967,004	54,930,639	2,036,365
Deferred Outflows of Resources: from pension	1,935,996	224,940	1,711,056
Liabilities:			
Current liabilities	1,787,901	1,252,446	535,455
Noncurrent liabilities	7,453,355	9,008,939	(1,555,584)
Total Liabilities	9,241,256	10,261,385	(1,020,129)
Deferred Inflows of Resources: from pension	815,207	0	815,207
Net Position:			
Net investment in capital assets	17,957,369	14,186,275	3,771,094
Restricted net position	979,229	979,128	101
Unrestricted	29,909,939	29,728,791	181,148
Total Net Position	$ 48,846,537	$ 44,894,194	$ 3,952,343

Midway City Sanitary District's net position increased by $3,952,343 from fiscal year 2013-2014 to 2014-2015. Looking at this table at June 30, 2015 and June 30, 2014, you can see that most of the change in net position was in capital assets, which increased $2,873,394. The restricted assets of $979,229 represent cash and cash equivalents held at the Bank of New York Trust Company, N.A. (the "Trustee" for the Certificate of Participation) (see page 8).

Unrestricted net position (those assets that can be used to finance day-to-day operations) increased $181,148 and the net investment in capital assets, increased by $3,771,094.

Financial Analysis of the District (Continued)

Revenues, Expenses and Changes in Net Position

The following is a summary of the District's revenues, expenses and changes in net position:

	For the Year Ended June 30, 2015	For the Year Ended June 30, 2014	Dollar Change
Operating revenues	$ 7,748,444	$ 7,574,795	$ 173,649
Nonoperating revenues	2,974,412	2,536,599	437,813
Total Revenues	10,722,856	10,111,394	611,492
Operating expenses	5,799,539	5,896,502	(96,963)
Depreciation	701,001	704,926	(3,925)
Interest expense	269,973	286,514	(16,541)
Loss in Sale of Capital Assets	0	1,272	(1,272)
Total Expenses	6,770,513	6,889,214	(118,701)
Net Position before capital contributions	3,952,343	3,222,180	730,163
Capital Contributions	0	0	0
Change in Net Position	3,952,343	3,222,180	730,163
Net Position at Beginning of Year, Prior Period Adjustment	47,797,988 (2,903,804)	44,575,818	3,222,180
Net Position at End of Year	$ 48,846,537	$ 47,797,998	$ 1,048,539

The District's total revenues increased by $611,492 from fiscal year 2014 to 2015. A majority of the increase is attributed to pass-through funds due to the continued dissolution of the City of Westminster and the County of Orange Redevelopment Agencies as-well-as additional franchise fee revenue received in fiscal year 2014-2015.

Capital Assets

Capital assets consist of the following at June 30, 2015 and June 30, 2014, respectively:

	June 30, 2015	June 30, 2014	Dollar Change
Capital assets not being depreciated:			
Land	$ 92,948	$ 92,948	$ -
Construction in Progress	2,795,624	86,555	2,786,969
Total Capital Assets, Not Being Depreciated	2,888,572	179,503	2,709,069

See independent auditors' report.

Capital Assets (Continued)

	June 30, 2015	June 30, 2014	Dollar Change
Capital assets being depreciated:			
Building and improvements	$ 1,113,700	$ 1,113,700	$ -
Pumping stations	5,297,054	5,297,054	-
Gravity lines and force mains	17,267,386	17,267,386	-
Resident containers	3,199,837	3,199,837	-
Refuse vehicles	2,767,060	2,145,144	621,916
Other vehicles	645,734	645,734	-
Other equipment	681,379	562,932	118,447
Total	30,972,150	30,231,787	740,363
Less: Accumulated Depreciation	(11,014,528)	(10,627,082)	(387,446)
Total Capital Assets Being Depreciated, Net	19,957,622	19,604,705	352,917
Total Capital Assets, Net	$ 22,846,194	$ 19,784,208	$ 3,061,986

The major capital asset additions and deletions for fiscal year ended June 30, 2015, totaled $740,363, which included the purchase of two compressed natural gas solid waste trucks, a new portable generator and a new Sewer System SCADA System, as-well-as the disposal of two diesel solid waste trucks. Construction in progress included engineering and construction services for a natural gas fueling station at the District yard for the solid waste fleet $2,786,969.

