

2013 ANNUAL REPORT



Local focus. Regional balance.

Being a good neighbor where it matters most.



BEING A GOOD NEIGHBOR

What we do directly impacts relationships spanning many generations. Families. Communities. Nature. Treating all of our neighbors with respect and carefully balancing our relationships with them is what being a good neighbor is all about. This is the policy of OC Waste & Recycling. It extends from protecting views and nurturing habitats to mitigating neighborhood impacts in a manner that respects our natural environment. What we are doing as neighbors for generations to come is the story behind this year’s annual report.

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Orange County

Board of Supervisors



SHAWN
NELSON

Board Chairman
Supervisor
Fourth District



PATRICIA C.
BATES

Vice Chair
Supervisor
Fifth District



JANET
NGUYEN

Supervisor
First District



JOHN M. W.
MOORLACH

Supervisor
Second District



TODD
SPITZER

Supervisor
Third District



Orange County

Waste Management Commission

CHAIR
Brett Murdock
4th District

VICE CHAIR
Chad Wanke
4th District

FIRST DISTRICT
Michele Martinez
Xuan-Nhi Van Ho
Hoa Van Nguyen

SECOND DISTRICT
Joe Carchio
James Wahner
Daniel Worthington

CITY MANAGERS' REPRESENTATIVE
Doug Chotkevys

DIRECTOR, OC WASTE & RECYCLING
Dylan Wright

THIRD DISTRICT
Mike Alvarez
Donald R. Froelich
Steve Chavez Lodge

FOURTH DISTRICT
Samuel Han

FIFTH DISTRICT
Cynthia Conners
Joe Soto

AT LARGE
David J. Shawver

RECOGNITION

OC Waste & Recycling's successes in 2013 are measureable, and are directly attributed to our dedicated employees. The following awards recognize our achievements and support our multifaceted approach as we carry out our mission and vision.

Landfill Management Excellence
Solid Waste Association of North America

Frank R. Bowerman Landfill received the Association's Bronze Award for outstanding environmentally- and economically-sound solid waste management practices.

Turning Red Tape into Red Carpet
Orange County Business Council

This award recognizes OC Waste & Recycling for its work with the public-private partnership on the Olinda Alpha Landfill Energy Development Project.

Arnold O. Beckman Corporate Award
Discovery Science Center

OC Waste & Recycling was honored to receive this award for vision, innovation, and leadership with the strategic educational programs which include the three Eco Challenge exhibits at Discovery Science Center (as well as the in-school and field trip programs) in partnership with the Discovery Science Center.



OC Waste & Recycling understands the importance of being a good neighbor. This annual report provides an in-depth look at how we focused our energies where it matters the most—right here in our community.

The past year has truly been one filled with projects and programs with a local focus, benefitting both the communities adjacent to our landfills and the region as a whole.

Throughout 2013, our biologists worked diligently to restore the natural landscape by creating a wetland filled with native species and improving the quality of habitat for plants and animals. In respect to residential neighborhoods near our landfills, we designed viewshed protection plans to reduce the visual impacts of our landfill operations by planting groves of trees that blend with the environment to create a more attractive hillside view.

We also implemented a falconry-based bird abatement program, using hawks and falcons to discourage scavenger birds from foraging at the landfills. This environmentally-sensitive technique allows us to effectively manage waste within our landfill operations while minimizing impacts to neighboring communities.

These programs are just some of the many ways we are continuing to maintain strong relationships with our neighbors. Landfill tours offered to local residents and students, along with our award-winning partnership with the Discovery Science Center, educate children and encourage residents to Reduce, Reuse, and Recycle. Key outreach elements such as these directly benefit the communities we serve today, while extending the lives of our landfills to serve future generations.

Being a good neighbor also requires that we remain financially solvent to support our department. In fiscal year 2012/2013, we accepted 3.43 million tons of solid waste at all three landfills, while keeping disposal rates competitive. Partnerships with public-private entities allow us to turn that same waste into electricity, generating renewable energy and additional revenue for the County.

As public stewards charged with overseeing essential waste management services we are dedicated to serving Orange County's thirty-four cities and over three million residents, a commitment that we take very seriously – we are truly their neighbors.



Dylan Wright
Director



Vision

To be the best waste disposal system in America.

Mission

To provide waste management services, protect the environment and promote recycling in order to ensure a safe and healthy community for current and future generations.

Nurturing natural habitats



The birth of a new wetland at the Frank R. Bowerman Landfill.

While mature habitats at the Prima Deshecha Landfill are continuing to thrive, the new wetland basin planted in 2013 at the Frank R. Bowerman Landfill is just beginning to grow. Each seedling was carefully planted in the new basin, which boasts a sophisticated drip irrigation system that winds its way through the willows and other wetland vegetation.

Wetland Lands where saturation with water is the dominant factor determining the nature of soil development and the types of natural plant and animal communities living in the soil and on its surface.

As environmental stewards, we work hard at preserving our natural surroundings which involves essential steps such as planning, designing, developing and maintaining natural habitats, including wetlands.

In 2013, we dedicated our efforts to wetland mitigation, which offsets biological impacts and compensates for the loss of natural drainages associated with the development of the Frank R. Bowerman Landfill. To support wetland mitigation, we completed construction of the Wetland Basin to collect and maintain adequate storm water, which is used to irrigate the wetlands area. Varied topography was also engineered to encourage plant diversity and to provide a gentle balance between nature, the landfill, and the community.

Additionally, we retained the Irvine Ranch Conservancy to restore and enhance habitat mitigation in the Agua Chion Wash drainage area of Limestone-Whiting Wilderness Park. Irrigation was installed for dual use: to provide water for a weed control technique, in which weeds are grown and removed before they flower and become established; and to water new plants and seeds that will grow in the weeded areas.

At the same time, we continued to nurture Prima Deshecha Landfill's mature 3.42 acre wetland basin, populated with freshwater marshes and a dense forest of willow trees, where three pairs of endangered least Bell's vireos typically nest every spring. This vibrant natural community creates a pleasant experience for members of the public using the adjacent recreational trail.



Work is progressing at the Agua Chion Wash.

Irrigation was installed to accelerate the growth of new vegetation to eradicate non-native invasive plants.



Enjoying the recreational trail at the Prima Deshecha Landfill.

Runners, hikers, bikers, and equestrians pass through restored coastal sage scrub and spot the occasional coastal California gnatcatcher, an endangered bird.

Respecting nature and neighborhoods



A bird in the hand goes a long way.

The special interaction between the falconers and their raptors allow these trained birds to regulate scavenger birds at the landfills. These beautiful birds of prey excel at controlling the pesky seagulls, pigeons, and other birds that flock to the exposed landfill waste disposal areas to feed.

Bird Abatement Measures used to minimize the nuisance bird population from foraging at the landfills and impacting surrounding communities.

Our commitment to managing a premiere waste disposal system means taking all the steps necessary to control and minimize nuisance birds at our landfills. Keeping these birds away is all part of the careful disposal of the County's waste and is fundamental to preserving public health and safety regulated at the federal, state and local levels.

In compliance with such regulations, a falconry-based bird abatement program was implemented at our three active landfills to support efficient landfill operations and sound environmental practices. Based on the program's success, this method was identified to be the preferred and primary method for bird abatement. Falconry employs a natural, environmentally-friendly strategy using falcons and hawks to deter the nuisance birds from our landfill operations.

On almost any day, flocks of nuisance birds such as seagulls, pigeons, crows, and ravens soar in circles over exposed trash at the landfills, hoping to find their next meal. Licensed falconers strategically release trained raptors such as Lanner falcons, Saker falcons, and Harris hawks, ranging in age and skills, to accomplish one mission - discourage nuisance birds from flying near, or landing on, the waste disposal areas at the landfills. These raptors motivate the nuisance birds to leave the landfills without harming them.

Waste should remain within the landfill boundaries where we can effectively manage its disposal. Falconry helps us to achieve our goals while improving the safety of our landfill operations and minimizing impacts to neighboring communities.



Chasing away the birds at the Olinda Alpha Landfill.

Scavenger birds are well aware that while a tempting feast lies below, hawks and falcons are waiting nearby to chase them away.



Monitoring the seagulls at the Prima Deschecha Landfill.

It is easy to spot our falconer and his birds near the waste disposal area. While his Saker falcon draws admiration from human visitors, the nuisance birds react very differently and take to the high skies.

Caring about community aesthetics



Enhancing the landscaping along the haul road.

Great care is taken to nurture the variety of plant stock in this recently-planted grove of African Sumacs, Cottonwoods, and Silk Oaks. This green screen along the northern access road at the Prima Deshecha Landfill naturally blends our landfill operations with the environment.

Viewsheds These are areas of land, water, or other environmental elements that are visible to the human eye from a fixed vantage point.

As a member of the neighborhood, we continue to focus on the appearance of our landfills so that they do not detract from the aesthetics of the local community. Planning and implementing viewshed improvements allows us to buffer visual and auditory impacts associated with our daily landfill operations.

The design and execution of viewshed plans require experts such as landscape architects to assess and identify areas for enhancements at the landfills.

Plans are currently being finalized at the Olinda Alpha Landfill, to plant vegetation along the main haul road, which will help to screen views from the surrounding residential areas of waste disposal trucks entering and exiting the landfill. In addition, a vegetative screen is being designed to reduce the visibility of the landfill's renewable energy facility to nearby residences.

In consideration of the growth of surrounding communities, a grove of trees and native scrub was planted to camouflage a berm designed to block views of vehicle traffic on the landfill access road at the Prima Deshecha Landfill. Additional trees will soon be planted along this ridgeline to screen even the tallest trucks and highest permitted elevations of landfilling operations. Also, a design phase is in the works for viewshed enhancement of the facilities (including the scale area, flare station, mechanics facility, materials recovery facility, household hazardous waste center, and electrical generation plant) within this landfill, which will be implemented together with another County project that will extend a major roadway through the landfill to connect two cities in south Orange County – greatly improving scenic vistas for users of this new route.



Finalizing sightlines and selecting locations.

With trucks lumbering by, the Olinda Alpha Landfill team worked onsite with landscape architects to develop a viewshed plan for future planting of vegetative screens along the main haul road, aided by visual simulations developed specifically for this project.



Trees hide traffic on the haul road.

Caring about our neighbors can be as simple as taking actions that demonstrate the importance of an aesthetically-pleasing view. The success of the pines that we planted along the haul road at the Olinda Alpha Landfill has inspired additional viewshed planning for more trees further up the road.

Highlights of Ten Year Financial Forecast

OC Waste & Recycling is responsible for the administration and management of Orange County’s solid waste disposal system. OC Waste & Recycling is organized as an enterprise fund and is supported by revenues from disposal fees that are charged to customers. No tax revenues are utilized by the Department.

System tonnage (includes in-County and importation tonnage) is forecasted at approximately 3.95 million tons in FY 13/14. Overall, system tonnage has declined by approximately 34% from a FY 04/05 peak of 5.19 million tons to FY 12/13’s 3.43 million tons. A slight decline in the system tonnage forecast is included for the duration of the forecast period based upon the possible impact of state regulations regarding higher diversion and restrictions on types of tonnage disposed at the landfills (Table A, System Tonnage). In recognition of declining tonnage, the Department has looked for opportunities to ensure financial solvency and maintain rate stability.

Importation is currently scheduled to terminate on June 30, 2016 (Chart 1). Revenues from imported waste, net of OC Waste & Recycling operating expenses, are transferred to the County General Fund for payment of bankruptcy related obligations. The importation tonnage projection for the forecast period is conservative and based on contractual amounts. The actual level of importation received may be greater than what is included in this forecast.

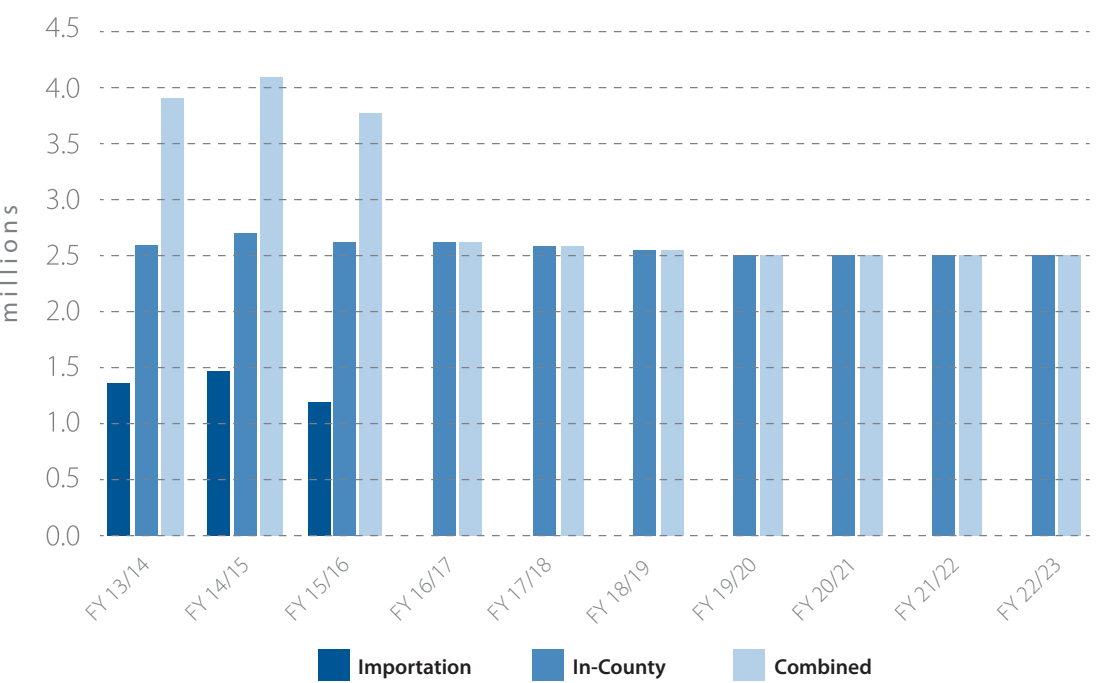
System revenues (includes in-County and importation revenue, operating transfers, and use of reserves) are projected to be mostly stable throughout the forecast period in support of projected expenditures (Table B, System Revenue).

A higher disposal fee and the Waste Disposal Agreements with Orange County cities and certain private material recovery facility operators, became effective July 1, 2010. The new rate through June 30, 2020 includes an annual adjustment based on the Consumer Price Index. In FY 13/14, the contract disposal fee is \$32.05 per ton.

