MIDWAY CITY SANITARY DISTRICT

FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FOR THE YEAR ENDED JUNE 30, 2018

MIDWAY CITY SANITARY DISTRICT

TABLE OF CONTENTS

For the year ended June 30, 2018

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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, 2018, 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. 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.

Opinion

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, 2018, 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.

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

Offices located in Orange and San Diego Counties

Emphasis of Matters

As discussed in Notes 1b and 10 to the financial statements, the District adopted Governmental Accounting Standards Board's (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The adoption of this standard required retrospective application resulting in a $2,779,301 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 plan, schedule of changes in net OPEB liability and related ratios, and schedule of contributions - OPEB, 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
September 7, 2018

June 30, 2018

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, 2018. 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 $5,449,003.
- During the year, the District's total revenues were $12,534,648 while expenses totaled $7,085,645.

Financial Analysis of the District

Net Position

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

	June 30, 2018	June 30, 2017	Dollar Change
Assets:			
Current assets	$ 37,937,156	$ 33,252,529	$ 4,684,627
OPEB asset	-	1,608,621	(1,608,621)
Capital assets, net	23,346,215	24,101,502	(755,287)
Total Assets	61,283,371	58,962,652	2,320,719
Deferred Outflows of Resources:			
Deferred amounts from OPEB	1,567,225	-	1,567,225
Deferred amounts from pension plan	1,048,372	2,558,060	(1,509,688)
Total Deferred Outflows of Resources	2,615,597	2,558,060	57,537
Liabilities:			
Current liabilities	789,418	963,632	(174,214)
Noncurrent liabilities	1,460,814	1,843,675	(382,861)
Total Liabilities	2,250,232	2,807,307	(557,075)
Deferred Inflows of Resources:			
Deferred amounts from OPEB	105,935	-	105,935
Deferred amounts from pension plan	451,018	291,316	159,702
Total Deferred Inflows of Resources	556,953	291,316	265,637
Net Position:			
Net investment in capital assets	23,346,215	24,101,502	(755,287)
Unrestricted	37,745,568	31,541,278	6,204,290
Total Net Position	$ 61,091,783	$ 55,642,780	$ 5,449,003

Midway City Sanitary District's net position increased by $5,449,003 from fiscal year 2016-2017 to 2017-2018. Looking at this table at June 30, 2018 and June 30, 2017, you can see that most of the change in net position was in current assets, which increased $4,684,627.

Unrestricted net position (those assets that can be used to finance day-to-day operations) increased $6,204,290 and the net investment in capital assets, decreased by $755,287.

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, 2018	For the Year Ended June 30, 2017	For the Year Ended June 30, 2016	Dollar Change
Operating revenues	$ 8,064,216	$ 7,889,843	$ 7,787,882	$ 174,373
Nonoperating revenues	4,470,432	3,699,065	3,588,709	771,367
Total Revenues	12,534,648	11,588,908	11,376,591	945,740
Operating expenses	5,954,102	5,857,816	5,232,884	96,286
Depreciation	1,131,543	1,094,761	1,071,137	36,782
Total Expenses	7,085,645	6,952,577	6,304,021	133,068
Net Position before capital contributions	5,449,003	4,636,331	4,939,221	812,672
Change in Net Position	5,449,003	4,636,331	4,939,221	812,672
Net Position at Beginning of Year	58,422,089	53,785,758	48,846,537	4,636,331
Prior-Period Adjustment	(2,779,309)	-	-	(2,779,309)
Net Position at Beginnin of Year, as Restated	55,642,780	53,785,758	48,846,537	1,857,022
Net Position at End of Year	$ 61,091,783	$ 58,422,089	$ 53,785,758	$ 2,669,694

The District's total revenues increased by $945,740 from fiscal year 2017 to 2018. 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 2017-2018.