Additional information on the District's capital assets can be found in Note 4 beginning on page 24 of this report.

Long-Term Liabilities and Debt Administration

The District's long-term liabilities and certificate of participation outstanding was $6,744,121 at June 30, 2015.

	Balance at June 30, 2014	Additions	Payments/ Deletions	Balance at June 30, 2015	Payable Within One Year
Certificates of participation	$ 6,615,000	$ -	$ (715,000)	$ 5,900,000	$ 740,000
Bond discount	(37,939)	-	5,993	(31,946)	-
Cert. of participation, net	6,577,061		(709,007)	5,864,054	740,000
Compensated absences	167,060	156,460	(144,029)	179,491	144,029
Totals	$ 6,744,121	$ 156,460	$ (853,036)	$ 6,047,545	$ 884,029

Additional information on the District's long-term debt can be found in Note 5 beginning on page 25 of this report.

See independent auditors' report.

Economic Factors and Next Year's Budget and Rates

In June 2013, the Board of directors voted to keep residential sewer and solid waste (refuse) rates for the District at the current annual rates of $87 per year for residential sewer services and the refuse fee per year is $177. Additionally, in June 2010, the Board of directors approved a new ordinance to raise commercial, industrial, and nonresidential sewer rates. The ordinance applies a tiered rate dependent upon the level of demand of the commercial, industrial, and nonresidential business. The new commercial, industrial and nonresidential rates range from $119.49 (very low demand) to $459.96 (very high demand), per business unit per parcel.

These annual user fees will assist the District in undertaking capital improvement projects, including the future replacement and refurbishment of lift (pump) stations and the upsizing and replacing of sanitary sewer pipelines in the District, conversion of the District's solid waste fleet to alternative fuel trucks, the installation of an alternative fueling (natural gas) station and infrastructure upgrades, retire existing debt early (2015), and aggressively fund long-term employee benefits.

Contacting the District's Financial Manager

This financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Midway City Sanitary District at (714) 893-3553.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$	31,209,029
Accounts receivable		76,712
Taxes receivable		131,878
Interest receivable		20,264
Restricted:		
Cash and cash equivalents		979,229
TOTAL CURRENT ASSETS		32,417,112
NONCURRENT ASSETS:		
Other post employment benefit (OPEB) asset		1,703,698
Capital assets:		
Non-depreciable		2,888,572
Depreciable, net		19,957,622
TOTAL NONCURRENT ASSETS		24,549,892
TOTAL ASSETS		56,967,004
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount from pension		1,935,996
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable		739,816
Accrued payroll expenses		48,106
Accrued interest payable, certificates of participation		115,950
Compensated absences, current portion		144,029
Certificates of participation, current portion		740,000
TOTAL CURRENT LIABILITIES		1,787,901
LONG-TERM LIABILITIES:		
Compensated absences, net of current portion		35,462
Certificates of participation, net of current portion		5,128,054
Net pension liability		2,289,839
TOTAL LONG-TERM LIABILITIES		7,453,355
TOTAL LIABILITIES		9,241,256
DEFERRED INFLOWS OF RESOURCES:		
Deferred amount from pension		815,207
NET POSITION:		
Net investment in capital assets		17,957,369
Restricted for debt service		979,229
Unrestricted		29,909,939
TOTAL NET POSITION	$	48,846,537

See accompanying notes to financial statements.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

For the year ended June 30, 2015

OPERATING REVENUES:	
Service fees	$ 6,738,782
Franchise fees	921,740
Permit, inspection and connection fees	87,922
TOTAL OPERATING REVENUES	7,748,444
OPERATING EXPENSES:	
Solid waste disposal	3,293,952
General administration	1,459,001
Sewage collection	1,046,586
Depreciation	701,001
TOTAL OPERATING EXPENSES	6,500,540
OPERATING INCOME	1,247,904
NONOPERATING REVENUES (EXPENSES):	
Property taxes	2,858,103
Investment income	81,771
Other revenues	32,813
Gain on sale of capital assets	1,725
Interest expense	(269,973)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,704,439
CHANGE IN NET POSITION	3,952,343
NET POSITION AT BEGINNING OF YEAR, AS RESTATED	44,894,194
NET POSITION AT END OF YEAR	$ 48,846,537

