



# 2011 Annual Report

## Regional Partnerships

# Orange County Board of Supervisors



**John M. W. Moorlach**  
CHAIRMAN  
Supervisor | Second District



**Shawn Nelson**  
VICE CHAIRMAN  
Supervisor | Fourth District



**Janet Nguyen**  
Supervisor | First District



**Bill Campbell**  
Supervisor | Third District



**Patricia C. Bates**  
Supervisor | Fifth District

# Table of Contents

2

Orange County  
Board of Supervisors

5

Letter from  
the Director

7

Waste Disposal  
Agreements

9

Discovery  
Science Center

11

Landfill  
Gas-to-Energy

12

Ten Year  
Financial Forecast

24

Financial  
Statements

56

Waste Management  
Commission



## 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.



## Michael B. Giancola

**DIRECTOR | OC WASTE & RECYCLING**

OC Waste & Recycling manages one of the largest waste disposal networks in the nation and we continually strive for excellence. Managing a flagship operation in the dynamic waste management industry gives rise to both challenges and opportunities, now more so than ever given the state of the nation's economy.

In 2011, we stepped forward to meet these challenges with a common approach – a business strategy based on partnerships. Founded in the belief that by working together we can produce results that surpass our own capabilities, OC Waste & Recycling is cultivating relationships in the community and industry to reach new milestones and accomplish more for our local stakeholders.

In this Annual Report, I am proud to give credit where credit is due and to recognize the many things achieved with the help of our partners. Whether it's our public-facing success of the EcoChallenge at the Discovery Science Center, or the ground breaking progress of the department's renewable energy program, the spectrum of accomplishments is remarkable and is a testimony to teamwork.

As we move into 2012, and look to the years beyond, it's important for us to identify businesses and organizations that share a commitment to OC Waste & Recycling's core values. I believe by demonstrating that the whole is indeed greater than the sum of its parts, we'll inspire our future colleagues to rise to the challenge and partner with us to benefit the residents of Orange County.

Let's work together –

Michael B. Giancola  
Director

"Collectively, the County's waste disposal system receives an average of 3.4 million tons of solid waste annually and together those landfills provide over 50 years of disposal capacity for Orange County residents."

**Michael B. Giancola**

DIRECTOR | OC Waste & Recycling



# Waste Disposal Agreements

---

**OC WASTE & RECYCLING IS COMMITTED TO SERVING THE WASTE DISPOSAL NEEDS OF ORANGE COUNTY RESIDENTS, AND THE CORNERSTONE OF THAT COMMITMENT IS PARTNERSHIPS.** While there are countless working relationships involved in managing a landfill system that receives over 3 million tons of waste per year, the most significant is the one that focuses on the customer.

OC Waste & Recycling's core partnerships are the Waste Disposal Agreements (WDA) - contracts that are renowned not only in Orange County but throughout the region. In 2009, the Orange County Board of Supervisors entered into WDAs with its major customers - Orange County cities, Sanitary Districts, and Facility Operators - to deliver their non-recyclable waste to the County's three landfills. Through these agreements - these partnerships - the Department can offer competitive disposal rates in the region while, in exchange, enabling the steady waste stream to provide the financial stability necessary for disposal operations and development of future landfill capacity.

By securing local partnerships, OC Waste & Recycling continues to provide excellent waste management services for the residents of Orange County, an accomplishment recently acknowledged by the award of the 2011 Landfill Management Excellence Bronze Award for the Prima Deshecha Landfill presented by the Solid Waste Association of Northern America. OC Waste & Recycling is proud to play a vital role in the management of Orange County's waste disposal, while protecting public health and safety. It's a role made even more successful through the positive, working relationships that have been developed with local cities and businesses.

“We are so grateful for the shared vision and leadership demonstrated by the Orange County Board of Supervisors and OC Waste & Recycling.”