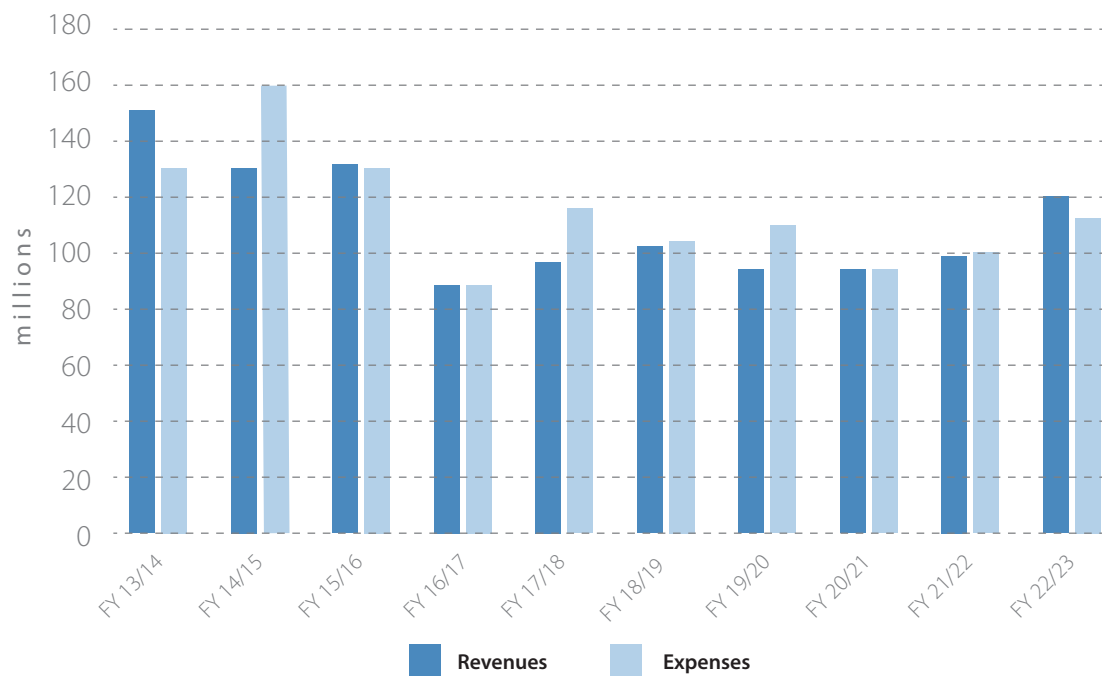
System expenses include significant capital project costs related to the future development of the landfill system in FY 14/15 and 15/16 (Table C, System Expenses). As the Department’s bonds are paid in full in FY 13/14, and the requirement to maintain funds in the Rate Stabilization Fund 277 ends, the cash balance from this Fund will be utilized to fund the capital project costs. System expenses are forecasted to be generally aligned with system revenues during the ten year forecast period (Chart 2). In the years where expenses are projected higher than operating revenues, OC Waste & Recycling’s financial strategy is to utilize reserves, continue to seek operational efficiencies, and maximize revenue where possible.

The schedules following Chart 1 and Chart 2 provide a two-year summary of audited financial data for Fiscal Years Ended June 30, 2013, and 2012, respectively. In addition, detailed schedules for tonnage, revenues, expenses, cash reserves and accrued closure and post closure liabilities for the ten-year forecast period are presented (Tables A through K).

System Tonnage Chart 1



System Financial Projections Funds 273, 285 and 299 Chart 2



OC WASTE & RECYCLING
TONNAGE & FINANCIAL DATA
FOR FISCAL YEARS ENDING JUNE 30, 2013 & 2012

Acceptable Waste Tonnage [1]

	6/30/13	6/30/12
In-County Waste	2,641,993	2,632,719
Importation	786,567	671,789
Total System Tonnage	3,428,560	3,304,508

Statements of Revenues & Expenses for the Years Ended June 30, 2013 & 2012 [2]

	6/30/13	6/30/12
Total Revenue	\$ 108,794,040	\$ 103,893,391
Total Expense	\$ 104,655,376	\$ 105,812,698
Change in Net Position	\$ 4,138,664	\$ (1,919,307)

Cash Balances

	[3] 6/30/13	[3] 6/30/12
Enterprise/Operating Fund	\$ 93,070,937	\$ 98,540,661
Capital Project Fund	\$ 25,352,456	\$ 10,002,410
Corrective Action Fund	\$ 6,097,308	\$ 6,086,400
Environmental Reserve Fund	\$ 69,110,410	\$ 62,253,347
Deferred Security Deposits Fund	\$ 702,311	\$ 753,755
Rate Stabilization Fund [4]	\$ 28,081,730	\$ 28,054,322
San Joaquin Marsh Phase II Restoration Project Fund [5]	\$ -	\$ 3,120,000
Habitat Mitigation Escrow Accounts	\$ 983,289	\$ -

Accrued Closure and Post Closure

	6/30/13	6/30/12
Closure Liabilities [3]	\$ 49,973,835	\$ 50,220,613
Post Closure Liabilities [3]	\$ 123,719,125	\$ 116,836,400
Escrow Funds (Closure) Cash Balance [3]	\$ 87,483,662	\$ 87,398,258
Post Closure Cash Balance [3]	\$ 146,214,931	\$ 167,536,645

[1] Source: OC Waste & Recycling Fiscal Year Tonnage Report, June 2013 and June 2012.
[2] Source: OC Waste & Recycling 2013 Audited Financial Statements.
(Macias Gini & O’Connell LLP - MGO Certified Public Accountants)
[3] Source: 1st and 2nd Close Figures obtained from OC Waste & Recycling Accounting.
2nd Close Figures include adjustments and reclassifications to the general ledger subsequent to the official June 30 year-end close.
[4] Fund closed by fiscal year-end 6/30/2014. Cash balance transfer to Capital Project Fund.
[5] Fund closed in FY 12/13. Cash balance transferred to Operating Fund.

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

A. SYSTEM TONNAGE

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Frank R. Bowerman Landfill	1,464,732	1,456,911	1,479,379	1,464,585	1,435,293
Olinda Alpha Landfill	827,986	901,208	836,267	836,267	836,267
Prima Deshecha Landfill	319,685	352,355	321,634	318,723	312,964
Total In-County Tonnage	2,612,404	2,710,474	2,637,280	2,619,575	2,584,524
Frank R. Bowerman Landfill	295,353	360,725	223,125	0	0
Olinda Alpha Landfill	1,022,988	1,043,069	909,585	0	0
Prima Deshecha Landfill	22,792	30,700	25,500	0	0
Total Imported Tonnage	1,341,133	1,434,494	1,158,210	0*	0
Total System Tonnage	3,953,537	4,144,968	3,795,490	2,619,575	2,584,524

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Frank R. Bowerman Landfill	1,406,587	1,364,389	1,364,389	2,200,656	2,200,656
Olinda Alpha Landfill	836,267	836,267	836,267	0	0
Prima Deshecha Landfill	307,318	299,019	299,019	299,019	299,019
Total In-County Tonnage	2,550,172	2,499,675	2,499,675	2,499,675	2,499,675
Frank R. Bowerman Landfill	0	0	0	0	0
Olinda Alpha Landfill	0	0	0	0	0
Prima Deshecha Landfill	0	0	0	0	0
Total Imported Tonnage	0	0	0	0	0
Total System Tonnage	2,550,172	2,499,675	2,499,675	2,499,675	2,499,675

* Importation is currently scheduled to end June 30, 2016.

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

B. SYSTEM REVENUE

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Fund 299 Enterprise / Operating - Total Revenue	\$ 93,498,037	\$ 97,878,000	\$ 104,875,686	\$ 92,998,420	\$ 99,051,930
Fund 273 Capital Project Total Revenue*	\$ 28,263,131**	\$ 255,000	\$ 46,000	\$ 67,000	\$ 82,000
Fund 285 Import / Bankruptcy Recovery - Total Revenue	\$ 32,007,000	\$ 35,010,000	\$ 27,886,000	\$ - ***	\$ -
Total Projected Revenue	\$ 153,768,168	\$ 133,143,000	\$ 132,807,686	\$ 93,065,420	\$ 99,133,930

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Fund 299 Enterprise / Operating - Total Revenue	\$ 105,265,588	\$ 96,299,205	\$ 98,655,484	\$ 101,024,345	\$ 123,958,614
Fund 273 Capital Project / Operating - Total Revenue	\$ 93,000	\$ 130,000	\$ 103,000	\$ 103,000	\$ 93,000
Fund 285 Import / Bankruptcy Recovery - Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Projected Revenue	\$ 105,358,588	\$ 96,429,205	\$ 98,758,484	\$ 101,127,345	\$ 124,051,614

* Effective FY 12/13, capital projects are recorded in Fund 273 - OCWR Capital Project Fund.
Capital projects are funded by enterprise revenue and reserve, and interest revenue from Fund 273.

** FY 13/14 revenue includes the transfer in of the Rate Stabilization Fund 277 cash balance of \$28.1 million.

*** Importation is currently scheduled to end June 30, 2016.

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

C. SYSTEM EXPENSES

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Fund 299 Enterprise / Operating - Total Expense	\$ 86,538,652	\$ 102,695,004	\$ 94,738,496	\$ 91,780,718	\$ 95,172,274
Fund 273 Capital Project / Operating - Total Expense	\$ 25,579,360	\$ 47,696,185	\$ 17,006,000	\$ 704,000	\$ 23,755,000
Fund 285 Import / Bankruptcy Recovery - Total Expense	\$ 20,727,000	\$ 12,558,995	\$ 19,703,000	\$ - *	\$ -
Total System Expenses	\$ 132,845,012	\$ 162,950,184	\$ 131,447,496	\$ 92,484,718	\$ 118,927,274

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Fund 299 Enterprise / Operating - Total Expense	\$ 107,231,378	\$ 99,788,733	\$ 98,513,542	\$ 89,553,243	\$ 114,390,202
Fund 273 Capital Project / Operating - Total Expense	\$ 405,000	\$ 12,007,000	\$ 106,000	\$ 12,506,000	\$ 5,000 **
Fund 285 Import / Bankruptcy Recovery - Total Expense	\$ -	\$ -	\$ -	\$ -	\$ -
Total System Expenses	\$ 107,636,378	\$ 111,795,733	\$ 98,619,542	\$ 102,059,243	\$ 114,395,202

* Importation is currently scheduled to end June 30, 2016. **No capital projects are scheduled for FY 2022/23.

D. SYSTEM ENTERPRISE FUND

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Cash Balance					
Fund 299 - Enterprise / Operating	\$ 78,467,095	\$ 87,000,820	\$ 90,720,150	\$ 90,260,484	\$ 71,507,509
Fund 273 - Capital Project / Operating	\$ 34,029,409*	\$ 7,115,224	\$ 4,816,083	\$ 5,855,451	\$ 4,816,083
Total Balance	\$ 112,496,504	\$ 94,116,043	\$ 95,536,233	\$ 96,115,935	\$ 76,323,591

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Cash Balance					
Fund 299 - Enterprise / Operating	\$ 67,357,315	\$ 56,377,787	\$ 56,519,729	\$ 56,070,234	\$ 59,929,442
Fund 273 - Capital Project / Operating	\$ 6,687,486	\$ 5,299,486	\$ 5,295,486	\$ 4,816,083	\$ 7,612,287
Total Balance	\$ 74,044,801	\$ 61,677,273	\$ 61,815,215	\$ 60,886,317	\$ 67,541,729

* FY 13/14 includes the Rate Stabilization Fund 277 cash balance transferred to Fund 273.

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

E. CORRECTIVE ACTION FUND

Description	FY 2013/14	FY 2014/15*	FY 2015/16	FY 2016/17*	FY 2017/18
Cash Balance					
Fund 274 - Corrective Action					
Total Balance	\$ 7,132,504	\$ 8,171,504	\$ 9,224,504	\$ 10,452,504	\$ 10,654,504

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Cash Balance					
Fund 274 - Corrective Action					
Total Balance	\$ 10,860,504	\$ 11,070,504	\$ 11,284,504	\$ 11,502,504	\$ 11,724,504

* In FY14/15 and FY16/17 Fund 274 - Corrective Action cash balance is projected to increase due to higher financial assurance requirements.

F. SYSTEM RESERVE FUND

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Cash Balance					
Fund 275 - Environmental Liability Reserve					
Total Balance	\$ 71,934,196	\$ 73,581,217	\$ 57,528,480	\$ 44,775,083	\$ 46,114,808

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Cash Balance					
Fund 275 - Environmental Liability Reserve					
Total Balance	\$ 47,101,808	\$ 49,616,808	\$ 55,127,558	\$ 58,684,058	\$ 63,275,308

G. DEFERRED SECURITY DEPOSITS

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Cash Balance					
Fund 276 - Deferred Security Deposits					
Total Balance	\$ 572,349	\$ 572,349	\$ 572,349	\$ 572,349	\$ 572,349

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Cash Balance					
Fund 276 - Deferred Security Deposits					
Total Balance	\$ 572,349	\$ 572,349	\$ 572,349	\$ 572,349	\$ 572,349

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

H. HABITAT MITIGATION ESCROW ACCOUNTS

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Fund 272 - Prima Deshecha Landfill and the La Pata Avenue Gap Closure - Cash Balance*	\$ 104,279	\$ 104,279	\$ 104,279	\$ 104,279	\$ 104,279

Fund 288 - FRB Landfill Wetland Creation & Agua Chinon Wash Riparian - Cash Balance**	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010
Total Balance	\$ 983,289	\$ 983,289	\$ 983,289	\$ 983,289	\$ 983,289

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Fund 272 - Prima Deshecha Landfill and the La Pata Avenue Gap Closure - Cash Balance	\$ -	\$ -	\$ -	\$ -	\$ -
Fund 288 - FRB Landfill Wetland Creation & Agua Chinon Wash Riparian - Cash Balance	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010
Total Balance	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010

* Per the agreement with the California Department of Fish and Game for habitat mitigation. Requirement ends in FY 18/19.