See accompanying notes to financial statements.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 7,775,128
Payments to suppliers	(5,151,099)
Payments to employees	(1,666,819)
Other revenues	32,813
NET CASH PROVIDED BY OPERATING ACTIVITIES	990,023
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	2,860,228
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	2,860,228
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(3,776,462)
Proceeds from sale of capital assets	15,200
Principal paid on certificates of participation	(715,000)
Interest and fiscal charges paid on certificates of participation	(263,980)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,740,242)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	78,081
NET CASH PROVIDED BY INVESTING ACTIVITIES	78,081
NET DECREASE IN CASH AND CASH EQUIVALENTS	(811,910)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,000,168
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 32,188,258

See accompanying notes to financial statements. (Continued)

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2015

RECONCILIATION OF OPERATING INCOME TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 1,247,904
Adjustments to reconcile operating income to	
net cash provided by operating activities:	
Depreciation	701,001
Other revenues	32,813
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	26,684
(Increase) decrease in prepaid expenses	(1,711,056)
(Increase) decrease in net OPEB asset	188,592
Increase (decrease) in accounts payable	510,100
Increase (decrease) in accrued expenses	5,252
Increase (decrease) in net pension liability	(838,905)
Increase (decrease) in deferred amount from pension	815,207
Increase (decrease) in compensated absences	12,431
Total adjustments	(257,881)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 990,023
CASH AND CASH EQUIVALENTS -	
FINANCIAL STATEMENT CLASSIFICATION:	
Current assets	$ 31,209,029
Restricted assets	979,229
TOTAL CASH AND CASH EQUIVALENTS - FINANCIAL STATEMENT CLASSIFICATION	$ 32,188,258
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization of bond discount	$ 5,993

See accompanying notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

   a. Organization:

      The Midway City Sanitary District (the District) operates as authorized by the State of California. The Health and Safety Code of California (the Sanitary District Act of 1923) is the governing law. In addition, the County of Orange has determined (through LAFCO) the sphere of influence of the District's boundaries. The District services areas in Westminster and the unincorporated areas of the County of Orange known as Midway City.

      The District is operated by a general manager, administrative staff and field personnel. The general manager is hired by a five member Board of Directors who are elected by the public to a four year term.

      Activities of the District include the following:

      - The provisions of local sewage collection service to properties within the District.
      - The maintenance and cleaning of sewage collection lines.
      - The approval of plans and the inspection of the construction of sewers built within the District by developers.
      - The provision for trash and solid waste collection and disposal for residences.
      - The contracts with a third party for trash and solid waste collection of commercial, industrial and businesses.

      The District owns and operates vehicles for the above purposes and also owns property on which the District office and truck facilities are located including a garage and other buildings for the purpose of servicing and maintaining trucks and sewer lines. The District has contracted with a third party for the collection of solid waste collected in bins.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   b. Significant Accounting Policies:

      A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

      Basis of Presentation:

      The accounts of the District are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

      Measurement Focus and Basis of Accounting:

      "Measurement focus" is a term used to describe *which* transactions are recorded within the various financial statements. "Basis of accounting" refers to *when* transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the "economic resources measurement focus", and the "accrual basis of accounting". Under the economic measurement focus all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Significant Accounting Policies (Continued):

GASB Current Year Standards:

In fiscal year 2014-2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*" and GASB Statement No. 71 - "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this standard decreased the net position at July 1, 2014 by $2,903,804.

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the District.

GASB Pending Accounting Standards:

GASB has issued the following statements which may impact the District's financial reporting requirements in the future.

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.

- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.

- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Significant Accounting Policies (Continued):

GASB Pending Accounting Standards (Continued):

- GASB 75 - *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions"*, effective for periods beginning after June 15, 2017.