Capital Assets

Capital assets consist of the following at June 30, 2018 and June 30, 2017, respectively:

	June 30, 2018	June 30, 2017	Dollar Change
Capital assets not being depreciated:			
Land	$ 92,948	$ 92,948	$ -
Total Capital Assets, Not Being Depreciated	92,948	92,948	-
Capital assets being depreciated:			
Building and improvements	4,443,793	4,443,793	-
Pumping stations	5,297,054	5,297,054	-
Gravity lines and force mains	17,818,984	17,503,155	315,829
Resident containers	395,795	703,545	(307,750)
Refuse vehicles	3,179,400	3,179,401	(1)
Other vehicles	917,914	1,146,716	(228,802)
Other equipment	742,244	731,038	11,206
Total	32,795,184	33,004,702	(209,518)
Less: Accumulated Depreciation	(9,541,917)	(8,996,148)	(545,769)
Total Capital Assets Being Depreciated, Net	23,253,267	24,008,554	(755,287)
Total Capital Assets, Net	$ 23,346,215	$ 24,101,502	$ (755,287)

The major capital asset additions and deletions for fiscal year ended June 30, 2018, totaled $(755,287), which included replacing two Class C pickup trucks for field operations, multiple sewer lining and repair projects, per the Districts Sewer System Master Plan (SSMP), as well as the disposal of $307,750 in discarded or fully depreciated solid waste carts, disposal of two sewer arrow board trailers, and the disposal of a diesel sewer vactor truck.

Additional information on the District's capital assets can be found in Note 3 beginning on page 21 of this report.

Long-Term Liabilities and Debt Administration

The District's long-term liability was $212,662 at June 30, 2018.

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Compensated absences	$ 205,091	$ 188,502	$ (180,931)	$ 212,662	$ 180,931	$ 31,731

Additional information on the District's long-term debt can be found in Note 4 beginning on page 21 of this report.

Economic Factors and Next Year's Budget and Rates

RESIDENTIAL

In June 2018, 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.

COMMERCIAL, INDUSTRIAL, BUSINESSES AND BIN SERVICES

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 current commercial, industrial and nonresidential sewer rates range from $119.49 (very low demand) to $459.96 (very high demand), per business unit, per parcel.

The District has an exclusive franchise agreement with CR&R Inc. to provide solid waste and recycling services to the District's commercial and industrial businesses as-well-as bin services for multifamily residences and mobile home parks. Maximum rates are set per the franchise agreement and are adjusted annually per any increase in the County landfill costs and the consumer price index. Effective July 1, 2018, these service rates will increase by 2.79% for CPI, Service Fees and a 2.03% increase on the landfill portion of the rate only.

Current rate information may be found online on the District's website at www.mcsandst.com.

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, the installation of an alternative energy infrastructure upgrades, and continue to 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, 2018

ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$	37,339,706
Accounts receivable		256,415
Taxes receivable		107,720
Interest receivable		162,350
Inventory		70,965
TOTAL CURRENT ASSETS		37,937,156
NONCURRENT ASSETS:		
Capital assets:		
Not depreciable		92,948
Depreciable, net		23,253,267
TOTAL NONCURRENT ASSETS		23,346,215
TOTAL ASSETS		61,283,371
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from OPEB		1,567,225
Deferred amounts from pension plan		1,048,372
TOTAL DEFERRED OUTFLOWS OF RESOURCES		2,615,597
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable		527,885
Accrued expenses		80,602
Compensated absences, current portion		180,931
TOTAL CURRENT LIABILITIES		789,418
LONG-TERM LIABILITIES:		
Compensated absences, net of current portion		31,731
Net OPEB liability		1,286,970
Net pension liability		142,113
TOTAL LONG-TERM LIABILITIES		1,460,814
TOTAL LIABILITIES		2,250,232
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from OPEB		105,935
Deferred amounts from pension plan		451,018
TOTAL DEFERRED INFLOWS OF RESOURCES		556,953
NET POSITION:		
Net investment in capital assets		23,346,215
Unrestricted		37,745,568
TOTAL NET POSITION	$	61,091,783