** Per the agreement with the California Department of Fish and Game for habitat mitigation.

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

I. CLOSURE ESCROW ACCOUNTS

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Frank R. Bowerman Landfill					
Annual Tonnage of Refuse	1,760,085	1,817,636	1,702,504	1,464,585	1,435,293
Cash Balance at 6/30/XX	\$ 28,952,939	\$ 29,097,939	\$ 29,263,939	\$ 29,649,939	\$ 30,195,939
Olinda Alpha Landfill					
Annual Tonnage of Refuse	1,850,974	1,944,277	1,745,852	836,267	836,267
Cash Balance at 6/30/XX	\$ 38,576,743	\$ 38,756,743	\$ 25,324,743	\$ 25,653,743	\$ 26,132,743
Prima Deshecha Landfill					
Annual Tonnage of Refuse	342,478	383,055	347,134	318,723	312,964
Cash Balance at 6/30/XX	\$ 20,390,001	\$ 20,488,001	\$ 20,604,001	\$ 20,873,001	\$ 21,259,001
Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Frank R. Bowerman Landfill					
Annual Tonnage of Refuse	1,406,587	1,364,389	1,364,389	2,200,656	2,200,656
Cash Balance at 6/30/XX	\$ 30,750,939	\$ 31,315,939	\$ 31,889,939	\$ 32,483,939	\$ 33,086,939
Olinda Alpha Landfill					
Annual Tonnage of Refuse	836,267	836,267	836,267	0	0
Cash Balance at 6/30/XX	\$ 17,111,743	\$ 17,427,743	\$ 17,753,743	\$ 20,152,335	\$ -
Prima Deshecha Landfill					
Annual Tonnage of Refuse	307,318	299,019	299,019	299,019	299,019
Cash Balance at 6/30/XX	\$ 21,652,001	\$ 22,052,001	\$ 22,460,001	\$ 22,875,001	\$ 23,297,001

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

J. POST CLOSURE MAINTENANCE RESERVE

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Cash Balance					
Fund 279 - Post Closure Maintenance					
Beginning Balance at 7/01/XX	\$ 145,971,572	\$ 139,481,218	\$ 128,371,638	\$129,243,397	\$ 128,010,741
Expenditures	\$ (1,853,282)	\$ (3,884,580)	\$ (2,853,241)	\$ (2,916,656)	\$ (2,984,770)
Deposits (to) from					
Funds 299, 275, and 100	\$ (4,897,072)	\$ (7,825,000)	\$ 3,000,000	\$ -	\$ -
Interest Earnings	\$ 260,000	\$ 600,000	\$ 725,000	\$ 1,684,000	\$ 2,365,000
Ending Balance at 6/30/XX	\$ 139,481,218	\$ 128,371,638	\$ 129,243,397	\$128,010,741	\$ 127,390,971
Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Cash Balance					
Fund 279 - Post Closure Maintenance					
Beginning Balance at 7/01/XX	\$ 127,390,971	\$ 139,682,490	\$ 152,142,763	\$151,748,917	\$ 151,271,339
Expenditures	\$ (3,054,481)	\$ (3,125,827)	\$ (3,198,846)	\$ (3,273,578)	\$ (3,350,063)
Deposits (to) from					
Funds 299, 275, and 100	\$ 13,000,000	\$ 13,011,100	\$ -	\$ -	\$ -
Interest Earnings	\$ 2,346,000	\$ 2,575,000	\$ 2,805,000	\$ 2,796,000	\$ 2,786,000
Ending Balance at 6/30/XX	\$ 139,682,490	\$ 152,142,763	\$ 151,748,917	\$151,271,339	\$ 150,707,276

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

K. CLOSURE AND POST CLOSURE LIABILITIES

Description	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Frank R. Bowerman Landfill					
Annual Tonnage of Refuse Buried	1,760,085	1,817,636	1,702,504	1,464,585	1,435,293
% of Max Capacity	28.87%	30.16%	31.36%	32.40%	33.42%
Estimated Closure Cost	\$ 39,025,288	\$ 39,844,819	\$ 40,681,560	\$ 41,596,895	\$ 42,636,818
Accrued Closure Liability	\$ 11,266,601	\$ 12,017,197	\$ 12,757,737	\$ 13,477,394	\$ 14,249,224
Estimated Post Closure Cost	\$ 56,061,751	\$ 57,239,048	\$ 58,441,068	\$ 59,755,992	\$ 61,249,892
Accrued Post Closure Liability	\$ 16,185,028	\$ 17,263,297	\$ 18,332,963	\$ 19,366,917	\$ 20,469,714
Olinda Alpha Landfill					
Annual Tonnage of Refuse Buried	1,850,974	1,944,277	1,745,852	836,267	836,267
% of Max Capacity	72.43%	74.23%	75.85%	76.63%	77.41%
Estimated Closure Cost	\$ 37,439,867	\$ 38,226,104	\$ 25,092,202	\$ 25,656,777	\$ 26,298,196
Accrued Closure Liability	\$ 27,117,696	\$ 28,375,237	\$ 19,032,435	\$ 19,660,788	\$ 20,357,434
Estimated Post Closure Cost	\$ 61,412,517	\$ 62,702,180	\$ 64,018,926	\$ 65,459,352	\$ 67,095,836
Accrued Post Closure Liability	\$ 44,481,086	\$ 46,550,098	\$ 48,564,757	\$ 50,168,047	\$ 51,945,596
Prima Deshecha Landfill - Zone 1					
Annual Tonnage of Refuse Buried	342,478	383,055	347,134	318,723	312,964
% of Max Capacity	61.28%	62.91%	64.38%	65.74%	67.07%
Estimated Closure Cost	\$ 21,825,388	\$ 22,283,721	\$ 22,751,680	\$ 23,263,592	\$ 23,845,182
Accrued Closure Liability	\$ 13,374,598	\$ 14,018,689	\$ 14,647,531	\$ 15,293,486	\$ 15,992,964
Estimated Post Closure Cost	\$ 36,603,649	\$ 37,372,326	\$ 38,157,145	\$ 39,015,681	\$ 39,991,073
Accrued Post Closure Liability	\$ 22,430,716	\$ 23,507,193	\$ 24,561,754	\$ 25,645,007	\$ 26,818,014
Prima Deshecha Landfill - Zone 4					
Annual Tonnage of Refuse Buried	0	0	0	0	0
% of Max Capacity *	0.00%	0.00%	0.00%	0.00%	0.00%
Estimated Closure Cost	\$ 33,598,704	\$ 34,304,277	\$ 35,024,667	\$ 35,812,722	\$ 36,708,040
Accrued Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Estimated Post Closure Cost	\$ 41,527,000	\$ 42,399,068	\$ 43,289,449	\$ 44,263,463	\$ 45,370,051
Accrued Post Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Santiago Canyon Landfill					
Estimated Post Closure Cost	\$ 25,183,433	\$ 24,451,876	\$ 23,678,500	\$ 22,895,442	\$ 22,119,106
Less Post Closure Expenditures	\$ 1,234,482	\$ 1,260,406	\$ 1,286,875	\$ 1,315,830	\$ 1,348,726
Accrued Post Closure Liability	\$ 26,417,915	\$ 25,712,282	\$ 24,965,375	\$ 24,211,272	\$ 23,467,832
Accrued Post Closure Reserves - 15 Years **	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Coyote Canyon Landfill					
Estimated Post Closure Cost	\$ 17,595,387	\$ 16,430,736	\$ 15,209,414	\$ 13,943,194	\$ 12,613,899
Less Post Closure Expenditures	\$ 1,502,595	\$ 1,534,149	\$ 1,566,366	\$ 1,600,826	\$ 1,636,044
Accrued Post Closure Liability	\$ 16,092,792	\$ 14,896,587	\$ 13,643,048	\$ 12,342,368	\$ 10,977,855
Accrued Post Closure Reserves - 15 Years **	\$ 0	\$ 0	\$ 9,852,442	\$ 11,670,022	\$ 13,562,805
Unallocated Accrued Liability					
Total Accrued Closure Liability	\$ 51,758,894	\$ 54,411,124	\$ 46,437,704	\$ 48,431,668	\$ 50,599,622
Total Accrued Post Closure Liability	\$ 125,607,537	\$ 127,929,457	\$ 130,067,897	\$ 131,733,611	\$ 133,679,011
Total Accrued Post Closure Reserves - 15 Years **	\$ 0	\$ 0	\$ 9,852,442	\$ 11,670,022	\$ 13,562,805
Total Accrued Closure & Post Closure Liability	\$ 177,366,431	\$ 182,340,581	\$ 186,358,043	\$ 191,835,301	\$ 197,841,438

OC WASTE & RECYCLING
10 YEAR FINANCIAL FORECAST (CONTINUED)

K. CLOSURE AND POST CLOSURE LIABILITIES (continued)

Description	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Frank R. Bowerman Landfill					
Annual Tonnage of Refuse Buried	1,406,587	1,364,389	1,364,389	2,200,656	2,200,656
% of Max Capacity	34.42%	35.39%	36.36%	37.92%	39.48%
Estimated Closure Cost	\$ 43,702,738	\$ 46,793,464	\$ 47,963,301	\$ 49,162,384	\$ 50,391,443
Accrued Closure Liability	\$ 15,042,482	\$ 15,731,963	\$ 16,571,321	\$ 17,447,730	\$ 18,362,642
Estimated Post Closure Cost	\$ 62,781,139	\$ 64,350,667	\$ 65,959,434	\$ 67,608,420	\$ 69,298,631
Accrued Post Closure Liability	\$ 21,609,268	\$ 22,773,701	\$ 23,982,850	\$ 25,637,113	\$ 27,359,100
Olinda Alpha Landfill					
Annual Tonnage of Refuse Buried	836,267	836,267	836,267	0	0
% of Max Capacity	78.18%	78.96%	79.74%	100.00%	100.00%
Estimated Closure Cost	\$ 18,243,151	\$ 18,699,230	\$ 19,241,508	\$ 19,799,511	\$ 0
Accrued Closure Liability	\$ 14,262,496	\$ 14,764,912	\$ 15,343,178	\$ 19,799,511	\$ 0
Estimated Post Closure Cost	\$ 68,773,232	\$ 70,492,563	\$ 72,254,877	\$ 74,061,249	\$ 75,912,780
Accrued Post Closure Liability	\$ 53,780,667	\$ 55,675,026	\$ 57,630,490	\$ 74,061,249	\$ 75,912,780
Prima Deshecha Landfill - Zone 1					
Annual Tonnage of Refuse Buried	307,318	299,019	299,019	299,019	299,019
% of Max Capacity	68.37%	69.65%	70.92%	72.19%	73.46%
Estimated Closure Cost	\$ 24,441,312	\$ 25,052,345	\$ 25,678,653	\$ 26,320,620	\$ 26,978,635
Accrued Closure Liability	\$ 16,710,525	\$ 17,448,958	\$ 18,211,301	\$ 19,000,855	\$ 19,818,505
Estimated Post Closure Cost	\$ 40,990,850	\$ 42,015,621	\$ 43,066,012	\$ 44,142,662	\$ 45,246,229
Accrued Post Closure Liability	\$ 28,021,345	\$ 29,251,275	\$ 30,529,496	\$ 31,848,931	\$ 33,215,257
Prima Deshecha Landfill - Zone 4					
Annual Tonnage of Refuse Buried	0	0	0	0	0
% of Max Capacity *	0.00%	0.00%	0.00%	0.00%	0.00%
Estimated Closure Cost	\$ 37,625,741	\$ 38,566,385	\$ 39,530,545	\$ 40,518,809	\$ 41,531,779
Accrued Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Estimated Post Closure Cost	\$ 46,504,303	\$ 47,666,912	\$ 48,858,586	\$ 50,080,052	\$ 51,332,054
Accrued Post Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Santiago Canyon Landfill					
Estimated Post Closure Cost	\$ 21,289,638	\$ 20,404,872	\$ 19,462,562	\$ 18,460,388	\$ 17,395,944
Less Post Closure Expenditures	\$ 1,382,444	\$ 1,417,005	\$ 1,452,430	\$ 1,488,741	\$ 1,525,960
Accrued Post Closure Liability	\$ 22,672,082	\$ 21,821,877	\$ 20,914,992	\$ 19,949,129	\$ 18,921,904
Accrued Post Closure Reserves - 15 Years **	\$ 0	\$ 0	\$ 871,458	\$ 2,381,986	\$ 3,967,496
Coyote Canyon Landfill					
Estimated Post Closure Cost	\$ 11,219,368	\$ 9,757,374	\$ 8,225,619	\$ 6,621,745	\$ 4,943,319
Less Post Closure Expenditures	\$ 1,672,037	\$ 1,708,822	\$ 1,746,416	\$ 1,784,837	\$ 1,824,103
Accrued Post Closure Liability	\$ 9,547,331	\$ 8,048,552	\$ 6,479,203	\$ 4,836,908	\$ 3,119,216
Accrued Post Closure Reserves - 15 Years **	\$ 15,533,224	\$ 17,583,778	\$ 19,717,037	\$ 21,935,647	\$ 24,242,329
Unallocated Accrued Liability					
Total Accrued Closure Liability	\$ 46,015,503	\$ 47,945,833	\$ 50,125,800	\$ 56,248,097	\$ 38,181,147
Total Accrued Post Closure Liability	\$ 135,630,693	\$ 137,570,431	\$ 139,537,031	\$ 156,333,330	\$ 158,528,257
Total Accrued Post Closure Reserves - 15 Years **	\$ 15,533,224	\$ 17,583,778	\$ 20,588,495	\$ 24,317,633	\$ 28,209,825
Total Accrued Closure & Post Closure Liability	\$ 197,179,420	\$ 203,100,042	\$ 210,251,326	\$ 236,899,059	\$ 224,919,229

* Prima Deshecha Zone 4 has not started accepting waste. The 6.33% of Max Capacity reported in previous years represents capacity reserved for closure.

** Effective FY 15/16 OCWR will maintain reserves of 15 years Post Closure Maintenance costs for each closed site that has been in its post closure phase longer than 15 years.

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Newport Beach, CA 92660
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Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor’s Report

Board of Supervisors
County of Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Waste and Recycling Enterprise Fund of the County of Orange, California (OC Waste & Recycling) as of and for the year ended June 30, 2013, and the related notes to the 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.

Auditor’s 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor’s 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 auditor considers internal control relevant to the entity’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 entity’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 OC Waste & Recycling, as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the OC Waste & Recycling, an enterprise fund of the County, and do not purport to, and do not, present fairly the financial position of the County as a whole as of June 30, 2013 and 2012, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our report was not modified with respect to this matter.

Other Matters

Prior Year Comparative Financial Statements

The financial statements of the OC Waste & Recycling as of June 30, 2012, were audited by other auditors whose report dated December 11, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 27-36 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, on our consideration of the OC Waste & Recycling’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2013. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OC Waste & Recycling’s internal control over financial reporting and compliance.

Macias Jini & O'Connell LLP

Newport Beach, California
January 16, 2014

OC WASTE & RECYCLING
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
(Dollar Amounts in Thousands)

Our management’s discussion and analysis of the financial performance provides a narrative overview and analysis of the OC Waste & Recycling’s (OCWR) financial activities for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the information furnished in OCWR’s basic financial statements.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

OCWR is responsible for the administration and management of the County of Orange’s (County) solid waste disposal system. OCWR is organized as an enterprise fund and is primarily supported by revenue from disposal fees that are charged to customers. No tax revenues are utilized by OCWR.

The basic financial statements are divided into two components:

- 1. Financial statements: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows
- 2. Notes to Financial Statements

Statements of Net Position

This section provides the basic statement of position for all OCWR’s current and non-current assets and liabilities in both financial and capital positions with the difference between the two reported as net position. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.

Statements of Revenues, Expenses and Changes in Net Position

This section provides the basic statement of activities for all OCWR’s revenues and expenses during the year, regardless of when cash is received or paid. This section also shows how net position changed during the fiscal year.

Statements of Cash Flows

This section provides the basic financial statement classifying OCWR’s cash and cash equivalents receipts (inflows) and payments (outflows) resulting from operating, noncapital financing, capital and related financing, or investing activities.

Notes to Financial Statements

This section provides additional information that is necessary to acquire a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS

Statements of Net Position Summary

Increases or decreases in net position over time may serve as a useful indicator of OCWR’s financial position.

TABLE 1 STATEMENTS OF NET POSITION					
	2013	2012	2011	2013 vs 2012 % change	2012 vs 2011 % change
ASSETS					
Current and other assets	\$505,782	\$505,785	\$494,869	0.0%	2.2%
Capital assets	214,782	208,315	223,882	3.1%	-7.0%
TOTAL ASSETS	720,564	714,100	718,751	0.9%	-0.6%
LIABILITIES					
Long-term liabilities	186,062	186,518	188,208	-0.2%	-0.9%
Other liabilities	40,203	37,421	38,464	7.4%	-2.7%
TOTAL LIABILITIES	226,265	223,939	226,672	1.0%	-1.2%
NET POSITION					
Net investment in capital assets	207,766	194,652	203,977	6.7%	-4.6%
Restricted	80,312	82,206	84,070	-2.3%	-2.2%
Unrestricted	206,221	213,303	204,033	-3.3%	4.5%
TOTAL NET POSITION	\$494,299	\$490,161	\$492,080	0.8%	-0.4%

At June 30, 2013 and 2012, assets exceeded liabilities by \$494,299 and \$490,161, respectively (see **TABLE 1**). From fiscal years 2012 to 2013, there was an increase of \$13,114 (6.7%) in net investment in capital assets due primarily to an increase in capital project expenditures for landfill expansion activities. There were decreases in restricted net position of \$1,894 (2.3%) and unrestricted net position of \$7,082 (3.3%), which are assets available for operations and management discretion. The restricted net position includes the Rate Stabilization fund, Landfill Closure Escrow funds, Corrective Action Escrow fund, and escrow funds that were established as required by the California Department of Fish and Game to demonstrate financial assurance for the Frank R. Bowerman Landfill wetland creation and Aqua Chinon Wash riparian restoration project, and the Prima Deshecha Landfill's La Pata Avenue Gap Closure Project. It also includes the pledged revenue portion of the Landfill Post-Closure Maintenance Fund and OCWR's main operating fund.