- GASB 76 - *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, effective for periods beginning after June 15, 2015.

Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The first item is deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first item is a deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years. The second item is a deferred inflow related to pensions for the changes in employer's proportion and differences between employer's contributions and the employer's proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 3.8 years.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Significant Accounting Policies (Continued):

Net Position Flow Assumption:

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Operating Revenues and Expenses:

Operating revenues, such as charges for services (service fees and franchise fees) result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values.

Nonoperating revenues, such as property taxes and assessments, result from nonexchange transactions or ancillary activities in which the District gives (receives) value without directly receiving (giving) equal value in exchange.

Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

Cash and Cash Equivalents:

For purposes of the statement of cash flows the District considers all investment instruments purchased with a maturity of three months or less (excluding restricted assets held by bond trustees) to be cash and cash equivalents.

Investments:

Investments are stated at their fair value which represents the quoted or stated market value. Investments that are not traded on a market, such as investments in external pools, are valued based on the stated fair value as represented by the external pool.

Allowance for Doubtful Accounts:

Management believes that all accounts receivable were fully collectible; therefore no allowance for doubtful accounts was recorded as of June 30, 2015.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   b. Significant Accounting Policies (Continued):

Property Taxes:

Property taxes in California are levied in accordance with Article XIIIA of the State Constitution at 1% of countywide assessed valuations. This levy is allocated pursuant to state law to the appropriate units of local government. Additional levies require two-thirds approval by the voters and are allocated directly to the specific government. Taxes and assessments are recognized as revenue based on amounts reported to the District by the County of Orange (County). The County acts as a collection agent for the property taxes which are normally collected twice a year.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	March 1
Due Dates:	First Installment - November 1
	Second Installment - March 1
Delinquent Dates:	First Installment - December 10
	Second Installment - April 10

Capital Assets:

Acquisitions of capital assets are recorded at cost. Contributed assets are recorded at their fair market value at the date of donation. Self-constructed assets are recorded at the amount of direct labor, material, certain overhead and interest costs. Additions, improvements and other capital outlays of $5,000 or more that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation is calculated on the straight-line method over the following estimated useful lives:

Building and improvements	10 to 25 years
Pumping stations	40 years
Gravity lines and force mains	75 years
Resident containers	10 years
Refuse vehicles	8 years
Other vehicles	5 to 8 years
Other equipment	5 to 10 years

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   b. Significant Accounting Policies (Continued):

      Compensated Absences:

      The District permits its employees to accumulate vacation and sick leave. The maximum amount of accumulated vacation and sick leave allowed are 20 and 24 days, respectively. Any sick time in excess of the maximum is paid to the employee with the first regular payment of wages during the month of December, at a rule of 50% of employers' payable. At termination or retirement, all vacation and fifty percent of the sick leave accumulated is paid to the employee. Compensated absences totaled $179,491 at June 30, 2015.

      Pensions:

      For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

      Estimates:

      The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2015 are reported in the accompanying statement of net position as follows:

Current Assets:	
Cash and cash equivalents	$ 31,209,029
Restricted cash and cash equivalents	979,229
Total Cash and Investments	$ 32,188,258

Cash and investments as of June 30, 2015 consisted of the following:

Cash on hand	$ 200
Deposits with financial institutions	893,613
Investments	31,294,445
Total Cash and Investments	$ 32,188,258

Investments Authorized by the California Government Code and the District's Investment Policy:

The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the District, rather than the general provisions of the California Government Code or the District's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Quality Requirements
United States Government Sponsored Agency Securities	5 years	$ 2,000,000	None
Certificates of Deposit	1 year	30% or $1,000,000	None
California Local Agency Investment Fund	N/A	None	None
CalTRUST Investment Pool	N/A	None	None

N/A - Not Applicable

2. CASH AND INVESTMENTS (CONTINUED):

Investments Authorized by Debt Agreements:

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Bankers Acceptance	180 days	None	None
Commercial Paper	270 days	None	None
Open Ended Money Market Mutual Funds	N/A	None	None
Guaranteed Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk:

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing over time as necessary to provide the cash flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2015.