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, 2018

OPERATING REVENUES:		
Service fees	$	6,848,130
Franchise fees		1,006,353
Permit, inspection, and connection fees		209,733
TOTAL OPERATING REVENUES		8,064,216
OPERATING EXPENSES:		
Solid waste disposal		3,289,974
General administration		1,796,292
Sewage collection		867,836
Depreciation		1,131,543
TOTAL OPERATING EXPENSES		7,085,645
OPERATING INCOME		978,571
NONOPERATING REVENUES:		
Property taxes		3,825,663
Investment income		434,475
Other revenues		174,909
Gain on sale of capital assets		35,385
TOTAL NONOPERATING REVENUES		4,470,432
CHANGE IN NET POSITION		5,449,003
NET POSITION AT BEGINNING OF YEAR, AS RESTATED		55,642,780
NET POSITION AT END OF YEAR	$	61,091,783

See accompanying notes to the financial statements.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 8,027,201
Payments to suppliers	(5,605,157)
Payments to employees	(1,864,838)
Other revenues	174,909
NET CASH PROVIDED BY OPERATING ACTIVITIES	732,115
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property taxes received	3,840,068
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	3,840,068
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(376,256)
Proceeds from sale of capital assets	35,385
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(340,871)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on investments	346,031
NET CASH PROVIDED BY INVESTING ACTIVITIES	346,031
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,577,343
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	32,762,363
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 37,339,706

See accompanying notes to the financial statements.

MIDWAY CITY SANITARY DISTRICT

STATEMENT OF CASH FLOWS
(CONTINUED)

For the year ended June 30, 2018

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	$ 978,571
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,131,543
Other revenues	174,909
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:	
(Increase) decrease in accounts receivable	(37,015)
(Increase) decrease in inventory	3,762
(Increase) decrease in deferred outflows of resources from OPEB	(1,560,253)
(Increase) decrease in deferred outflows of resources from pension plan	1,509,688
Increase (decrease) in accounts payable	(275,436)
Increase (decrease) in accrued expenses	78,001
Increase (decrease) in compensated absences	7,571
Increase (decrease) in net OPEB liability	109,318
Increase (decrease) in net pension liability	(1,654,181)
Increase (decrease) in deferred inflows of resources from OPEB	105,935
Increase (decrease) in deferred inflows of resources from pension plan	159,702
Total adjustments	(246,456)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 732,115

See accompanying notes to the 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 (the County) has determined (through Local Agency Formation Commission (LAFCO)) the sphere of influence of the District's boundaries. The District services areas in Westminster and the unincorporated areas of the County 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.

b. Significant Accounting Policies

A summary of the District's significant accounting policies consistently applied in the preparation of the accompanying financial statements is as 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.

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

b. Significant Accounting Policies (Continued)

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.

GASB Current-Year Standards

In fiscal year 2017-2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017, of the District by $2,779,301.

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, 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 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.

- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.

- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.

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

b. Significant Accounting Policies (Continued)

GASB Pending Accounting Standards (Continued)

- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.

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 will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to pensions for differences between expected and actual experiences. 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.
- Deferred outflow from pensions resulting from changes in assumptions. 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.
- Deferred outflow related to pensions for employer contributions made after the measurement date of the net pension liability.
- Deferred outflow from pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over 5 years.
- Deferred outflow from OPEB for employer contributions made after the measurement date of the net OPEB 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 the following items that qualify for reporting in this category:

- Deferred inflow related to pensions for differences between expected and actual experiences. 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.
- Deferred inflow from pensions resulting from changes in assumptions. 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.

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

b. Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources (Continued)

- Deferred inflow from pensions for the changes in proportion and differences between employer contributions and the 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.

- Deferred inflow related to OPEB resulting from the difference in projected and actual earnings on investments. This amount is amortized over five years.

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 to be cash and cash equivalents.

Investments

Investments are stated at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

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

b. Significant Accounting Policies (Continued)

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, 2018.

Inventory

The District values its inventory at cost, using a method that approximates the first-in, first-out basis. The balance at June 30, 2018, is $70,965.