The decrease in restricted net position was due primarily to the dissolution of the escrow agreement (\$3,120) for the San Joaquin Marsh Phase II mitigation project at the Frank R. Bowerman Landfill and the increase in closure costs for the Frank R. Bowerman Landfill (\$632) and Prima Deshecha Landfill (\$832). Offsetting the decrease in restricted net position is the decrease in estimated closure costs for Prima Deshecha Landfill (Zone 4) and the establishment of the escrow funds for the Prima Deshecha Landfill and the La Pata Avenue Gap Closure Project (\$104) and the Frank R. Bowerman Landfill wetland creation and Aqua Chinon Wash riparian restoration project (\$879). Overall, net position increased 0.8% from fiscal year 2012 to 2013 due to the attributes previously mentioned.

As of June 30, 2013:

OCWR's total assets increased by \$6,464 (0.9%) during the current fiscal year due primarily to the increase in infrastructure by \$9,743 and construction in progress by \$10,533. Partially offsetting the increase in total assets was an increase in accumulated depreciation. Refer to Note 9, Capital Assets, for further information regarding capital assets.

Total liabilities for FY 2012-13 increased by \$2,326 (1.0%) due primarily to increases in accrued closure and postclosure care costs and accounts payable for capital projects. Partially offsetting the increase in total liabilities was the scheduled amount paid for the 1997 Refunding Revenue Bonds. Refer to Note 12, Long-Term Obligations, for further information regarding debt retirement.

As of June 30, 2012:

OCWR's total assets decreased by \$4,651 (0.6%) due primarily to the decrease in advances to the General Fund for the County's Information Technology projects by \$28,149; increase in accumulated depreciation for Infrastructure by \$11,427 and accumulated depreciation for Equipment by \$1,892; decrease in Construction in Progress by \$1,558 and decrease in Equipment acquisition by \$1,923. Partially offsetting the decrease in total assets was an increase in Pooled cash and investments.

Total liabilities for FY 2011-12 decreased by \$2,733 (1.2%) due primarily to the scheduled amount paid for the 1997 Refunding Revenue Bonds by \$6,254 and decrease in accounts payable for capital projects by \$1,471. Partially offsetting the decrease in total liabilities was the increase in Accrued closure and postclosure care costs by \$3,729 and Pollution remediation obligation by \$1,128.

OC WASTE & RECYCLING
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
 (Dollar Amounts in Thousands)

Statements of Revenues, Expenses and Changes in Net Position

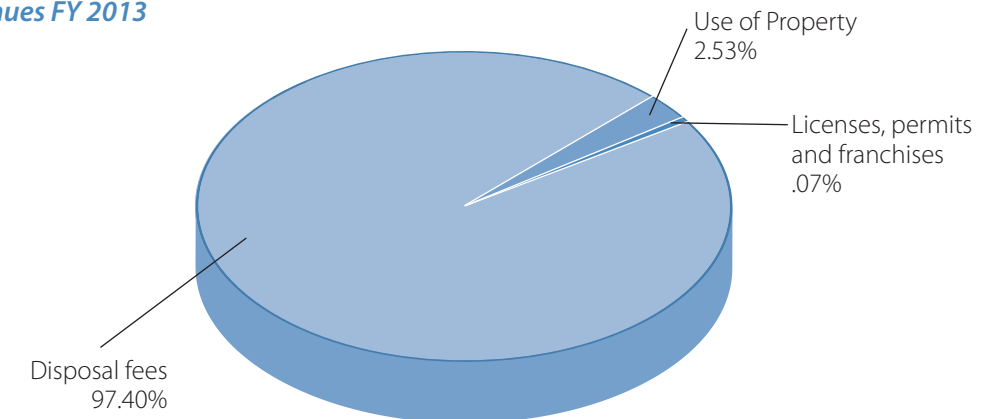
OCWR's changes in net position are shown in the following table.

TABLE 2 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION					
	2013	2012	2011	2013 vs 2012 % change	2012 vs 2011 % change
OPERATING REVENUES					
Disposal fees	\$104,079	\$97,507	\$100,918	6.7%	-3.4%
Use of property, licenses, permits & franchise fees	2,774	1,688	1,663	64.3%	1.5%
TOTAL OPERATING REVENUES	106,853	99,195	102,581	7.7%	-3.3%
OPERATING EXPENSES					
Salaries and employee benefits	25,222	24,988	24,830	0.9%	0.6%
Services and supplies	21,828	20,403	20,113	7.0%	1.4%
Professional and specialized services	15,452	11,907	11,942	29.8%	-0.3%
Depreciation and amortization	16,406	17,613	19,446	-6.9%	-9.4%
Other operating expenses	15,824	18,255	15,491	-13.3%	17.8%
TOTAL OPERATING EXPENSES	94,732	93,166	91,822	1.7%	1.5%
OPERATING INCOME	12,121	6,029	10,759	101.0%	-44.0%
NONOPERATING REVENUES (EXPENSES)	1,943	2,515	3,253	-22.7%	-22.7%
INCOME BEFORE TRANSFERS	14,064	8,544	14,012	64.6%	-39.0%
Capital contributions and Transfers in/out to County General Fund	(9,926)	(10,463)	(12,981)	-5.1%	-19.4%
CHANGES IN NET POSITION	4,138	(1,919)	1,031	-315.6%	-286.1%
NET POSITION - BEGINNING OF YEAR	490,161	492,080	491,049	-0.4%	0.2%
NET POSITION - END OF YEAR	\$494,299	\$490,161	\$492,080	0.8%	-0.4%

At June 30, 2013 OCWR's net position increased by \$4,138 (or .8%) and at June 30, 2012 net position decreased by \$1,919 (or .4%). (see **TABLE 2**).

OC WASTE & RECYCLING
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
 (Dollar Amounts in Thousands)

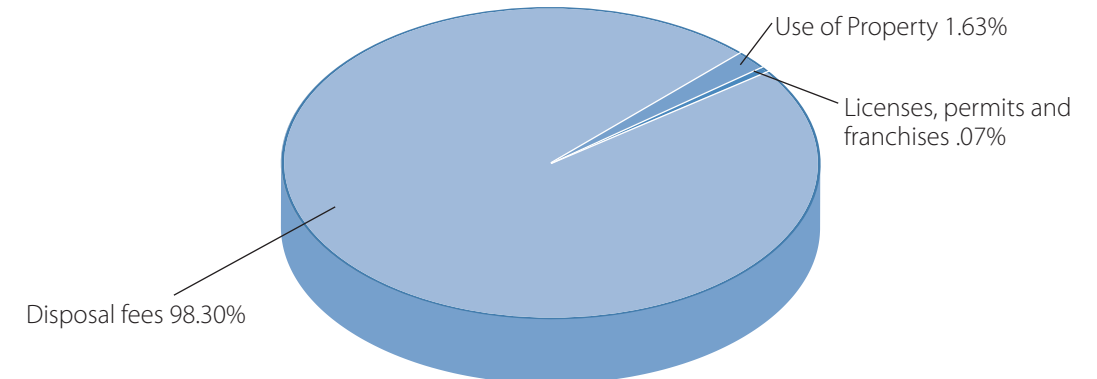
**For the year ended June 30, 2013:
Operating Revenues FY 2013**



Disposal fees that are charged to users of the waste disposal sites comprise the largest revenue source of OCWR. Other operating revenues include franchise fees and royalties received for the rights to collect, use, process and convert landfill gas.

From fiscal years 2012 to 2013, total operating revenues increased by \$7,658 (or 7.7%) due primarily to the slight increase in tonnage of waste received at the landfill from 2,632,719 in FY 2011-12 to 2,641,992 in FY 2012-13.

**For the year ended June 30, 2012:
Operating Revenues FY 2012**



From fiscal years 2011 to 2012, total operating revenues decreased by \$3,386 (or 3.3%) due primarily to the decrease in tonnage of waste received at the landfill from 2,708,547 in FY 2010-11 to 2,632,719 in FY 2011-12.

OC WASTE & RECYCLING
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
(Dollar Amounts in Thousands)

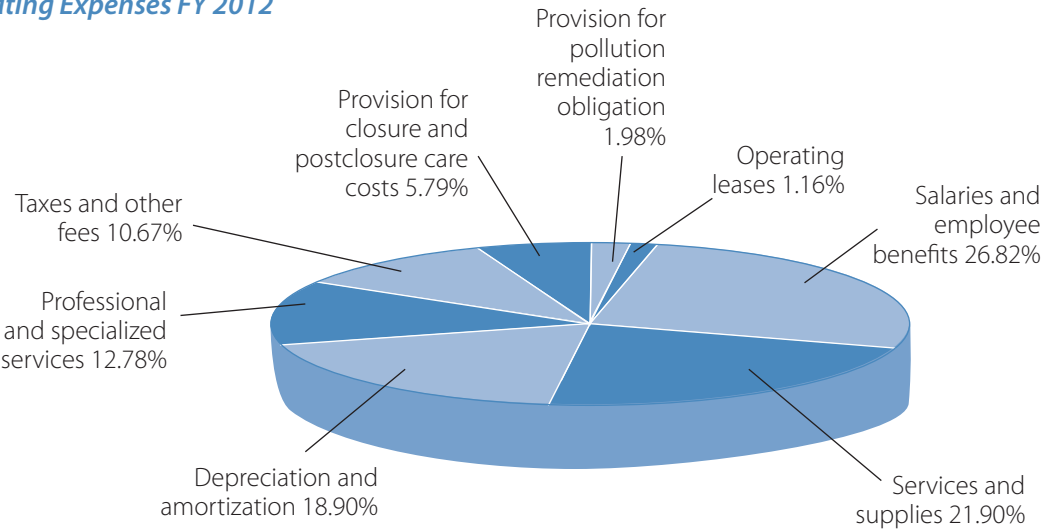
For the year ended June 30, 2013:

Operating expenses include salaries and benefits, cost of services and supplies, professional and specialized services, closure and postclosure maintenance care costs, pollution remediation expenses, taxes and fees, operating leases, and depreciation and amortization on capital assets.

From fiscal years 2012 to 2013, total operating expenses increased \$1,566 (or 1.7%) due primarily to increases in the closure and postclosure care costs by \$2,701 related to Prima Deshecha landfill estimated cost of closure and postclosure care and professional and specialized services costs by \$3,545 mainly related to hazardous waste disposal services and (1) construction management, (2) quality assurance/quality control and (3) archaeological/paleontological/biological services at Frank R. Bowerman landfill. Partially offsetting the increase was the decrease in pollution remediation expenses, contributions to other agencies, and taxes and other fees. Refer to Note 13, Accrued Closure and Postclosure Care costs and Note 14, Pollution Remediation Obligations for additional information regarding postclosure care costs and pollution remediation expenses.

OC WASTE & RECYCLING
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
(Dollar Amounts in Thousands)

For the year ended June 30, 2012:
Operating Expenses FY 2012



From fiscal years 2011 to 2012, total operating expenses increased \$1,344 (or 1.5%) due primarily to increases in the closure and postclosure care costs by \$4,336 and contributions to other agencies and taxes and other fees by \$3,212. Partially offsetting the increase was the decrease in pollution remediation expenses and depreciation and amortization.

For the years ended June 30, 2013 and 2012, OCWR's non-operating revenue and expenses decreased by \$572 (or 22.7%) and \$738 (or 22.7%), respectively, due primarily to a lower annual rate of return from the County Treasurer's investment pool. For the years ended June 30, 2013 and 2012, transfers and capital contribution decreased by \$537 (or 5.1%) and \$2,518 (or 19.4%), respectively, due primarily to decreases in transfers to the General Fund for net imported waste revenue.

CAPITAL ASSETS

OCWR's investment in capital assets includes land, structures and improvements, equipment, infrastructure, intangible assets in progress, and construction in progress (see **TABLE 3**).

TABLE 3 CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)					
	2013	2012	2011	2013 vs 2012 % change	2012 vs 2011 % change
CAPITAL ASSETS					
Land (Nondepreciable)	22,405	22,405	22,405	0.0%	0.0%
Construction in progress (Nondepreciable)	20,877	10,344	11,902	101.8%	-13.1%
Intangible assets in progress (Nondepreciable)	424	-	-	-	-
Equipment (Depreciable)	21,374	23,977	27,792	-10.9%	-13.7%
Buildings (Depreciable)	9,883	10,728	11,591	-7.9%	-7.4%
Infrastructure (Depreciable)	139,819	140,861	150,192	-0.7%	-6.2%
TOTAL CAPITAL ASSETS	214,782	208,315	223,882	3.1%	-7.0%

OCWR's investment in capital assets (net of accumulated depreciation) as of June 30, 2013 and 2012 amounted to \$214,782 and \$208,315, respectively. The total change in capital assets for the years ended June 30, 2013 and 2012 was an increase of 3.1% and a decrease of 7.0%, respectively.

Major capital asset events during Fiscal Year 2013 included the following:

- \$7,327 for the Groundwater Protection Composite Liner Project at Prima Deshecha Landfill
- \$9,765 for the Phase 8C Excavation & Liner Construction Project and the Wetlands Basin and West Channel Realignment Project at Frank R. Bowerman Landfill
- \$1,264 for the Drainage Channel Improvements (Middle East Channel) at Olinda Alpha Landfill

Additional information on capital assets can be found in Note 9, Capital Assets.

Major capital asset events during Fiscal Year 2012 included the following:

- \$2,096 for the Geotechnical Investigation Zone 4 Project at Prima Deshecha Landfill
- \$1,304 estimated value for the GSF Energy, LLC's donation of the landfill gas flare system collection facilities at Frank R. Bowerman Landfill

Commitments for Capital Expenditures:

- \$6,588 for Phase 8 C Excavation and Liner Construction at Frank R. Bowerman Landfill
- \$2,300 for Construction of Wetlands Basin and West Channel Realignment at Frank R. Bowerman Landfill
- \$1,147 for Phase 8 East Flank Slide\Buttress Excavation at Frank R. Bowerman Landfill

LONG-TERM DEBT

The following table summarizes OCWR's outstanding bonds:

At June 30, 2013 and 2012, the total bonded debt outstanding was \$7,018 and \$13,666, respectively, excluding compensated absences and other liabilities (see **TABLE 4**). The debt is secured by a pledge of operating revenues and matures on December 1, 2013.