	Maturity In Years
	Less Than 1 Year
California Local Agency Investment Fund (LAIF)	$ 29,051,558
CalTRUST Investment Pool	1,263,658
Held by Bond Trustee:	
Money Market Mutual Fund	979,229
Total Cash and Investments	$ 31,294,445

2. CASH AND INVESTMENTS (CONTINUED):

Disclosures Relating to Credit Risk:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual Standard and Poor's credit rating as of June 30, 2015 for each investment type.

Investment Type	Minimum Legal Rating	Total	Not Rated	AAA
California Local Agency				
Investment Fund (LAIF)	N/A	$ 29,051,558	$ 29,051,558	$ -
CalTRUST Investment Pool	N/A	1,263,658	1,263,658	-
Held by Bond Trustee:				
Money Market Mutual Fund	A	979,229	-	979,229
		$ 31,294,445	$ 30,315,216	$ 979,229

N/A - Not Applicable

Concentration of Credit Risk:

Concentration of credit is the risk of loss attributed to the magnitude to the District's investment in a single issue.

The investment policy of the District contains no limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California Government Code. The District holds no investments in any one issuer (other than external investment pools) that represent 5% or more of total District investments.

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk:

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counter-party (e.g., broker-dealer) the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Any deposits in excess of depository insurance limits at the end of the year are collateralized by securities held at the depository financial institution’s trust department. As of June 30, 2015, none of the District investments were held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

Investment in State Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

2. CASH AND INVESTMENTS (CONTINUED):

Investment in CalTRUST Investment Pool:

CalTRUST is a Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents. CalTRUST maintains and administers four pooled accounts within the program: Money Market, Short-Term, Medium-Term and Long-Term. The Money Market account permits daily transactions, with same-day liquidity (provided redemption requests are received by 1:00 p.m. Pacific time), with no limit on the amount of funds that may be invested. The Short-Term account permits an unlimited number of transactions per month (with prior day notice), with no limit on the amount of funds that may be invested. The Medium- and Long-Term accounts permit investments, withdrawals and transfers once per month, with five days advance notice. All CalTRUST accounts comply with the limits and restrictions placed on local agency investments by the California Government Code. CalTRUST imposes a $250,000 minimum investment; however, there is no maximum limit. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's percentage interest of the fair value provided by CalTRUST for the CalTRUST accounts (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by CalTRUST.

3. RESTRICTED ASSETS:

Restricted assets were provided by, and are to be used for, the following:

Funding Source	Use	
Proceeds of certificates of participation and interest earnings	Bond reserves	$ 979,229

4. CAPITAL ASSETS:

Capital assets consist of the following at June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	$ 92,948	$ -	$ -	$ 92,948
Construction in progress	86,555	2,709,069	-	2,795,624
Total capital assets, not being depreciated	179,503	2,709,069	-	2,888,572
Capital assets, being depreciated:				
Building and improvements	1,113,700	-	-	1,113,700
Pumping stations	5,297,054	-	-	5,297,054
Gravity lines and force mains	17,267,386	-	-	17,267,386
Resident containers	3,199,837	-	-	3,199,837
Refuse vehicles	2,145,144	948,946	(327,030)	2,767,060
Other vehicles	645,734	-	-	645,734
Other equipment	562,932	118,447	-	681,379
Total capital assets, being depreciated	30,231,787	1,067,393	(327,030)	30,972,150
Less accumulated depreciation for:				
Buildings and improvements	(465,705)	(74,660)	-	(540,365)
Pumping stations	(673,166)	(132,426)	-	(805,592)
Gravity lines and force mains	(3,519,487)	(230,232)	-	(3,749,719)
Resident containers	(2,927,554)	(75,553)	-	(3,003,107)
Refuse vehicles	(1,849,970)	(165,928)	313,555	(1,702,343)
Other vehicles	(641,745)	(4,529)	-	(646,274)
Other equipment	(549,455)	(17,673)	-	(567,128)
Total accumulated depreciation	(10,627,082)	(701,001)	313,555	(11,014,528)
Total capital assets, being depreciated, net	19,604,705	366,392	(13,475)	19,957,622
Total capital assets, net	$ 19,784,208	$ 3,075,461	$ (13,475)	$ 22,846,194

Depreciation expense for the depreciable capital assets was $701,001 in 2015.