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. 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	July 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 acquisition cost 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	10-25 years
Pumping stations	40 years
Gravity lines and force mains	75 years
Resident containers	10 years
Refuse vehicles	8 years
Other vehicles	5-8 years
Other equipment	5-10 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 is 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 100%. At retirement, all vacation and sick leave accumulated are paid to the employee. At termination, all vacation and 50% of the sick leave accumulated are paid to the employee Compensated absences totaled $212,662 at June 30, 2018.

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) plan 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB plan and additions to/deductions from the OPEB plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, the District's OPEB plan recognizes benefit payments 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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, 2018, consist of the following:

Cash on hand	$	200
Deposits with financial institutions		810,738
Investments		36,528,768
Total cash and investments	$	37,339,706

2. *CASH AND INVESTMENTS (CONTINUED)*

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Quality Requirements
US 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

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, 2018.

	Maturity in Years
	Less Than 1 Year
California Local Agency Investment Fund	$ 35,238,221
CalTRUST Investment Pool	1,290,547
Total investments	$ 36,528,768

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. Investments at June 30, 2018, consist of CalTRUST Investment Pool and California Local Agency Investment Fund (LAIF), which are not rated.

2. *CASH AND INVESTMENTS (CONTINUED)*

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 any one 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.

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 counterparty (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, 2018, all of the District's deposits with financial institutions were covered by federal depository insurance limits or were held in collateralized accounts.

Investment in State Investment Pool

The District is a voluntary participant in the LAIF, which is regulated by the 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.

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 of Trustees 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, and medium-term accounts. 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.

2. CASH AND INVESTMENTS (CONTINUED)

Investment in CalTRUST Investment Pool (Continued)

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.

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The District's investments in LAIF and CalTRUST are not subject to the fair value hierarchy.

3. *CAPITAL ASSETS*

Capital assets consist of the following at June 30, 2018:

	Balance at July 1, 2017	Additions	Deletions	Transfers	Balance at June 30, 2018
Capital assets, not depreciated:					
Land	$ 92,948	$ -	$ -	$ -	$ 92,948
Total capital assets, not depreciated	92,948	-	-	-	92,948
Capital assets, being depreciated:					
Building and improvements	4,443,793	-	-	-	4,443,793
Pumping stations	5,297,054	-	-	-	5,297,054
Gravity lines and force mains	17,503,155	315,829	-	-	17,818,984
Resident containers	703,545	-	(307,750)	-	395,795
Refuse vehicles	3,179,400	-	-	-	3,179,400
Other vehicles	1,146,717	60,427	(269,415)	(19,815)	917,914
Other equipment	731,038	-	(8,609)	19,815	742,244
Total capital assets, being depreciated	33,004,702	376,256	(585,774)	-	32,795,184
Less accumulated depreciation for:					
Building and improvements	(958,888)	(227,813)	-	-	(1,186,701)
Pumping stations	(1,070,445)	(132,426)	-	-	(1,202,871)
Gravity lines and force mains	(4,212,147)	(234,428)	-	-	(4,446,575)
Resident containers	(638,038)	(35,288)	307,750	-	(365,576)
Refuse vehicles	(857,109)	(397,429)	-	-	(1,254,538)
Other vehicles	(637,112)	(71,323)	269,415	-	(439,020)
Other equipment	(622,409)	(32,836)	8,609	-	(646,636)
Total accumulated depreciation	(8,996,148)	(1,131,543)	585,774	-	(9,541,917)
Total capital assets, being depreciated, net	24,008,554	(755,287)	-	-	23,253,267
Capital assets, net	$24,101,502	$ (755,287)	$ -	$ -	$23,346,215

Depreciation expense for the depreciable capital assets was $1,131,543 in 2018.