TABLE 4 LONG-TERM DEBT BOND OBLIGATION					
	2013	2012	2011	2013 vs 2012 % change	2011 vs 2012 % change
LONG-TERM DEBT BOND OBLIGATION					
1997 Refunding Revenue bonds	7,020	13,675	19,980	-48.7%	-31.6%
Less: premium/deferred amount on refunding net	(2)	(9)	(60)	-77.8%	-85.0%
TOTAL LONG-TERM DEBT BOND OBLIGATION	7,018	13,666	19,920	-48.6%	-31.4%

The revenue bonds credit ratings for the following years are as follows:

June 30, 2013:
Fitch: A+
Moody's: A1

June 30, 2012:
Fitch: A+
Moody's: A1

June 30, 2011:
Fitch: A+
Moody's: A1

Additional information on other long-term obligations can be found in Note 12, Long-Term Obligations.

REVIEW OF OPERATIONS

Disposal Facilities

OCWR is responsible for the administration and management of the County of Orange's solid waste disposal system. The system consists of three active regional landfill operations, 20 closed solid waste disposal sites, and four household hazardous waste collection centers. The active landfill sites are located in Brea (North Region), Irvine (Central Region) and San Juan Capistrano (South Region). The four hazardous waste collection centers are in the cities of Anaheim, Huntington Beach, Irvine, and San Juan Capistrano.

OC WASTE & RECYCLING
MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE YEARS ENDED JUNE 30, 2013 AND JUNE 30, 2012
 (Dollar Amounts in Thousands)

Renewable Energy Facilities

OCWR continues to move forward with its Renewable Energy Program. At the Olinda Alpha Landfill, 32 megawatts (MW) of production capacity was combined with the existing 5 MW internal combustion plant bringing that site's production capacity to 37 MW. This amount serves approximately 22,000 homes in the City of Anaheim. A 23 MW landfill gas-to-energy power plant is currently underway at the Frank R. Bowerman Landfill. OCWR's power plants at the Prima Deschecha Landfill (6.3 MW) and Coyote Canyon Landfill (7 MW) continue to harness the power of waste to provide electricity to over 10,000 homes in the southern part of Orange County. Overall, considerable progress has been made and the Renewable Energy Program has comfortably exceeded the Department's objectives. In FY 2012-13, over 205,000 MW of renewable energy was generated, which was approximately 60% more than the previous year. As the result, \$2.3 million in royalty revenue was generated from OCWR renewable energy facilities.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of OCWR's finances. For questions or comments concerning any of the information provided in this report or requests for additional financial information should be addressed to OC Waste & Recycling Headquarters, 300 N. Flower Street, Suite 400, Santa Ana, CA 92703, or you can access our website at <http://oclandfills.com>.

OC WASTE & RECYCLING
STATEMENTS OF NET POSITION
 JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

	2013	2012
ASSETS:		
Current assets:		
Pooled cash and investments (Note 3)	\$ 332,059	\$ 335,530
Imprest cash funds (Note 3)	35	35
Accounts receivable, net of allowances of \$1 in 2013 & 2012 (Note 4)	9,996	8,321
Interest receivable	267	574
Prepaid costs (Note 5)	4,464	4,136
Due from other governmental agencies	194	103
Due from other funds of the County (Note 8)	63	13
Debt issuance costs (Note 2)	1	2
Total current assets	<u>347,079</u>	<u>348,714</u>
Current restricted assets:		
Pooled cash and investments-customer deposits (Note 3)	702	754
Investments with trustees (Note 3)	11,749	11,564
Deposits in-lieu of cash (Note 6)	16,753	16,510
Deposits with others	100	-
Total current restricted assets	<u>29,304</u>	<u>28,828</u>
Total current assets	<u>376,383</u>	<u>377,542</u>
Noncurrent assets:		
Restricted assets:		
Pooled cash and investments-customer deposits	21	21
Pooled cash and investments-contractor deposits	128	138
Pooled cash and investments-rate stabilization	28,082	28,054
Pooled cash and investments- corrective action	6,097	6,086
Pooled cash and investments - San Joaquin Marsh project	-	3,120
Pooled cash and investments - Prima Deshecha/La Pata closure	104	-
Pooled cash and investments - Frank R. Bowerman landfill & agua	879	-
Pooled cash and investments-closure and postclosure care costs (Note 13)	90,170	90,037
Total noncurrent restricted assets	<u>125,481</u>	<u>127,456</u>
Capital assets (Note 9)		
Nondepreciable	43,706	32,749
Depreciable, net	171,076	175,566
Net capital assets	<u>214,782</u>	<u>208,315</u>
Prepaid costs (Note 5)	-	786
Advances to other funds (Note 7 and 8)	3,918	-
Debt issuance costs (Note 2)	-	1
Total noncurrent assets	<u>344,181</u>	<u>336,558</u>
Total assets	<u>\$ 720,564</u>	<u>\$ 714,100</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
STATEMENTS OF NET POSITION (CONTINUED)
 JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

	2013	2012
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 7,798	\$ 4,606
Retainage payable	601	256
Salaries and accrued employee benefits payable	1,009	1,021
Accrued closure and postclosure care costs (Notes 12 and 13)	1,459	1,665
Pollution remediation obligation (Note 12 and 14)	485	509
Interest payable	31	60
Deferred revenue	99	73
Compensated employee absences payable (Note 2 and 12)	1,297	1,349
Due to other funds of the County (Note 8)	1,350	2,154
Due to other governmental agencies	1,417	1,376
Arbitrage rebate payable	35	281
Total current liabilities (payable from current assets)	<u>15,581</u>	<u>13,350</u>
Current liabilities (payable from restricted assets):		
Revenue bonds payable, net (Note 12)	7,018	6,648
Deposits from others	17,604	17,423
Total current liabilities (payable from restricted assets)	<u>24,622</u>	<u>24,071</u>
Total current liabilities	<u>40,203</u>	<u>37,421</u>
Noncurrent liabilities:		
Compensated employee absences payable (Note 2 and 12)	1,480	1,515
Accrued closure and postclosure care costs (Notes 12 and 13)	172,234	165,392
Pollution remediation obligation (Note 12 and 14)	12,348	12,593
Revenue bonds payable, net (Note 12)	-	7,018
Total noncurrent liabilities	<u>186,062</u>	<u>186,518</u>
Total liabilities	<u>226,265</u>	<u>223,939</u>
NET POSITION		
Net investment in capital assets	207,766	194,652
Restricted:		
Prima Deshecha/La Pata Closure	104	-
Debt service	32,865	33,019
Landfill closure and postclosure	40,355	39,970
Landfill corrective action	6,109	6,097
San Joaquin Marsh project	-	3,120
Frank R. Bowerman landfill & agua	879	-
Unrestricted	206,221	213,303
Total net position	<u>\$ 494,299</u>	<u>\$ 490,161</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

	2013	2012
OPERATING REVENUES		
Disposal fees (Note 2)	\$ 104,079	\$ 97,507
Use of property	2,703	1,620
Licenses, permits, and franchise fees	71	68
Total operating revenues	<u>106,853</u>	<u>99,195</u>
OPERATING EXPENSES		
Salaries and employee benefits	25,222	24,988
Services and supplies	21,828	20,403
Professional and specialized services	15,452	11,907
Operating leases	712	1,080
Provision for pollution remediation obligation	321	1,840
Provision for closure and postclosure care costs	8,095	5,394
Taxes and other fees	6,696	9,941
Depreciation and amortization (Note 9)	16,406	17,613
Total operating expenses	<u>94,732</u>	<u>93,166</u>
Operating income	12,121	6,029
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental revenue	19	26
Fines, forfeitures and penalties	23	53
Interest income	1,300	2,540
Interest expense	(11)	(919)
Gain (loss) on disposal of capital assets	49	53
Other revenues	563	762
Total nonoperating revenues	<u>1,943</u>	<u>2,515</u>
Income before transfers	14,064	8,544
Capital contributions	-	1,304
Transfers in	34	-
Transfers out to County General Fund	<u>(9,960)</u>	<u>(11,767)</u>
Change in net position	4,138	(1,919)
Net position - beginning of year	490,161	492,080
Net position - end of year	<u>\$ 494,299</u>	<u>\$ 490,161</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

	2013	2012
Cash flows from operating activities		
Receipts from customers	\$ 105,027	\$ 99,936
Payments to suppliers for goods and services	(35,679)	(33,722)
Payments to employees for services	(25,321)	(24,818)
Payments to other funds	(804)	(153)
Cash received (paid) for interfund charges	(50)	13
Landfill site closure and post-closure care costs	(1,459)	(1,665)
Pollution remediation obligation	(590)	(712)
Taxes and other fees	(6,696)	(9,941)
Other receipts (payments)	112	1,403
Net cash provided by operating activities	<u>34,540</u>	<u>30,341</u>
Cash flows from noncapital and related financing activities		
Transfers out	(9,960)	(11,767)
Transfers in	36	-
Intergovernmental revenues	19	26
Advances (to)/from other funds	(3,918)	28,149
Net cash provided by (used in) noncapital and related financing activities	<u>(13,823)</u>	<u>16,408</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(21,000)	(903)
Principal paid on bonds (Note 12)	(6,655)	(6,305)
Interest paid on bonds (Note 12)	(30)	(885)
Proceeds from sale of capital assets	49	215
Net cash used in capital and related financing activities	<u>(27,636)</u>	<u>(7,878)</u>
Cash flows from investing activities		
Interest on investments	1,607	2,577
Purchase of investments, net	(186)	(173)
Net cash provided by investing activities	<u>1,421</u>	<u>2,404</u>
Net increase (decrease) in cash and cash equivalents	(5,498)	41,275
Cash and cash equivalents - beginning of year	463,775	422,500
Cash and cash equivalents - end of year	<u>\$ 458,277</u>	<u>\$ 463,775</u>
Reconciliation of cash and cash equivalents to statements of net position:		
Pooled cash and investments-current assets	\$ 332,059	\$ 335,530
Imprest cash funds	35	35
Pooled cash and investments-rate stabilization	28,082	28,054
Pooled cash and investments-closure and postclosure care costs	90,170	90,037
Pooled cash and investments- corrective action	6,097	6,086
Pooled cash and investment - San Joaquin Marsh project	-	3,120
Pooled cash and investments-Prima Deshecha/La Pata closure	104	-
Pooled cash and investments-FRB Landfill & Agua	879	-
Pooled cash and investments-customer deposits	723	775
Pooled cash and investments-contractor deposits	128	138
Total cash and cash equivalents	<u>\$ 458,277</u>	<u>\$ 463,775</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

	2013	2012
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,121	\$ 6,029
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	16,406	17,613
Fines, forfeitures and penalties	23	53
Other revenues	563	762
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(1,673)	235
Deposits in-lieu of cash	(243)	57
Prepaid costs	458	1,663
Due from other funds	(51)	13
Due from other governmental agencies	(91)	365
Deposits with others	(100)	-
Increase (decrease) in:		
Accounts payable	1,315	(1,471)
Retainage payable	345	81
Salaries and employee benefits payable	(12)	123
Deferred revenue	26	(61)
Deposits from others	181	84
Due to other funds	(803)	(153)
Due to other governmental agencies	41	(22)
Compensated employee absences payable	(87)	47
Pollution Remediation Obligation	(269)	1,128
Landfill site closure/postclosure payable	6,636	3,729
Arbitrage rebate payable	(246)	66
Net cash provided by operating activities	<u>\$ 34,540</u>	<u>\$ 30,341</u>
Schedule of noncash investing, capital and related financing activities		
Capital contribution	\$ -	\$ 1,304

See accompanying notes to financial statements

Note 1 – Importation Revenue Transfer for County Bankruptcy Recovery

On December 6, 1994, the County of Orange, California (County), filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of substantial losses in the Orange County Investment Pool (the Pool). The liquidation of the portfolio resulted in the realization of an investment loss of approximately \$1.6 billion. Approximately \$36,652 of the County’s loss was allocated to the Integrated Waste Management Department (which was renamed OC Waste & Recycling in March 2008) operations and finances and was reported in the year ended June 30, 1995.

In response to the bankruptcy, the County prepared a comprehensive recovery plan (Plan). The Plan was confirmed by the United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered on May 16, 1996. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy.

Impact of County Bankruptcy on OC Waste & Recycling

OC Waste & Recycling is a department of the County. Due to statutory and regulatory restrictions, revenues generated by OC Waste & Recycling from in-county waste are not available for County General Fund purposes. After analyzing its assets and operations, the County determined that OC Waste & Recycling could provide an important source of revenue for the repayment of County claims. As such, the County proposed to restructure the operations of OC Waste & Recycling to maximize its value. Specifically, the County proposed to import out-of-county waste as a new source of revenue. Pursuant to the proposal, the County obtained legislation exempting OC Waste & Recycling from certain provisions of the California Environmental Quality Act, thereby expediting the County’s process to pursue and contract for the importation of out-of-county waste.

The County requested proposals for waste-importation contracts and, in January 1996, entered into contracts of various durations, which will terminate on June 30, 2016. These contracts are estimated to generate revenue sufficient to support the Plan’s estimated \$15 million of net importation revenue per year for 20 years to be contributed to the County General Fund to pay bankruptcy related obligations. During the years ended June 30, 2013 and 2012, OC Waste & Recycling collected imported waste disposal fees of \$18,032 and \$14,963, respectively. Net import revenues totaling \$9,960 and \$11,779 were distributed to the County during the years ended June 30, 2013 and 2012, respectively, and are included as Transfers to County General Fund in the financial statements.

Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

OC Waste & Recycling is operated as a department of the County of Orange, California (County), and is accounted for as an enterprise fund in the basic financial statements of the County. The financial statements presented herein represent the financial position and changes in financial position and cash flows of OC Waste & Recycling only and are not intended to present the financial position, changes in financial position or the cash flows of the County in conformity with accounting principles generally accepted in the United States of America.

Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Description of Reporting Entity (Continued)

The County assumed responsibility for establishing and maintaining waste disposal sites in 1946 and the OC Waste & Recycling enterprise fund was formally established in 1982. OC Waste & Recycling finances its operations through disposal fees charged to users of the waste disposal sites. Such disposal fees are OC Waste & Recycling’s primary source of revenue. Refer to Note 17, Major Customers, for additional discussion.

The County has entered into waste disposal agreements with 34 cities, four (4) Sanitary Districts, one (1) Joint Powers Authority and five (5) Facility Operators effective July 1, 2010 through June 30, 2020 and one of Sanitary Districts entered into an agreement in January 2013. The waste disposal agreements cover approximately 97 percent of all solid waste generated in the County and obligate the cities and haulers to deliver all controllable waste to landfills operated by OC Waste & Recycling. The 3 percent balance of in-county waste is delivered by self-haulers.

Basis of Presentation – Fund Accounting

The operations of OC Waste & Recycling are accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

OC Waste & Recycling prepares its financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles, which provides that revenues are recorded when earned and expenses are recorded when incurred. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating/Nonoperating Revenues and Expenses

OC Waste & Recycling distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services from the OC Waste & Recycling’s landfill operations. The principal operating revenue of OC Waste & Recycling is disposal fees charged to users of the waste disposal sites. Operating expenses include salaries & benefits, cost of services, administrative expenses, taxes and fees, closure/postclosure care costs, pollution remediation obligations, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments, which are readily convertible to cash or mature within three months of their original purchase. Pooled cash and investments are considered cash and cash equivalents.

Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Pooled Cash and Investments and Investments with Trustees

Pooled cash and investments and investments with trustees are stated at fair value. Pooled cash and investments are funds OC Waste & Recycling has on deposit with the Treasurer’s County Investment Pool (the Pool). Interest earned on pooled cash and investments is allocated monthly by the Treasurer to OC Waste & Recycling based on average daily balances on deposit with the Treasurer. Interest earned on investments with trustees is credited directly to OC Waste & Recycling.

Capital Assets

Property, plant and equipment purchased or constructed by OC Waste & Recycling are capitalized at cost, while contributed assets are recorded at fair market value when received. Assets are capitalized when the original unit cost is equal to or greater than the County’s capitalization threshold of \$5 for equipment, \$150 for structures and improvements, \$150 for intangible assets, \$0 for infrastructure, and \$0 for land. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements, equipment, intangible assets, and infrastructure are as follows:

Structures and Improvements	10 to 50 years (or the remaining estimated useful life of the landfill)
Equipment	2 to 20 years
Intangible assets	5 to 20 years (or indefinite)
Infrastructure:	
Cell development	15 to 61 years
Drainage channels	9 to 32 years
Facility improvements	12 to 61 years
Habitat	20 to 55 years
Landfill gas/environmental	3 to 71 years
Roads	7 to 49 years
Closure/other earthwork	16 to 56 years

No depreciation is provided on construction in progress until construction is completed and the asset is placed in service.

Maintenance and repair costs are expensed in the period incurred. Expenses that materially increase the capacity or efficiency or extend the useful life of an asset are capitalized and depreciated. Upon the sale or retirement of the capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the Statement of Revenues, Expenses and Changes in Net Position.

Interest is capitalized on construction in progress. Capitalized interest is calculated by multiplying the construction in progress cost of new projects started during the fiscal year by the bond borrowing rate.

Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Capital Assets (continued)

The total interest included as part of the cost of capital assets for the fiscal years ended June 30, 2013 and 2012 were \$510 and \$0, respectively.

Debt Issuance Costs, Premiums and Deferred Charges on Refundings

Debt issuance costs, premiums and deferred charges on refundings are amortized using the effective interest method over the term of the debt.

Landfill Closure and Postclosure Care Costs

OC Waste & Recycling accrues a liability for anticipated costs of closing landfill sites plus the costs of monitoring and maintaining the sites during the postclosure periods. Because the closure expenses are accrued over the life of the operating landfills as the permitted air space of the landfills is consumed, the entire closure and postclosure care cost is recognized as an expense by the time the landfills stop accepting waste. OC Waste & Recycling accrues for the estimated costs of closing landfill sites over the estimated useful lives of the sites based on engineering studies and cost projections, and for the estimated costs of monitoring and maintaining the sites during the postclosure period.

Self-Insurance

OC Waste & Recycling participates in the County’s self-insurance programs for general and automobile liability claims, workers’ compensation claims, group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits. Liabilities are accrued in these self-insurance programs based upon case reserves, development of known and incurred but not reported claims, including allocated and unallocated loss adjustment expenses. Also, OC Waste & Recycling participates in commercial insurance purchased for excess liability coverage, property coverage, and other risk exposures. OC Waste & Recycling records its portion of related self-insurance and commercial insurance premiums charged by the County as an expense. Insurance expense for the year ended June 30, 2013 and 2012 was \$294 and \$234, respectively.

Compensated Absences

Compensated employee absences (vacation, compensatory time off, performance incentive plan (PIP) time off, annual leave and sick leave) are accrued as an expense and liability when incurred.

Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Net Position

Net Position is displayed in three distinct categories:

Net Investment in capital assets indicates the value of land, buildings, infrastructure, and equipment, net of depreciation, less debt related to the acquisition of those assets that is representative of the OC Waste & Recycling’s equity in capital assets.

Restricted indicates the value of the restricted assets on hand and pooled cash and investments of closure and postclosure care costs and other restrictions required in excess of the related and recognized liabilities. It is expected that future liabilities will be recognized to match the restricted assets on hand. These monies are restricted by Federal and State legislation, and third parties for specific use within their categories. As of June 30, 2013 and 2012, OCWR reported a restricted net position of \$80,312 and \$82,206, respectively, for debt service, landfill closure and postclosure, landfill corrective action, San Joaquin Marsh project, Prima Deshecha/ La Pata Closure, and FRB Landfill & Agua of which \$47,447 and \$49,187 were restricted by enabling legislation, respectively.

Unrestricted is the remaining amount of assets over liabilities available for operations and management discretion.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Use of Restricted Funds

When both restricted and unrestricted assets are available for use, it is OCWR’s policy to use restricted assets first, then unrestricted assets as they are needed.

Note 3 - Cash and Investments

OC Waste & Recycling follows the County’s policy guidelines for pooling its cash and investments with the County Treasurer. The County Treasurer abides by the Investment Policy Statement (IPS) in investing the Pool’s monies.

Pooled Cash and Investments

As discussed in Note 2, the Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2013 and 2012, the Pool contains investments with an average maturity of 380 and 359 days, respectively. Interest is apportioned to individual funds based on the average daily balances on deposit with the Treasurer.

Note 3 - Cash and Investments (Continued)

Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 of the County’s Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller’s website at <http://www.ac.ocgov.com>.

Investments with Trustees

On behalf of OC Waste & Recycling, fiscal agents hold and invest proceeds from long-term debt issuances as required by the indentures. The fair value of these investments is provided to the County by fiscal agents. Fiscal agents are mandated by the indentures as to the types of investments in which the debt issuance proceeds can be invested.

Except for OC Waste & Recycling’s investments with trustees, all of OC Waste & Recycling’s cash and investments are combined with the County’s pooled investments, and therefore, do not represent specific identifiable investments.

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2013 and 2012 were as follows:

	2013	2012
Restricted Investments with Trustees:		
U.S. Government Securities	\$ 7,413	\$ 7,412
Money market mutual funds	4,336	4,152
Cash and investments pooled by the County Treasurer	458,242	463,740
Total investments	<u>\$ 469,991</u>	<u>\$ 475,304</u>
Imprest cash funds	\$ 35	\$ 35
Total investments	469,991	475,304
Total cash and investments	<u>\$ 470,026</u>	<u>\$ 475,339</u>

Note 3 - Cash and Investments (Continued)

As of June 30, 2013, the major classes of OC Waste & Recycling’s deposits and investments consisted of the following:

	Principal	Fair Value	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	\$ -	\$ 458,242			1.04
Restricted Investments with Trustee:					
U.S. Government Securities	7,205	\$ 7,413	Discount	11/29/2013	0.26
Money market mutual funds	4,336	4,336	Variable	On Demand	-
Total Restricted Investments with Trustee	\$ 11,541	\$ 11,749			0.16

The following is a summary of credit quality distribution by investment type at June 30, 2013
(NR denotes Not Rated):

	S&P	Moody’s	Fitch	% of Portfolio
County Investment Pool	AAAm	N/R	N/R	97.50%
U.S. Government Securities	A-1+	P-1	AAA	1.58%
Money market mutual funds	AAAm	Aaa-mf	N/R	0.92%
				<u>100.00%</u>

As of June 30, 2012, the major classes of OC Waste & Recycling’s deposits and investments consisted of the following:

	Principal	Fair Value	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	\$ -	\$ 463,740			0.98
Restricted Investments with Trustee:					
U.S. Government Securities	7,205	\$ 7,412	Discount	11/21/2012	0.27
Money market mutual funds	4,152	4,152	Variable	On Demand	-
Total Restricted Investments with Trustee	\$ 11,357	\$ 11,564			0.17

Note 3 - Cash and Investments (Continued)

The following is a summary of credit quality distribution by investment type at June 30, 2012
(NR denotes Not Rated):

	S&P	Moody’s	Fitch	% of Portfolio
County Investment Pool	AAAm	N/R	N/R	97.57%
U.S. Government Securities	N/R	P-1	F1+	1.56%
Money market mutual funds	AAAm	Aaa-mf	N/R	0.87%
				<u>100.00%</u>

Interest Rate Risk

The Investment Policy Statement (IPS) serves as the formal policy for the Treasurer’s office and provides specific guidelines and limitations to mitigate interest rate risk. The IPS is reviewed and approved by the Board annually, and any amendments to the IPS must first be reviewed and approved by the Treasury Oversight Committee and then by the Board. The IPS is therefore considered formally adopted. The IPS was last adopted on January 8, 2013.

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the IPS. At June 30, 2013 and 2012, the WAM for the Pool approximated 1.04 and 0.98 years (380 and 359 days), respectively, and for investments with trustees approximated 0.16 and 0.17 years (58 and 62 days), respectively.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, OC Waste & Recycling’s external investment pools and specific investments did not have any securities exposed to custodial credit risk and the Treasurer did not have any securities lending during the year (or at year-end).

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than “A-1” or “SP-1” (Standard & Poor’s), “P-1” or “MIG 1/VMIG 1” (Moody’s), or “F1” (Fitch). For an issuer of long-term debt, the rating must be no less than an “A” in the Money Market funds and “AA” in the Extended Fund. As of June 30, 2013 and 2012, the County’s investments in commercial paper were in compliance with the IPS limits.

Note 4 – Accounts Receivable

Accounts receivable accounts at June 30, 2013 and 2012 are summarized as follows:

	2013	2012
Imported waste disposal fees	\$ 1,996	\$ 2,255
County of Orange (In-county) waste disposal fees	7,291	5,742
Miscellaneous	709	324
Total accounts receivable	<u>\$ 9,996</u>	<u>\$ 8,321</u>

Underbilled Accounts: During their internal review process, OC Waste & Recycling (OCWR) determined that as of March 31, 2012, 10 out of over 400 total deferred hauler accounts had been underbilled since the new Waste Disposal Agreements were implemented on July 1, 2010. This occurred when some system entries were not updated at the time the Waste Disposal Agreements were implemented, and as a result, OCWR has added additional controls and procedures to prevent recurrence of this problem. OCWR contacted the ten haulers and seven were able to satisfy their respective underbilled amount. The remaining three were underbilled a combined total of \$1,385 which represents less than 1 percent of the total disposal revenue during this period. On July 24, 2012, in Closed Session, the Board of Supervisors authorized OCWR to negotiate repayment agreements with the three outstanding haulers and to retain an outside counsel firm which specializes in collection work to assist OCWR. In October 2012, OCWR on the advice of County Counsel, contracted with an outside law firm who specializes in this type of law, to negotiate settlements for the underbilled amounts for the three haulers. In June 2013, final settlement amounts were negotiated for all three haulers and signed by all parties. Each included a down payment (cash or using a portion of their existing security deposit) and monthly payments ranging from 24 to 48 months and guaranteed non-contract rate tonnage of 20 or 50 tons per month for the same periods. The Board of Supervisors approved the repayment agreements in closed session on June 18, 2013.

Note 5 – Prepaid Costs

In accordance with the Cooperative Agreement, OC Waste & Recycling prepaid \$5,500 for community amenities and transportation improvement costs associated with operating the Frank R. Bowerman Landfill to the City of Irvine for the period of 2007 through 2014. OC Waste & Recycling also prepaid \$3,677 and \$3,349 for fiscal years 2013-14 and 2012-13, respectively, for pension obligations to the Orange County Employees Retirement System (OCERS) in January 2013 and January 2012. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$291, based on the discount rate of 7.32 percent. These prepaid costs are recognized in the fiscal year during which services are provided. Prepaid costs, net of amortization reported in the Statement of Net Position, are \$4,464 and \$4,922 for 2013 and 2012, respectively.

Note 6 - Deposits in-Lieu of Cash

OC Waste & Recycling requires security deposits from landfill deferred payment program users. These security deposits are comprised primarily of certificates of deposit and security bonds, which are held by OC Waste & Recycling. The balance for deposits in-lieu of cash as of June 30, 2013 and 2012 were \$16,753 and 16,510, respectively.

Note 7 – Advance to General Fund for the County’s Information Technology Projects

On June 23, 2009 the County Board of Supervisors adopted Resolution 09-090 authorizing the temporary transfer of monies between the County General Fund and OCWR in order to meet County cash flow shortages or deficits.

Since October 2009, the Board has issued resolutions authorizing the County to borrow monies from OCWR for part of the costs associated with the upgrades of various County Information Technology projects. Repayment of the amount to be borrowed, plus interest, is from the County’s General Fund. The actual amount repaid from the General Fund in FY 2012-13 and 2011-12 were \$0 and \$28,161, respectively. The outstanding balance as of June 30, 2013 and 2012 were \$3,918 and \$0 respectively.

On June 26, 2012, by Resolution 12-072, the Board authorized the borrowing up to \$173,000 for FY 2012-13.

Note 8 – Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2013 and 2012 are as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund	2013	2012
General Fund	Waste Management	\$ 1,271	\$ 2,131
Other Governmental Funds	Waste Management	1	2
Workers’ Compensation ISF	Waste Management	25	-
Internal Service Funds	Waste Management	53	21
Total Due to Other Funds:		<u>\$ 1,350</u>	<u>\$ 2,154</u>
Waste Management	General Funds	\$ 46	\$ 1
Waste Management	Roads	4	1
Waste Management	Flood Control District	12	11
Waste Management	OC Parks	1	-
Total Due From Other Funds:		<u>\$ 63</u>	<u>\$ 13</u>
Waste Management	General Fund	\$ 3,918	\$ -
Total Advances to Other Funds:		<u>\$ 3,918</u>	<u>\$ -</u>

Amounts payable to the General Fund include net importation revenue to pay bankruptcy related obligations in accordance with the County’s comprehensive recovery plan. The interfund loans represent an advance made to the General Fund from OC Waste & Recycling for various information technology capital projects. Refer to Note 7, Advance to General Fund, for additional information.