5. LONG-TERM LIABILITIES:

Long-term liabilities consist of the following at June 30, 2015:

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year	Due in More Than One Year
Certificates of participation	$ 6,615,000	$ -	$ (715,000)	$ 5,900,000	$ 740,000	$ 5,160,000
Bond discount	(37,939)	-	5,993	(31,946)	-	(31,946)
Certificates of Participation, net	6,577,061	-	(709,007)	5,864,054	740,000	5,128,054
Compensated absences	167,060	156,460	(144,029)	179,491	144,029	35,462
Totals	$ 6,744,121	$ 156,460	$ (853,036)	$ 6,047,545	$ 884,029	$ 5,163,516

Certificates of Participation:

The 2005 Series SS Certificates of Participation were issued on November 29, 2005, for the purpose of financing the acquisition of certain sanitary sewer improvements by the District. The Certificates bear interest ranging from 3% to 4.375% and are payable semi-annually on February 1 and August 1. The Certificates were issued with original bond discount of $89,874, which will be amortized annually on a straight-line basis over the life of the bonds. The Certificates are due August 1, 2021. Certificates of participation outstanding total $5,900,000 at June 30, 2015. Debt service requirements on the certificates of participation as of June 30, 2015, are as follows:

Year Ending	Principal	Interest	Total
2016	$ 740,000	$ 234,880	$ 974,880
2017	770,000	204,295	974,295
2018	805,000	171,404	976,404
2019	840,000	136,868	976,868
2020	875,000	100,625	975,625
2021 - 2022	1,870,000	82,688	1,952,688
Subtotal	5,900,000	930,760	6,830,760
Less: Discount	(31,946)	-	(31,946)
Total	$ 5,868,054	$ 930,760	$ 6,798,814

The Certificates of Participation are subject to federal arbitrage regulations. The District has no arbitrage liability as of June 30, 2015.

As discussed in Note 12, the District paid off the 2005 Certificates of Participation in full in August 2015.

6. DESIGNATIONS OF NET POSITION:

The designated balances of unrestricted net position established by the Board of Directors as of June 30, 2015, are as follows:

Vehicle replacement	$ 1,354,179
Lift (pump) station and sewer lines	12,544,817
Orange County, Midway City reserve	1,276,546
Alternative energy vehicle and fueling station	2,489,389
Buildings, Equipment and Facilities	1,002,125
Operating	6,203,706
Debt payoff	4,180,796
Total Designations	29,051,558
Undesignated net position	858,381
Total Unrestricted Net Position	$ 29,909,939

7. DEFINED BENEFIT PENSION PLANS:

a. General Information about the Pension Plans:

Plan Descriptions:

All qualified permanent and probationary employees are eligible to participate in the District's 3% at 60 (Tier I), 2% at 55 (Tier II), and 2% at 62 (Tier III - PEPRA) Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided:

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire· at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

7. DEFINED BENEFIT PENSION PLANS (CONTINED):

a. General Information about the Pension Plans (Continued):

Benefits Provided (Continued):

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

	Miscellaneous		
	Tier I	Tier II	Tier III - PEPRA
	Prior to	On or After	On or After
Hire date	July 1, 2009	July 1, 2009	January 1, 2013
Benefit formula	3.0%@60	2%@55	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 67	50 - 67	52 - 67
Monthly benefits, as a % of eligible compensation	2.0% to 3.0%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	16.768%	11.522%	6.25%

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

7. DEFINED BENEFIT PENSION PLANS (CONTINED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 2,289,839

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for each Plan as of June 30, 2013 and 2014 was as follows:

	Miscellaneous
Proportion - June 30, 2013	0.09549%
Proportion - June 30, 2014	0.09265%
Change - Increase (Decrease)	-0.00284%

7. DEFINED BENEFIT PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

For the year ended June 30, 2015, the District recognized pension expense of $201,242. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,935,996	$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(45,715)
Net differences between projected and actual earnings on plan investments	-	(769,492)
Total	$ 1,935,996	$ (815,207)