4. *LONG-TERM LIABILITIES*

Long-term liabilities consist of the following at June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Compensated absences	$ 205,091	$ 188,502	$ (180,931)	$ 212,662	$ 180,931	$ 31,731

5. DESIGNATIONS OF NET POSITION

The designated balances of unrestricted net position established by the Board of Directors as of June 30, 2018, are as follows:

Vehicle replacement	$	2,794,433
Lift (pump) station and sewer lines		20,186,459
Orange County, Midway City reserve		2,534,299
Buildings, equipment, and facilities		2,470,824
Clean natural gas fueling facilities		477,823
Operating		6,840,513
Total designations		35,304,351
Undesignated net position		2,441,217
Total unrestricted net position	$	37,745,568

6. DEFINED BENEFIT PENSION PLAN

a. General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the District's separate Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under these 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 to 62 with statutorily reduced benefits. All members are eligible for nonindustrial disability benefits after five 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.

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

a. General Information about the Pension Plan (Continued)

Benefits Provided (Continued)

The plan provisions and benefits in effect at June 30, 2018, 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	7.77%	6.90%	6.25%
Required employer contribution rates			
Normal cost rate	12.698%	8.921%	6.533%
Payment of unfunded liability	$ 68,821	$ 288	$ -

Contributions

Section 20814(c) of the CalPERS 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. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of the pension plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$ 142,113

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Contributions (Continued)

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 the pension plan is measured as of June 30, 2017, and the total pension liability for the pension plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the pension plan as of the measurement date ended June 30, 2016 and 2017, was as follows:

	Miscellaneous
Proportion - June 30, 2016	0.00361%
Proportion - June 30, 2017	0.05171%
Change - increase (decrease)	0.04810%

For the year ended June 30, 2018, the District recognized a pension expense of $281,933. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the pension plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 266,724	$ -
Differences between actual and expected experience	5,104	(73,128)
Change in assumptions	633,315	(48,291)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(329,599)
Net differences between projected and actual earnings on plan investments	143,229	-
Total	$ 1,048,372	$ (451,018)

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

An amount of $266,724 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension plans will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2019	$ (11,646)
2020	271,790
2021	155,525
2022	(85,039)
2023	-
Thereafter	-

Actuarial Assumptions

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016, total pension liability determined in the June 30, 2016, actuarial accounting valuation. The June 30, 2017, total pension liability was based on the following actuarial methods and assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-age normal cost method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Postretirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) The mortality table used was developed based on CalPERSspecific 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 April 2014 Experience Study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.

(3) Contract cost of living adjustment up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter.

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Actuarial Assumptions (Continued)

All other actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial Experience Study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report can be obtained on the CalPERS website under Forms and Publications.

Change of Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each plan and reflects the long-term expected rate of return for the each plan, net of investment expenses and without reduction for administrative expenses. 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 of the plans, the tests revealed that the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15% is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report titled "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) 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 PERF 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.

6. DEFINED BENEFIT PENSION PLAN (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. The target allocation shown was adopted by the CalPERS Board of Directors effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
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 the pension plan, calculated using the discount rate for the 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 one percentage point lower or one percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 2,229,701
Current Discount Rate	7.15%
Net Pension Liability	$ 142,113
1% Increase	8.15%
Net Pension Liability	$ (1,586,865)

6. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Pension Plan Fiduciary Net Position

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

c. Payable to the Pension Plan

At June 30, 2018, the District had no outstanding amount of contributions to the pension plan as required for the year ended June 30, 2018.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

a. General Information about the OPEB Plan

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 for 2018 and 2017 was $1,550 and $1,425, respectively. 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.

Employees Covered

As of the June 30, 2017, actuarial valuation, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	19
Active employees	25
Total	44

Contributions

The DPHP and its contribution requirements are established by District policy and may be amended by the Board of Directors. The annual contribution is based on the actuarially determined contribution. For the fiscal year ended June 30, 2018, the District's cash contributions were $1,536,993 in payments to the trust and the estimated implied subsidy was $30,232, resulting in payments of $1,567,225.

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

b. Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated June 30, 2017. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-age normal cost method, level percent of pay
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Assumed Wage Inflation	3.00% per year
Projected Salary Increase	3.25% per year
Expected Long-Term Investment Rate of Return	6.75%
Healthcare Cost Trend Rates	8.0%, decreasing to 5%
Preretirement Turnover	Derived from CalPERS pension plan
Mortality	Derived from CalPERS pension plan, updated to reflect most recent Experience Study

The actuarial assumptions used in the June 30, 2017, valuation were based on a standard set of assumptions the actuary has used for similar valuations, modified as appropriate for the District.