**Joe Adams**

PRESIDENT | Discovery Science Center



# Discovery Science Center

---

**WITHIN A SUCCESSFUL PARTNERSHIP, MEMBERS COMBINE INDIVIDUAL TALENTS AND ASSETS TO ACHIEVE A SHARED MISSION.** This was a driving force behind OC Waste & Recycling's goal to collaborate with the Discovery Science Center to develop the EcoChallenge exhibit – a multi-disciplinary approach designed to change public behavior through education.

The EcoChallenge is an interactive environmental exhibit that combines key elements of OC Waste & Recycling's mission to protect the environment and promote recycling with the Discovery Science Center's ability to merge learning with fun. It features three hands-on, interactive areas: (1) The Discovery Market, where visitors master the skills of a green superhero by demonstrating eco-friendly shopping skills, (2) the Eco Garage, which reveals the importance of identifying and properly disposing of household hazardous waste, and (3) Race to Recycling, an activity that teaches participants how to properly sort trash in order to minimize the amount of recyclable materials that end up at Orange County's landfills.

Since the grand opening celebration of the EcoChallenge Exhibit on September 1, 2011, OC Waste & Recycling has worked closely with the Discovery Science Center to ensure that the information being communicated through the environmental education and outreach exhibit continues to reflect best waste management practices.

The \$3.6 million authorized for the creation and maintenance of the EcoChallenge Exhibit is a ten-year investment that will span the life of the exhibit. With 400,000 individuals visiting the Discovery Science Center in Santa Ana, California each year, its vital lessons will reach an estimated 10 million people at a cost of less than one dollar per person.



“We are proud to participate in this project – a full circle benefit to our Anaheim customers – with the creation of energy from our landfill materials. The power from this Olinda Alpha landfill project is an environmental benefit to the community at large, and will be a valuable asset to our City’s energy supply.”

**Steve Sciortino**

ASSISTANT GENERAL MANAGER

**City of Anaheim Public Utilities**

# Landfill Gas-to-Energy

---

**PARTNERSHIPS OFFER OPPORTUNITY TO ACHIEVE SOMETHING COLLABORATIVELY THAT COULD NOT HAVE BEEN DONE INDEPENDENTLY.**

Partnerships can also provide an avenue for public-private ventures that leverage resources otherwise unattainable. OC Waste & Recycling has an existing portfolio of landfill gas-to-energy partnerships generating 51 megawatts of renewable energy. As we strive to control landfill gas, reduce greenhouse gas emissions and minimize the impact on the environment, we are always looking to expand those opportunities.

In 2011, Broadrock Renewables broke ground on a landfill gas-to-energy expansion facilities project at Olinda Alpha Landfill. The project is a recipient of a \$10 million stimulus grant from the U.S. Department of Energy and upon completion, the new expanded facility will increase the amount of renewable power produced at the landfill from the existing 5 megawatt facility and will add renewable energy generating capacity of 32.5 megawatt. The output of the new facility will be purchased by the City of Anaheim Public Utilities for their customers and provide enough electricity to power more than 22,000 homes.

Another promising partnership that took center stage in 2011, is the completion of negotiations for two additional landfill gas utilization projects. A private company, Bowerman Power, LLC, will be building a 23 megawatt landfill gas-to-energy facility to convert all landfill gas collected at the Frank R. Bowerman Landfill into renewable energy. Another firm, Flex OC Renewables, LLC, has committed to the construction of a 2 megawatt landfill gas-to-energy facility to convert landfill gas collected at the Santiago Canyon Landfill into renewable energy.

The launching of the new landfill gas-to-energy facilities supports the Department's goal of maximizing beneficial use of landfill gas. The proceeds of this partnership will offset OC Waste & Recycling operating costs helping to maintain a stable solid waste disposal rate for county residents. While these endeavors all depend on sound business practices and reliable economic forecasting, they couldn't happen without the valuable partnerships that make these opportunities a reality.

# OC Waste & Recycling

## 10 YEAR FINANCIAL FORECAST

### 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 primarily supported by revenues from disposal fees that are charged to customers. There are no tax revenues or public funds utilized by the Department.