$1,935,996 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2016	$ (208,700)
2017	(208,700)
2018	(205,436)
2019	(192,371)
2020	
Thereafter	

7. DEFINED BENEFIT PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions:

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment
(2) Net of pension plan investment expenses, including inflation
(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing', none of the tested plans run out of assets. Therefore, the current 7.50% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

7. DEFINED BENEFIT PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued):

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65%. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as a change in methodology occurs.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

7. DEFINED BENEFIT PENSION PLANS (CONTINUED):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (Continued):

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period
(b) An expected inflation of 3.0% used for this period

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.50%
Net Pension Liability	$ 4,079,785
Current Discount Rate	7.50%
Net Pension Liability	$ 2,289,839
1% Increase	8.50%
Net Pension Liability	$ 804,354

7. DEFINED BENEFIT PENSION PLANS (CONTINUED):

   b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

      Pension Plan Fiduciary Net Position:

      Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

   c. Payable to the Pension Plan:

      At June 30, 2015, the District had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB):

   Plan Description:

   The District, through a single employer defined benefit plan, provides retiree medical (including prescription drug benefits) coverage to eligible retirees and their eligible dependents through the CalPERS Health Program. The District pays the monthly premium for the retired employee, the employee's spouse and any surviving spouse, subject to a maximum per retiree and spouse. The monthly cap was $1,425 for both 2015 and 2014. The District's contribution will continue for the lifetime of the retiree and any surviving eligible spouse. Eligibility for retiree medical benefits is based on age, service and the receipt of monthly pension payments from CalPERS.

   Funding Policy and Annual OPEB Costs:

   The contribution requirements of the District are established and may be amended annually by the Board of Directors. The District's annual other post employment benefit (OPEB) cost (expense) for the Plan is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Funding Policy and Annual OPEB Costs (Continued):

The following table shows the components of the District's annual OPEB cost for the current year, the amount actually contributed to the Plan including benefits paid to retirees, and changes in the District's net OPEB asset or obligation for the year ended June 30, 2015:

Annual required contribution	$ 297,402
Interest on net OPEB asset	(132,460)
Adjustment to annual required contribution	152,493
Annual OPEB cost	317,435
Contributions (including benefits paid)	(128,843)
Decrease in net OPEB asset	188,592
Net OPEB Obligation (Asset) - beginning of year	(1,892,290)
Net OPEB Obligation (Asset) - end of year	$ (1,703,698)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2015, 2014, and 2013 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Asset
6/30/13	$ 341,345	100%	$ -
6/30/14	297,402	736%	(1,892,290)
6/30/15	317,435	41%	(1,703,698)

Funding Status and Funding Progress:

As of July 1, 2013, the most recent actuarial valuation date, the plan was 31.30% funded. The actuarial accrued liability for benefits was $3,187,342, and the actuarial value of assets was $997,620, resulting in an unfunded actuarial accrued liability (UAAL) of $2,189,722. The covered payroll (annual payroll of active employees covered by the plan) was $1,505,332 and the ratio of the UAAL to the covered payroll was 145.46%.

Actuarial valuations of an ongoing Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

8. OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONTINUED):

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the formal Plan document and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits and costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefits obligation is the Entry Age Normal Method. The actuarial assumptions include a 7.00% discount rate which, along with some other assumptions, is mandated by CalPERS for those plans being pre funded through CalPERS. The medical trend rate was 8% for the current year, reduced by decrements of 1% per year to an ultimate rate of 5% after the third year. The UAAL is being amortized using the level dollar method on a closed basis over 30 years.

9. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2013, the District began participation in an insurance pool through the Special District Risk Management Authority (SDRMA). SDRMA is a not-for-profit public agency formed under California Government Code Sections 6500 et. Seq. SDRMA is governed by a board composed of members from participating agencies. The mission of SDRMA is to provide renewable, efficiently priced risk financing and risk management services through a financially sound pool. The District pays an annual premium for commercial insurance covering general liability, property, automobile, personal liability for Board Members, employment practices, workers' compensation, and various other claims. Accordingly, the District retains no risk of loss. Separate financial statements of SDRMA may be obtained at Special District Risk Management Authority, 1112 "I" Street, Suite 300, Sacramento, CA 95814.