The long-term expected rate of return was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017, are summarized in the following table:

Asset Class	New Strategic Allocation	Long-Term Expected Real Rate of Return
CEBRT		
US Equity	30.00%	4.85%
International Equity	27.00%	5.85%
Real Estate Investment Trusts	8.00%	3.65%
US Fixed Income	27.00%	2.35%
Commodities	3.00%	1.75%
Inflation assets	5.00%	1.50%
Total	100.00%	

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

b. Net OPEB Liability (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the DPHP's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on DPHP plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Change of Discount Rate

The discount rate utilized in the June 30, 2017, valuation was 6.75% as compared to the June 30, 2015 valuation discount rate of 7%. The discount rate was changed due to the implementation of GASB Statement No. 75.

c. Changes in the Net OPEB Liability

The changes in the net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2016 (Measurement Date)	$ 4,469,763	$ 3,292,111	$ 1,177,652
Changes in the Year:			
Service cost	157,023	-	157,023
Interest on the total OPEB liability	307,649	-	307,649
Differences between actual and			-
expected experience	-	-	-
Changes in assumptions	-	-	-
Changes in benefit terms	-	-	-
Contribution - employer	-	6,972	(6,972)
Net investment income	-	350,153	(350,153)
Administrative expenses	-	(1,771)	1,771
Benefit payments	(138,039)	(138,039)	-
Net Changes	326,633	217,315	109,318
Balance at June 30, 2017 (Measurement Date)	$ 4,796,396	$ 3,509,426	$ 1,286,970

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

c. Changes in the net OPEB Liability (Continued)

Change of Assumptions

There was no change of assumptions.

Change of Benefit Terms

There was no change of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current discount rate:

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability	$ 1,957,909	$ 1,286,970	$ 735,655

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (7.00% decreasing to 4.00%) or one percentage point higher (9.00% decreasing to 6.00%) than the current healthcare cost trend rates:

	1% Decrease (7.00% Decreasing to 4.00%)	Current Healthcare Cost Trend Rates (8.00% Decreasing to 5.00%)	1% Increase (9.00% Decreasing to 6.00%)
Net OPEB Liability (Asset)	$ 666,387	$ 1,286,970	$ 2,104,156

7. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

d. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $210,345. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	$ 1,567,225	$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Differences between projected and actual earnings	-	105,935
Total	$ 1,567,225	$ 105,935

The net difference between projected and actual earnings on plan investments is amortized over a five-year period.

Amount of $1,567,225 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	$ (26,484)
2020	(26,484)
2021	(26,484)
2022	(26,483)
2023	-
Thereafter	-

e. Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan as required for the year ended June 30, 2018.

8. 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, 2018, the District's insurance coverages were as follows:

Property Loss - Buildings and business personal property insured up to $1,000,000,000 with $1,000 deductible per occurrence limited to insurable value and subject to various per occurrence and/or aggregate sub-limits as noted in the policy.

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

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

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, and amounts that are in excess of $10,000 (up to $110,000) the District is responsible for 50% per claim or suit but limited to $50,000. All other incidents have $0 deductible per occurrence.

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

Employee and Public Official Dishonesty - Insured up to $1,000,000 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 $4,400,719 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 Directors' 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 no deductible.

8. RISK MANAGEMENT (CONTINUED)

Cyber - Insured up to $2,000,000 per occurrence with $25,000 deductible per occurrence limited to insurable value.

Pollution - Insured up to $2,000,000 per occurrence with $75,000 deductible per occurrence limited to insurable value.

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.

9. 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.

10. RESTATEMENT OF PRIOR-YEAR FINANCIAL STATEMENTS

The implementation of GASB Statement No. 75 requires reporting the net OPEB liability of the District's single-employer defined benefit 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 No. 75 resulted in a reduction of net position by $2,779,301 as of July 1, 2017.