OC WASTE & RECYCLING
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

Note 9 – Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance July 1, 2012	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2013
Capital assets, nondepreciable:					
Land	\$ 22,405	-	-	-	\$ 22,405
Construction in progress	10,344	20,276	(9,743)	-	20,877
Intangible assets in progress	-	424	-	-	424
Total capital assets, nondepreciable	<u>32,749</u>	<u>20,700</u>	<u>(9,743)</u>	<u>-</u>	<u>43,706</u>
Capital assets, depreciable:					
Buildings and improvements	18,514	-	-	-	18,514
Equipment	68,329	2,207	(755)	(1)	69,780
Infrastructure	281,773	9,743	-	-	291,516
Total capital assets, depreciable	<u>368,616</u>	<u>11,950</u>	<u>(755)</u>	<u>(1)</u>	<u>379,810</u>
Less accumulated depreciation for:					
Buildings and improvements	(7,786)	(845)	-	-	(8,631)
Equipment	(44,352)	(4,776)	722	-	(48,406)
Infrastructure	(140,912)	(10,785)	-	-	(151,697)
Total accumulated depreciation	<u>(193,050)</u>	<u>(16,406)</u>	<u>722</u>	<u>-</u>	<u>(208,734)</u>
Total capital assets, depreciated, net	<u>175,566</u>	<u>(4,456)</u>	<u>(33)</u>	<u>(1)</u>	<u>171,076</u>
Total capital assets, net	<u>\$ 208,315</u>	<u>\$ 16,244</u>	<u>\$ (9,776)</u>	<u>\$ (1)</u>	<u>\$ 214,782</u>

OC WASTE & RECYCLING
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
 (Dollar Amounts in Thousands)

Note 9 – Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2012
Capital assets, nondepreciable:					
Land	\$ 22,405	-	-	-	\$ 22,405
Construction in progress	11,902	538	(2,096)	-	10,344
Total capital assets, nondepreciable	<u>34,307</u>	<u>538</u>	<u>(2,096)</u>	<u>-</u>	<u>32,749</u>
Capital assets, depreciable:					
Buildings and improvements	18,514	-	-	-	18,514
Equipment	70,252	2,228	(2,969)	(1,182)	68,329
Infrastructure	279,677	2,096	-	-	281,773
Total Capital assets, depreciable	<u>368,443</u>	<u>4,324</u>	<u>(2,969)</u>	<u>(1,182)</u>	<u>368,616</u>
Less accumulated depreciation for:					
Buildings and improvements	(6,923)	(863)	-	-	(7,786)
Equipment	(42,460)	(5,323)	2,707	724	(44,352)
Infrastructure	(129,485)	(11,427)	-	-	(140,912)
Total accumulated depreciation	<u>(178,868)</u>	<u>(17,613)</u>	<u>2,707</u>	<u>724</u>	<u>(193,050)</u>
Total capital assets, depreciated, net	<u>189,575</u>	<u>(13,289)</u>	<u>(262)</u>	<u>(458)</u>	<u>175,566</u>
Total capital assets, net	<u>\$ 223,882</u>	<u>\$ (12,751)</u>	<u>\$ (2,358)</u>	<u>\$ (458)</u>	<u>\$ 208,315</u>

Note 9 – Capital Assets (Continued)

Construction in progress

Construction in progress consists of projects for drainage systems, water irrigation and collection systems, gas collection systems, monitoring systems, truck scales automatic systems, landfill grading and re-vegetation. The projects at June 30, 2013 and 2012 are as follows:

Landfill	2013	2012
Frank R. Bowerman (FRB)		
FRB - Phase 8 East Flank/Buttress Excavation	\$ 2,761	\$ 2,698
FRB - Construction Management, CQA Slide/Buttress	1,053	-
FRB - Construction of Wetlands Basin & West Channel Realignment	2,764	-
FRB - Phase 8 C Excavation and Liner Construction	7,001	-
Prima		
Prima Constr Admin/Crew Quarters	3,938	3,938
Prima Zone 1 Construction Management/CQA/A/P Svcs	2,631	2,631
Other	729	1,077
Total construction in progress	<u>\$ 20,877</u>	<u>\$ 10,344</u>

Construction Contracts

OC Waste & Recycling entered into various major construction contracts to facilitate its landfill operations. At June 30, 2013, OC Waste & Recycling is committed to open construction contracts for the following projects:

Description	Remaining Commitments
FRB Construction Management, CQA Slide/Buttress	\$ 1,147
FRB Construction of Wetlands Basin & West Channel Realignment	2,300
FRB Phase 8 C Excavation and Liner Construction	6,588
Total	<u>\$ 10,035</u>

Note 10 - Defined Benefit Pension Plan

All full-time employees of OC Waste & Recycling participate in the Orange County Employees Retirement System ("OCERS"), a cost-sharing multiple-employer public employee retirement system. OCERS issues a stand-alone annual financial report each year ending December 31, which can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, California 92701, or by calling (714) 558-6200.

OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each OC Waste & Recycling employee receives a defined-benefit pension at retirement, that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement. The OCERS Board does not set the benefit amounts. OCERS administers benefits that are set by the County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement Law.

Funding Policy: In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For the years ended June 30, 2013 and 2012, employer's contributions as a percentage of covered payrolls were 28.37 percent and 27.11 percent, respectively, for General members.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General Members who work for the County (approximately 14,000) became eligible for the benefit formula of 2.7 percent of the member's "final compensation" for each year of service rendered at age 55. "Final compensation" for the purpose of calculating pension benefits can mean not only base salary, but also other components according to the California Supreme Court 1997 Ventura decision. In collective bargaining agreements with General Members, the employee associations agreed that current employees pay the costs of the difference between retirement benefits at the prior formulas and the 2.7 percent at age 55 formula. New employees hired after May 7, 2010, have the option of selecting either 2.7 percent at age 55 or 1.62 percent at age 65. OC Waste & Recycling employee contributions under current contracts are calculated on base salary, eligible premium pay and some categories of overtime as defined in the 1997 Ventura decision.

OC Waste & Recycling's total payroll expense was \$16,966, \$17,206, and \$17,387 and the payroll expense for employees covered by OCERS was \$16,816, \$17,068, and \$17,253 for the years ended June 30, 2013, 2012, and 2011, respectively. Total pension expense (which equals the actuarially required contributions) for OC Waste & Recycling was \$3,975, \$3,877, and \$4,068, for the years ended June 30, 2013, 2012, and 2011, respectively. OCWR also prepaid \$3,677, \$3,349 and \$4,227 for fiscal years 2013-14, 2012-13 and 2011-12, respectively, for pension obligations in January 2013, January 2012 and May 2011. Refer to Note 5, Prepaid Costs, for additional discussion.

Note 10 - Defined Benefit Pension Plan (Continued)

For additional details on the defined benefits pension plan, actuarial assumptions, funded status of the plan and required supplemental information, refer to the County's Comprehensive Annual Financial Report (CAFR). The CAFR is available by assessing the Auditor-Controller's website at <http://www.ac.ocgov.com>.

Note 11 – Postemployment Health Care Benefits

Plan: OC Waste & Recycling is a participant in the County of Orange's Third Amended Retiree Medical Plan (The Retiree Medical Plan). The Retiree Medical Plan is a single employer defined benefit. Other Post Employment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the County Board of Supervisors. The Board is also the authority for amending the Retiree Medical Plan. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums.

In order to be eligible to receive the Grant upon retirement, the employee must have completed at least 10 years of continuous County service (although exceptions for disability retirements exist), be enrolled in a County sponsored health plan and/or Medicare, qualify as a retiree as defined by the Retiree Medical Plan and be able to receive a monthly benefit payment from the Orange County Employees Retirement System (OCERS). To qualify as a retiree as defined by the Retiree Medical Plan, the employee upon retirement must be at least 50 years of age or have at least 20 years of service for a safety member of OCERS or at least 30 years of service for a general member of OCERS.

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The frozen lump sum payment is equal to 1 percent of the employee's final average hourly pay (as defined in the plan) multiplied by the employee's qualifying hours of service (as defined) since the Retiree Medical Plan's effective date.

Funding Policy: As an enterprise fund of the County of Orange, OC Waste & Recycling is currently setting aside an actuarially determined contribution of 3.7 percent of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$622 and \$444 for the years ended June 30, 2013 and 2012, respectively, which is 100 percent of the annual required contribution.

For additional details on the Retiree Medical Plan, actuarial assumptions, funded status of the plan and required supplemental information, refer to the County's Comprehensive Annual Financial Report (CAFR) at the Auditor-Controller's website at <http://www.ac.ocgov.com>.

Note 12 - Long-Term Obligations

1997 Refunding Revenue Bonds

In November 1997, the Orange County Public Financing Authority (OCPFA) issued \$77,300 in revenue bonds, with interest rates ranging from 4.375 percent to 5.750 percent, to advance refund the 1988 Certificates of Participation, with interest rates ranging from 7.200 percent to 7.875 percent, which were originally issued in December 1988 maturing in installments through December 1, 2013. The defeased debt is no longer outstanding. The bonds were issued at a premium of \$2,190. These refunding revenue bonds are payable through December 2013 from OC Waste & Recycling's net operating revenues and are not a general obligation of the County. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120 percent of the aggregate debt service requirement over the life of the bonds. For the years ended June 30, 2013 and 2012, the principal and interest paid were \$7,197 and \$7,190, and the total net revenues as defined by the bond covenants were \$19,570 and \$13,743, respectively. The outstanding principal amount and interest on these bonds as of June 30, 2013 and 2012 were \$7,020 and \$184; and \$13,675 and \$727, respectively.

1997 Refunding Revenue Bonds (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7,274. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through fiscal year 2014 using the effective interest method. Refer to Note 15 Commitments, Litigation, Contingencies, and Subsequent Events for additional information.

Annual Principal and Interest Requirements

Annual debt service requirements for the outstanding revenue bonds as of June 30, 2013, excluding the premium and deferred charges on refunding, are as follows:

Year Ending June 30,	Principal	Interest
2014	7,020	184
Total 1997 Refunding Revenue Bonds	\$ 7,020	\$ 184

Note 12 - Long-Term Obligations (Continued)

Long-term liability activities for the year ended June 30, 2013 were as follows:

	Balance July 1,2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Long-Term Liabilities					
Revenue bonds	\$ 13,675	\$ -	\$ (6,655)	\$ 7,020	\$ 7,020
Less premium/deferred amount on refunding, net	(9)	-	7	(2)	(2)
Total bonds payable, net	13,666	-	(6,648)	7,018	7,018
Compensated absences	2,864	2,210	(2,297)	2,777	1,297
Closure and postclosure care costs	167,057	8,342	(1,706)	173,693	1,459
Pollution Remediation Obligation	13,102	376	(645)	12,833	485
Total other long-term liabilities	183,023	10,928	(4,648)	189,303	3,241
Total long-term liabilities	\$ 196,689	\$ 10,928	\$ (11,296)	\$ 196,321	\$ 10,259

Annual Principal and Interest Requirements

Long-term liability activities for the year ended June 30, 2012 were as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
Long-Term Liabilities					
Revenue bonds	\$ 19,980	\$ -	\$ (6,305)	\$ 13,675	\$ 6,655
Less premium/deferred amount on refunding, net	(60)	-	51	(9)	(7)
Total bonds payable, net	19,920	-	(6,254)	13,666	6,648
Compensated absences	2,817	2,408	(2,361)	2,864	1,349
Closure and postclosure care costs	163,328	5,394	(1,665)	167,057	1,665
Pollution Remediation Obligation	11,974	1,840	(712)	13,102	509
Total other long-term liabilities	178,119	9,642	(4,738)	183,023	3,523
Total long-term liabilities	\$ 198,039	\$ 9,642	\$ (10,992)	\$ 196,689	\$ 10,171

Note 13 - Accrued Closure And Postclosure Care Costs

State laws and regulations require OC Waste & Recycling to place final covers on its landfill sites when the landfills stop accepting waste, and to perform certain postclosure maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, OC Waste & Recycling reports a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

OC Waste & Recycling owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine – Active)
- Olinda Alpha (Brea – Active)
- Prima Deshecha (San Juan Capistrano – Active)
- Santiago Canyon (Orange – Ceased accepting waste in 1996, final closure certification in 2005)
- Coyote Canyon (Newport Beach – Ceased accepting waste in 1990, final closure certification in 1995)

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by OC Waste & Recycling. Santiago Canyon's lease with The Irvine Company was terminated in November 2002 and The Irvine Company donated the landfill, valued at \$1,400, to the County. Coyote Canyon was owned by The Irvine Company and leased by the County. The County accepted the conveyance of the real property from The Irvine Company, along with the real property adjacent to the landfill and certain easement rights, valued at \$3,950. This action was approved by the Board of Supervisors on November 21, 2006.

The total landfill closure and postclosure care liability at June 30, 2013 and 2012 were \$173,693 and \$167,057, respectively. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (27.71% for FRB, 70.50% for Olinda Alpha and 18.59% for Prima Deshecha), less actual costs paid related to both closure and postclosure of the Santiago and Coyote Canyon landfills. OC Waste & Recycling will recognize the remaining estimated cost of closure and postclosure care of \$194,230 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2012 dollars (using the 2012 inflation factor of 1.018). OC Waste & Recycling has enough landfill capacity to operate the system for a minimum of twenty-five years. However, OC Waste & Recycling intends to operate the landfills well beyond this period as a result of approved and planned expansions.

In compliance with Title 27 – Environmental Protection of California Code of Regulations, OC Waste & Recycling makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the GASB 18 formula which is adjusted annually by the Cal Recycle provided CPI factor. Also in compliance with regulations, OC Waste & Recycling has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure maintenance costs. The agreements state that OC Waste & Recycling pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OC Waste & Recycling ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OC Waste & Recycling has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on state provided inflation factors. The state mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or

Note 13 - Accrued Closure And Postclosure Care Costs (Continued)

postclosure maintenance are determined due to changes in technology or higher regulatory requirements these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2013 and 2012, a total of \$90,170 and \$90,037, respectively, has been set aside for estimated closure and postclosure costs and is included in the accompanying Proprietary Statement of Net Position as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. This amount includes what OC Waste & Recycling has proactively prefunded for postclosure care.

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities, acceptable and prohibited waste types, and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever operated by the County. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase. Refer to Note 14, Pollution Remediation Obligations and Note 15, Commitments, Litigation, Contingencies, and Subsequent Events for additional discussion.

Note 14 – Pollution Remediation Obligations

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," requires government agencies to identify and disclose current and potential pollution remediation obligations. Five closed sites were identified and the remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The combined pollution remediation obligation ending balance for the fiscal year ending June 30, 2013 and 2012, after deducting actual pollution remediation expenses incurred during fiscal year 2013 and 2012 are \$12,833 and \$13,102, respectively.

Cannery Former Refuse Disposal Station

A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County of Orange (County) from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City, requiring the City to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, the City and the Huntington Beach City School District (School District) issued the Notices of Intent to Sue under RCRA and CERCLA to the County in 2004. Under an agreement with the County, City and School District claims were tolled until June 2006.

The City, County and School District entered into a Settlement Agreement in 2007 whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas.

Note 14 – Pollution Remediation Obligations (Continued)

Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, the length the wastes have been buried and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$77.

Lane Road Former Refuse Disposal Station

The site located in the City of Irvine and owned by NGP Realty Sub, L.P. and others, was leased and operated by the County of Orange as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owner requiring them to remedy the landfill gas exceedances, and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with the CEO Risk Management. The County entered into a Settlement Agreement with the property owner in 2005. Per terms of that Settlement Agreement, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and constructed an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site.

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either no longer be required or will be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the first full year of operation when the carbon canisters needed more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and due to anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is \$325. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$3,704.

San Joaquin Former Refuse Disposal Station

The site, owned by the University of California at Irvine, was leased and operated by the County of Orange as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with the University that was approved by the Board of Supervisors in May 2005. Pursuant to the Cooperative Agreement, the County constructed a landfill gas collection and control system, including a carbon treatment element.

Note 14 – Pollution Remediation Obligations (Continued)

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is \$155. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$1,552.

La Veta Former Refuse Disposal Station

Located in the City of Orange, La Veta is a former burn, dump and refuse disposal station leased to and operated by the County from 1946 to 1956. The site has multiple owners and was developed into a YMCA facility, apartments, a mobile home park and a small amount of open space. Recently, the County learned that the Californian Department of Toxic Substances Control (DTSC) and the United States Environmental Protection Agency had previously performed limited soil and groundwater testing at the site. According to DTSC, the results of these tests indicated that further site assessment was warranted.

DTSC has requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County conducted a series of additional site investigations and assessments. Upon completion of these site assessments and based on the results contained therein, it was determined that no further action was required.

Based on a letter prepared by DTSC on March 12, 2013, there are no remaining costs to the County for performing the site assessment work.