System tonnage (includes in-County and importation tonnage) is forecasted at approximately 3.2 million tons in FY 11/12. System tonnage has declined by approximately 39% since FY 04/05. Tonnage is projected to slightly increase in FY 14/15 and FY 15/16 based on an assumption of a moderate economic recovery, followed by a decline in FY 16/17 due to the cessation of importation (see CHART 1).

System revenues (includes in-County and importation revenue) are forecasted to increase through FY 15/16 and are lower thereafter with the end of importation. In-County revenue is forecasted to increase in FY 12/13 through FY 17/18 due to Consumer Price Index adjustments to the disposal fee (see CHART 2). In FY 13/14 revenue is higher as the Department's bonds are paid in full and the requirement to maintain funds in its Rate Stabilization Fund 277 ends. Those monies are planned to be transferred to the new capital expenditure Fund 273. The new Fund 273 was established in FY 11/12 and will provide OC Waste & Recycling with a fund specifically designated for capital expenditures.

A higher disposal fee became effective July 1, 2010 as a result of the Waste Disposal Agreements with Orange County cities and certain private material recovery facility operators. The new fee structure through June 30, 2020, includes an annual adjustment based on the Consumer Price Index. In FY 11/12, the second year of the new rate structure the contract disposal fee is \$30.30 per ton.

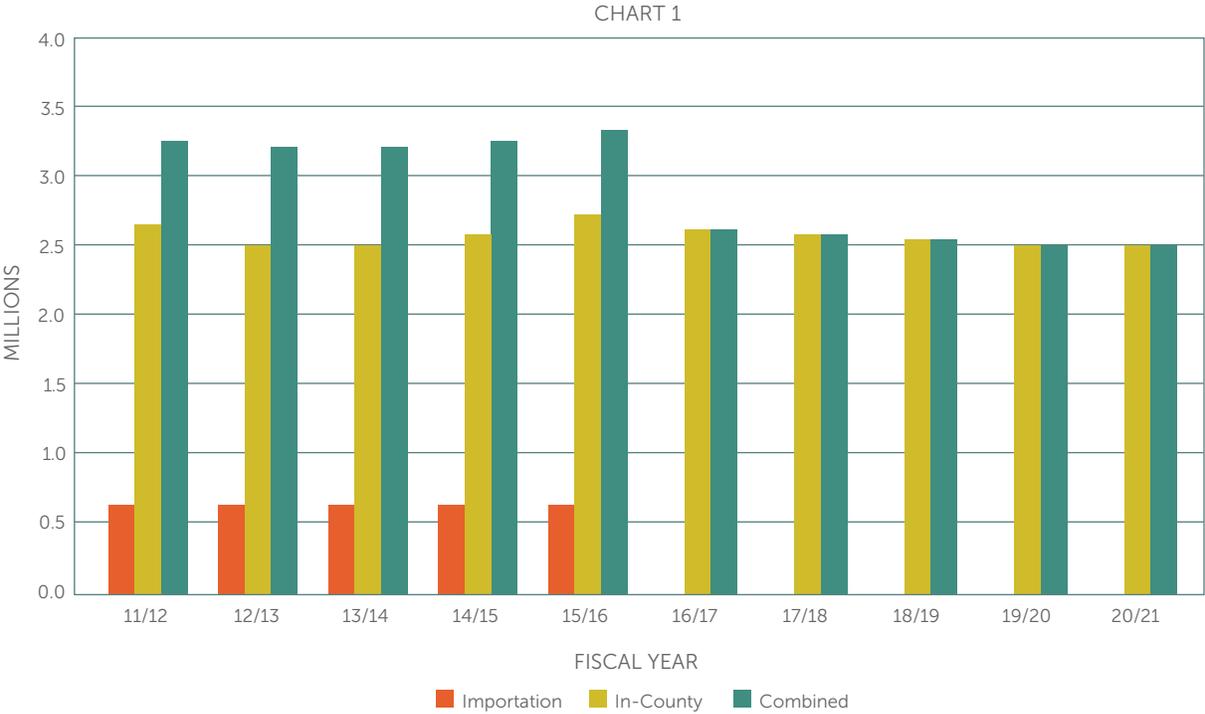
Importation of municipal solid waste is currently scheduled to terminate on June 30, 2016. Revenues from imported waste net of OC Waste & Recycling operating expenses are transferred to the County General Fund for payment of bankruptcy related obligations (see Table B. System Revenue).