At June 30, 2015, the District's insurance coverages were as follows:

Property Loss - Buildings and business personal property insured up to $1,000,000,000 with $2,000 deductible per occurrence limited to insurable value.

General Liability -Insured up to $10,000,000 per occurrence and a $500 deductible per occurrence.

Personal Liability for Board Members - Insured up to $500,000 per occurrence with $500 deductible per occurrence.

9. RISK MANAGEMENT (CONTINUED):

Employment Practices - Insured up to $10,000,000 per occurrence with the first $10,000 per of claim or suit for employee discipline, demotion, reassignment or termination being covered, amounts in excess of $10,000 up to $50,000 the District is responsible of 50% per claim or suit. All other incidents have $0 deductible per occurrence.

Employee Benefits - Insured up to $10,000,000 per occurrence with no deductible.

Employee Dishonesty - Insured up to $400,000 per occurrence with no deductible.

Auto - Insured up to $10,000,000 per occurrence with $1,000 deductible per occurrence.

Auto Physical Damage - Insured for a total property value of $4,832,688 with a $500-$1,000 deductible per occurrence.

Uninsured/Underinsured Motorists - Insured up to $1,000,000 per accident with $1,000 deductible per occurrence.

Public Officials' and Employees' Errors- Insured up to $10,000,000 per occurrence with no deductible.

Trailer - Insured for a total property value of $29,045 with a $250 deductible per occurrence.

Boiler and Machinery - Insured up to $100,000,000 per occurrence with $1,000 deductible per occurrence limited to insurable value.

Workers' Compensation - Insured up to the statutory limits with not deductible.

There were no instances in the past three years where a settlement exceeded the District's coverage and no reduction in insurance coverage has occurred.

10. COMMITMENTS AND CONTINGENCIES:

Litigation:

There are potential lawsuits in which the District may be involved. The District's management and legal counsel estimate that potential claims against the District, not covered by insurance, resulting from such litigation would not materially affect the operations or financial condition of the District.

11. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the District's defined benefit pension plan in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in a reduction of net position by $2,903,804 as of July 1, 2014.

12. SUBSEQUENT EVENTS:

Events occurring after June 30, 2015 have been evaluated for possible adjustments to the financial statements or disclosure as of November 3, 2015, which is the date these financial statements were available to be issued.

On July 21, 2015, the District paid off the 2005 Certificates of Participation in full.

REQUIRED SUPPLEMENTARY INFORMATION

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

	2015
Plan's Proportion of the Net Pension Liability	0.03680%
Plan's Proportionate Share of the Net Pension Liability	$ 2,289,839
Plan's Covered-Employee Payroll	$ 1,463,364
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	156.48%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	489.23%
Plan's Proportionate Share of Aggregate Employer Contributions	302,937.00

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
There were no changes in assumptions.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLANS

Last Ten Fiscal Years*

	2015
Contractually required contribution (actuarially determined)	$ 224,940
Contributions in relation to the actuarially determined contributions	224,940
Contribution deficiency (excess)	$ -
Covered - employee payroll	$ 1,463,364
Contributions as a percentage of covered - employee payroll	15.37%

Notes to Schedule:

Valuation Date	6/30/2011
Methods and Assumptions Used to Determine Contribution Rates:	
Cost-sharing employers	Entry age normal cost method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years (2%@55), 8 years (2%@60), 30 years (2%@62)
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on age, service, and type of employment; including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 years (2%@55 and 2%@60), 52 years (2%@62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality imporvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.

* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

MIDWAY CITY SANITARY DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

For the year ended June 30, 2015

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b)-(a)]/c]
7/1/2009	$ -	$ 3,251,807	$ 3,251,807	0.00%	$ 1,706,180	190.59%
7/1/2011	526,085	3,451,560	2,925,475	15.24%	1,592,879	183.66%
7/1/2013	997,620	3,187,342	2,189,722	31.30%	1,505,332	145.46%