Forster Former Refuse Disposal Station

The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County of Orange from 1958 to 1976. The current owner, Advanced Group 99-SJ, is proposing a change in land use for the property and has notified the County of its position that the County is responsible for re-closure of the site to meet current commercial and redevelopment requirements. The County disputes responsibility for site development related costs. In early 2010, the City of San Juan Capistrano approved the proposed project and certified the Environmental Impact Report (EIR). The EIR was a subject of a citizen's referendum that ultimately resulted in affirmation of the proposed project. Subsequent to the City approval of the proposed development plan, Advanced Group 99-SJ and the County entered into negotiations to resolve issues related to environmental responsibility at the site. These negotiations resulted in a settlement agreement and release of claims, brought about by a threat of litigation over the CEQA approvals. The settlement and release will permit the development of the site, with monies paid by the County for environmental controls to be installed at the site, an operation and maintenance fund and for environmental insurance, subject to conditions such as obtaining grading permits for the site for its actual development. In exchange, indemnification and environmental releases were provided by the developer to the County.

Note 14 – Pollution Remediation Obligations (Continued)

The obligation by the County for environmental infrastructure and controls at the site as agreed upon in the Settlement Agreement is \$7,500. The entire sum is expected to be released within five years of the settlement agreement (drafted in 2011), but was dependent upon actions by the owner and regulatory approvals for the project. The project schedule is currently delayed due to regulatory approval processes. Therefore, the entire sum may not be released until sometime after the initial five year period.

The remaining balance for landfill gas remediation at the Forster site is \$7,500. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

Note 15 – Commitments, Litigation, Contingencies, and Subsequent Events

Commitments Under Operating Leases

OC Waste & Recycling leases various equipment used at the waste disposal sites on a short-term basis and office space under operating leases, which are primarily on a month-to-month basis. Total future minimum lease payments under non-cancelable lease agreements with terms greater than one year as of June 30, 2013 and 2012 are not significant.

Litigation

OC Waste & Recycling is involved in various regulatory and other legal actions, which occur in the normal course of its operations. Except as discussed below, management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or changes in financial position of OC Waste & Recycling.

Yorba Refuse Disposal Station

The site, located in the City of Orange, was owned and operated as a solid waste disposal site by the County. After disposal operations ceased, the site was sold to the City for use as a city park. Park deed restrictions were later lifted from the property at the request of the city, which then began investigation into some form of commercial application or development at the site. In 2010, the Orange Redevelopment Agency filed suit against the City of Orange. The Complaint alleged various causes of action, including those for private nuisance, public nuisance, dangerous condition of property and statutory contributions for hazardous substances, and a Porter-Cologne contribution and for Polanco Redevelopment Act cost recovery. The relief sought is for unknown costs and damages. In turn, the City filed a cross-complaint against the County of Orange. The causes of action alleged include indemnity and/or contribution, declaratory relief, hazardous substance account act indemnity and remedies under the Porter-Cologne Act. The relief sought is for unknown costs and damages.

Due to the discovery of insurance coverage from old insurance policies purchased years ago, a tender of the claim was made by Risk Management. This has resulted in the insurance company providing its counsel for defense of the County's position in this case. County Counsel also is currently advising the County on this matter, as needed.

Note 15 – Commitments, Litigation, Contingencies, and Subsequent Events (Continued)

County of Orange v. Horizons Construction Co. and First National Insurance, Los Angeles County Superior Court Case No. BC462901

In January 2009, the Board of Supervisors awarded a contract (the Agreement) for \$3,655 to Horizons Construction Co. International, Inc. (Horizons) to construct the Prima Deshecha Landfill Office Building (the Project). The Project consists of constructing a 10,200 square foot “green” office building as well as certain exterior paving, landscaping, and related site work. The Project is managed through OC Waste & Recycling (OCWR). Horizons fell behind during construction and made numerous requests for extensions of the completion date. OCWR determined that certain delays were not the fault of the contractor, and extended the completion date by 50 additional days but denied other requests by Horizons’ for additional time. With the additional time granted Horizons, all work should have been completed no later than September 30, 2010. Horizons failed to meet this deadline. Horizons blames the delays on OCWR and continues to assert that they are entitled to be compensated for delay related damages. Horizons also submitted numerous change order requests asserting that it was entitled to additional compensation for work that it asserts was additional work not adequately described in the plans and specifications for the Project or work it asserts constituted unknown conditions. The vast majority of those change order requests were denied by OCWR on the recommendation of the OCWR’s construction management firm as unjustified. Horizons continues to assert that it is entitled to additional compensation for these rejected change order requests. Significant aspects of Horizons’ work have been substandard. Horizons’ substandard work includes a misapplied stain to the concrete floors, cracking in concrete; significant water leakage in the building through unprotected openings at the roof line, defective grout and control joints in the concrete block walls, improperly applied waterproofing and improperly sealed window openings. Horizons’ poor construction resulted in severe mold growth resulting in substantial remediation costs to OC Public Works (OCPW). Further there are missing HVAC control panels, incomplete sliding door assemblies and many more items of defective or incomplete work by Horizons. In addition to the poor construction, Horizons failed to meet key deadlines in their own schedule which further delayed the project ultimately resulting in OCPW terminating Horizon’s performance of certain portions of the exterior site work and taking over those portions of the work. On June 7, 2011 the Board authorized County Counsel and outside counsel at the firm of Sheppard Mullin Richter & Hampton LLP to file suit against Horizons and its surety, First National. On November 4, 2011 the County filed its Complaint for (1) Recovery on Performance Bond; (2) Breach of Contract; and (3) Negligence in Superior Court for the County of Los Angeles against Horizons’ and First National. All parties were served with the complaint on November 7, 2011. On November 7, 2011, Horizons delivered its own claim to OCWR and the Clerk of the Board. The claim asserted a right to recover more than \$1,900 in claimed damages. The County prepared a detailed response, denying the claim in its entirety. Then, in June 2012, when Horizons filed its answer to the County’s complaint, Horizons also filed a cross-complaint against the County, in which it claims it is entitled to recover more than \$2,700 in damages. Horizons also cross-complained against three of its subcontractors for indemnity. Horizons alleges that if it is found liable to the County for any amount, then the subcontractors are liable to Horizons for that amount. At the same time, several subcontractors have filed separate actions against Horizons (and the County under the stop notice procedures) for collection of alleged unpaid amounts. Those actions have now been consolidated into the main action. In September 2012, counsel for the County filed a cross-complaint against Horizons for filing false claims, which affect two or more of the claims presented in the case by Horizons. Now that the pleadings are set in the case, counsel for the County is now in the process of engaging expert trial consultants, having them analyze the County’s damages in the case, conducting discovery and analysis of the claims and defenses of Horizons and its surety. On May 29, 2013, the County, through outside counsel, gave all parties the opportunity to visit the site and to conduct their own inspections and testing of the existing building.

Note 15 – Commitments, Litigation, Contingencies, and Subsequent Events (Continued)

County of Orange v. Horizons Construction Co. and First National Insurance, Los Angeles County Superior Court Case No. BC462901 (Continued)

As this case is still in the discovery stage, the County’s exposure to liability and its chances of obtaining significant recovery of its own against Horizons and its surety are difficult to estimate.

Retired Employees Association of Orange County, Inc. v. County of Orange

In late 2006, the County determined that due to a large unfunded liability, the current Retiree Medical Program needed to be changed. These changes were challenged in two separate lawsuits filed by Orange County’s retirees. The first, Retired Employees Association of Orange County, Inc. (REAOC) v. County of Orange, filed in November 2007, sought declaratory and injunctive relief contesting the splitting of the pool for purposes of determining health insurance premiums. The Board authorized County Counsel to retain the law firm of Meyers Nave Riback Silver & Wilson to handle this litigation and the Gaylan Harris, et al. v. County of Orange case. In the REAOC case, on June 19, 2009, the Federal Court ruled in the County’s favor on Cross-Motions for Summary Judgment. Plaintiff appealed that decision and oral argument was heard at the Ninth Circuit Court of Appeal on June 10, 2010. On June 29, 2010, the Ninth Circuit issued an “Order Certifying a Question to the Supreme Court of California,” asking that Court to provide an answer as to the following question: “Whether, as a matter of California law, a California county and its employees can form an implied contract that confers vested rights to health benefits on retired employees.” The California Supreme Court accepted that referral. Oral argument before the Court was heard on October 3, 2011, and on November 21, 2011 the Court issued its findings stating: “In response to the Ninth Circuit’s inquiry, we conclude that, under California law, a vested right to health benefits for retired county employees can be implied under certain circumstances from a county ordinance or resolution. Whether those circumstances exist in this case is beyond the scope of the question posed to us by the Ninth Circuit.” Additionally, the Court found that courts must look to the legislation in question to determine the parties’ contractual rights and obligations and whether any implied contract can be inferred from it. The Court found that in order to create a binding contractual right, the legislation (i.e., the resolution here) must “clearly evidence a legislative intent to create private rights of a contractual nature enforceable against the governmental body.” The Court also found that “implied rights to vested benefits should not be inferred without a clear basis in the contract or convincing extrinsic evidence.” Significantly, the Court reaffirmed the existence of a presumption against finding a legislative intent to create private contractual or vested rights, which the proponent of the rights asserted must overcome: “Thus, it is presumed that a statutory scheme is not intended to create private contractual or vested rights and a person who asserts the creation of a contract with the state has the burden of overcoming that presumption.” The Ninth Circuit remanded the case to the District Court for further proceedings in light of the California Supreme Court’s decision. Outside counsel believes it is unlikely Plaintiff will be able to meet the burden of proof on the implied contract theory when the case returns to the District Court. Supplemental briefs have now been filed with the District Court regarding the impact, if any, of the Supreme Court’s decision on the prior ruling in the County’s favor by the District Court. Oral argument on the issue was held on May 21, 2012. On August 13, 2012, the District Court again granted summary judgment in favor of the County, ruling that no implied contract rights existed in favor of the retirees. The Ninth Circuit remanded the case to the District Court for further proceedings in light of the California Supreme Court’s decision. On August 13, 2012, the District Court again granted summary judgment in favor of the County, ruling that no implied contract rights existed in favor of the retirees. Plaintiffs again appealed the court’s decision to the Ninth Circuit. On March 22, 2013, REAOC filed its opening brief with the Ninth Circuit. On May 16, 2013, the County filed its responsive brief.

Note 15 – Commitments, Litigation, Contingencies, and Subsequent Events (Continued)

Retired Employees Association of Orange County, Inc. v. County of Orange (Continued)

Upon completion of briefing, the Court will schedule oral argument. The outcome of the appeal cannot be predicted at this time; however, should Plaintiff succeed in its overall efforts, this lawsuit could have a significant financial impact on the County.

Other Contingencies

As the owner and/or operator of a number of active and former solid waste disposal sites, OC Waste & Recycling has potential exposure to environmental liability even though these sites have not incurred obligating events like those sites identified in Note 14. Many of the former disposal sites were operated under lease agreements with the property owners. OC Waste & Recycling may be required to perform corrective action at any of its current or former refuse disposal stations and landfills, irrespective of past or current County ownership of the site. OC Waste & Recycling completed preliminary environmental site assessments for the former solid waste disposal sites with their Closed Landfills Environmental Assessment and Response (CLEAR) Project. On the basis of information currently available, OC Waste & Recycling management believes it has sufficient reserves for known and potential remediation costs. At June 30, 2013, amounts classified in unrestricted net position totaled approximately \$206,221.

Subsequent Events:

On December 1, 2013 OCWR paid in full the outstanding balance of the 1997 Refunding Revenue Bonds. The 1997 Bonds were issued in November 1997 to advance refund the 1988 Certificates of Participation which were originally issued in December 1988. Refer to Note 12 Long-term Obligations for additional information.

Note 16 - New Accounting Pronouncements Applicable To OC Waste & Recycling

The following is the GASB pronouncement implemented in the current year:

In June 2011, GASB issued Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”* This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires OC Waste & Recycling to implement this statement in FY 2012-13.

Note 16 - New Accounting Pronouncements Applicable To OC Waste & Recycling (Continued)

The following summarizes recent GASB pronouncements and their impact, if any, on future financial statements: In March 2012, GASB issued Statement No. 65, *“Items Previously Reported as Assets and Liabilities.”* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires OC Waste & Recycling to implement this statement in FY 2013-14.

In March 2012, GASB issued Statement No. 66, *“Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62.”* This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires OC Waste & Recycling to implement this statement in FY 2013-14.

In June 2012, GASB issued Statement No. 67, *“Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25”* which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statements No. 25, *“Financial Reporting for Defined Benefit Pension Plans,”* and No. 50, *“Pension Disclosures,”* as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013, which requires OC Waste & Recycling to implement this statement in FY 2013-14.

In June 2012, GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27”* which also results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, *“Accounting for Pensions by State and Local Governmental Employers,”* as well as the requirements of Statement No. 50, *“Pension Disclosures,”* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods

Note 16 - New Accounting Pronouncements Applicable To OC Waste & Recycling (Continued)

beginning after June 15, 2014, which requires OC Waste & Recycling to implement this statement in FY 2014-15.

In January 2013, GASB issued Statement No. 69, "Government Combinations and Disposals of Government Operations." This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013, which requires OC Waste & Recycling to implement this statement in FY 2014-15.

In April 2013, GASB issued Statement No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees." This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013, which requires OC Waste & Recycling to implement this statement in FY 2013-14.

In November 2013, GASB issued Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68". This statement requires that, at transition to the new accounting standards in accordance with GASB Statement No.68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. Both Statements No. 68 and 71 are effective simultaneously for periods beginning after June 15, 2014, which requires the OC Waste & Recycling to implement this statement in FY 2014-15.

Note 17 – Major Customers

Disposal fees from three major customers accounted for revenues of approximately \$31,482, \$19,788 and \$17,832 during the year ended June 30, 2013, and \$29,114, \$18,846 and \$16,190 during the year ended June 30, 2012.



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Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards

Board of Supervisors
County of Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Orange County Waste and Recycle Enterprise Fund of the County of Orange, California (OC Waste & Recycling), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2014. Our reports includes emphasis of matter paragraph stating that the financial statements present only the OC Waste & Recycling, and do not purport to, and do not, present fairly the financial position of the County as a whole as of June 30, 2013 and 2012, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Orange County Waste & Recycling’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OC Waste & Recycling’s internal control. Accordingly, we do not express an opinion on the effectiveness of the OC Waste & Recycling’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Orange County Waste & Recycling (OC Waste & Recycling) are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Newport Beach, California
January 16, 2014

Management's Discussion and Analysis on page 31 of this report gives an analysis of the change to total operating revenues for the years ended June 30, 2013 and June 30, 2012 and for the years ended June 30, 2012 and June 30, 2011. The following paragraphs further clarify the changes:

From fiscal years 2012 to 2013, total operating revenues increased by \$7,658 (or 7.7%) due primarily to the increase in importation disposal tonnage and fees (\$3,069); increase in in-county disposal tonnage and fees (\$3,502); and increase in revenue-producing leases (\$1,083).

From fiscal years 2011 to 2012, total operating revenues decreased by \$3,386 (or 3.3%) due primarily to the decrease in importation disposal tonnage and fees (\$2,358) and decrease in in-county disposal tonnage and fees (\$1,052). Partially offsetting the decrease in total operating revenue was an increase in revenue-producing leases (\$63).



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