The forecast is based on the Olinda Alpha Landfill remaining open until 2021. An EIR for the landfill expansion has been certified and the project to extend the landfill closure date from 2013 to 2021 has been approved. Permitting for the expansion has been completed.

System expenses include significant capital project costs related to the future development of the landfill system (see Table C. System Expenses). As stated above capital project expenditures will be recorded in the new Fund 273. System expenses are forecasted to be aligned with operating revenues during the ten year forecast period (see CHART 2.). In the years where expenses are projected higher than revenues OC Waste & Recycling's financial strategy is to utilize reserves, continue to seek operational efficiencies, and maximize revenue where possible.

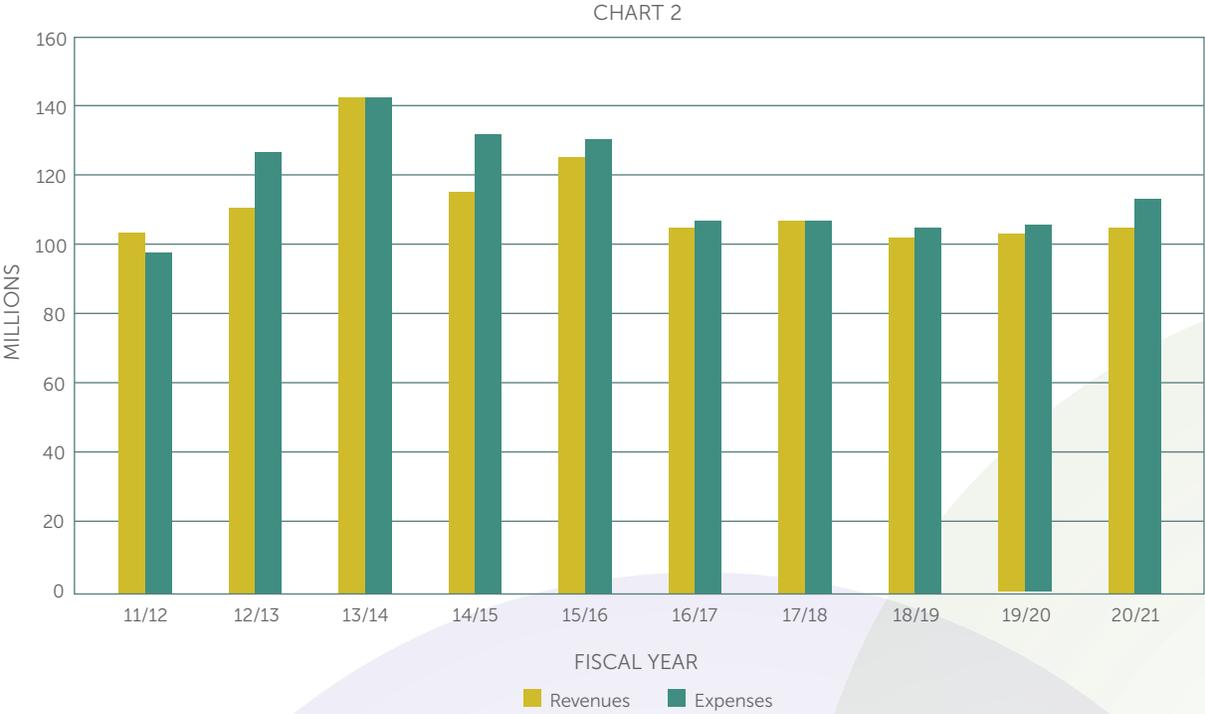
The schedules following CHART 1 and CHART 2 provide a two-year summary of audited financial data for Fiscal Years Ended June 30, 2011, and 2010, respectively. In addition, detailed schedules for tonnage, revenues, expenses, cash reserves and accrued liabilities for the ten-year forecast period are presented (see Tables A. through L.).