11. SUBSEQUENT EVENTS

Events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of September 7, 2018, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years*

Fiscal Year Ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's Proportion of the Net Pension Liability	0.00143%	0.02076%	0.03315%	0.03680%
Plan's Proportionate Share of the Net Pension Liability	$ 142,113	$ 1,796,294	$ 909,464	$ 2,289,839
Plan's Covered Payroll	$ 1,610,995	$ 1,550,911	$ 1,528,172	$ 1,463,364
Plan's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	8.82%	115.82%	59.51%	156.48%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.31%	115.82%	93.24%	489.23%
Plan's Proportionate Share of Aggregate Employer Contributions	$ 568,876	$ 464,911	$ 434,162	$ 302,937

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
From fiscal year June 30, 2015 to June 30, 2016:
GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.
From fiscal year June 30, 2016 to June 30, 2017:
There were no changes in assumptions.
From fiscal year June 30, 2017 to June 30, 2018:
The discount rate was reduced from 7.65% to 7.15%.

* Fiscal year 2015 was the first year of implementation, therefore, four years are shown.

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN

Last Ten Fiscal Years*

Fiscal year ended	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	$ 266,724	$ 255,432	$ 241,905	$ 235,999
Contributions in relation to the actuarially determined contributions	(266,724)	(2,123,730)	(241,905)	(1,935,999)
Contribution deficiency (excess)	$ -	$(1,868,298)	$ -	$(1,700,000)
Covered - payroll	$ 1,707,287	$ 1,610,995	$ 1,550,911	$ 1,528,172
Contributions as a percentage of covered - employee payroll	15.62%	131.83%	15.60%	126.69%

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
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	Morality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board.**

* Fiscal year 2015 was the first year of implementation; therefore, four years are shown.

** The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal years ended June 30, 2015, 2016, and 2017, respectively) included the same actuarial assumptions.

*** The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015), valued assets using a 15-yYear smoothed market method. The market value asset valuation method was utilized for the June 30, 2013, 2014, and 2015, valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018, respectively).

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Measurement date	6/30/2017
Total Pension Liability:	
Service cost	$ 157,023
Interest on total OPEB liability	307,649
Benefit payments, including refunds of	(138,039)
Net Change in Total OPEB Liability	326,633
Total OPEB Liability - Beginning of Year	4,469,763
Total OPEB Liability - End of Year (a)	4,796,396
Plan Fiduciary Net Position:	
Contributions - employer	6,972
Net investment income	350,153
Administrative expenses	(1,771)
Benefit payments	(138,039)
Net Change in Plan Fiduciary Net Position	217,315
Plan Fiduciary Net Position - Beginning of Year	3,292,111
Plan Fiduciary Net Position - End of Year (b)	3,509,426
Net OPEB Liability - Ending (a)-(b)	$ 1,286,970
Plan fiduciary net position as a percentage of the total OPEB liability	73.17%
Covered - employee payroll	$ 1,610,995
Net OPEB liability as percentage of covered - employee payroll	79.89%

Notes to Schedule:

Benefit Changes:
There were no changes in benefits.

Changes in Assumptions:
There were no changes in assumptions.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

MIDWAY CITY SANITARY DISTRICT

SCHEDULE OF CONTRIBUTIONS - OPEB

Last Ten Fiscal Years*

		6/30/2018
Actuarially determined contribution	$	256,997
Contributions in relation to the actuarially determined contributions		(1,567,225)
Contribution deficiency (excess)	$	(1,310,228)
Covered - employee payroll	$	1,707,287
Contributions as a percentage of covered - employee payroll		91.80%

Notes to Schedule:

Valuation Date 6/30/2017

Methods and Assumptions Used to Determine Contribution Rates:

Single and agent employers	Entry age
Amortization method	Level percentage of payroll, closed
Asset valuation method	Market Value
Inflation	2.75%
Salary increases	3.25%
Investment rate of return	6.75%
Mortality	Bickmore Scale 2017 applied generationally

* Fiscal year 2018 was the first year of implementation; therefore, three years are shown.