SYSTEM TONNAGE



SYSTEM FINANCIAL PROJECTIONS

Funds 285 and 299



# OC Waste & Recycling

## TONNAGE & FINANCIAL DATA FOR

Fiscal Years Ended June 30, 2011 and 2010

### ACCEPTABLE WASTE TONNAGE\*

	6/30/11	6/30/10
County Waste	2,708,547	2,773,161
Importation	786,894	729,199
Total System Tonnage	3,495,441	3,502,360

### STATEMENTS OF REVENUES & EXPENSES FOR THE YEARS ENDED JUNE 30, 2011 & 2010\*\*

	6/30/11	6/30/10
Revenue	\$ 107,302,304	\$ 89,670,096
Expense	\$ (106,270,849)	\$ (94,687,674)
Net Income	\$ 1,031,455	\$ (5,017,578)

### CASH BALANCES

	*** 6/30/11	*** 6/30/10
Enterprise/Operating Fund	\$ 90,617,895	\$ 80,619,611
Import/Bankruptcy Recovery Fund	\$ 297,838	\$ 552,785
Corrective Action Fund	\$ 6,054,131	\$ 5,804,016
Environmental Reserve Fund	\$ 69,426,694	\$ 81,503,570
Deferred Security Deposits Fund	\$ 701,187	\$ 657,973
Rate Stabilization Fund	\$ 27,914,741	\$ 27,744,331
San Joaquin Marsh Phase II Restoration Project Fund	\$ 3,120,000	\$ 3,120,000

### ACCRUED CLOSURE AND POST CLOSURE

	6/30/11	6/30/10
Closure/Post Closure Liabilities**	\$ 163,328,000	\$ 163,885,000
Escrow Funds Cash Balance (Closure)***	\$ 86,958,573	\$ 86,431,652
Post-Closure Cash Balance***	\$ 137,409,515	\$ 140,577,641

\* Source: OC Waste & Recycling Fiscal Year Tonnage Report, June 2011 and June 2010

\*\* Source: OC Waste & Recycling 2011 Audited Financial Statements.  
(Vavrinek, Trine, Day & Co., LLP)

\*\*\* Source: 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.

## OC Waste & Recycling

### 10 YEAR FINANCIAL FORECAST

#### A. SYSTEM TONNAGE

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Frank R. Bowerman Landfill	1,340,871	1,411,647	1,411,647	1,439,880	1,483,076
Olinda Alpha Landfill	1,020,991	866,943	866,943	884,282	910,810
Prima Deshecha Landfill	252,888	279,183	279,183	284,766	293,309
<b>Total In-County Tonnage</b>	<b>2,614,750</b>	<b>2,557,773</b>	<b>2,557,773</b>	<b>2,608,928</b>	<b>2,687,195</b>
Frank R. Bowerman Landfill	250	0	0	0	0
Olinda Alpha Landfill	581,000	581,000	581,000	581,000	581,000
Prima Deshecha Landfill	69,000	69,000	69,000	69,000	69,000
<b>Total Imported Tonnage</b>	<b>650,250</b>	<b>650,000</b>	<b>650,000</b>	<b>650,000</b>	<b>650,000</b>
<b>Total System Tonnage</b>	<b>3,265,000</b>	<b>3,207,773</b>	<b>3,207,773</b>	<b>3,258,928</b>	<b>3,337,195</b>
DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Frank R. Bowerman Landfill	1,453,414	1,424,346	1,381,616	1,340,168	1,340,168
Olinda Alpha Landfill	910,810	910,810	910,810	910,810	910,810
Prima Deshecha Landfill	293,309	293,309	293,309	290,376	290,376
<b>Total In-County Tonnage</b>	<b>2,657,533</b>	<b>2,628,465</b>	<b>2,585,735</b>	<b>2,541,354</b>	<b>2,541,354</b>
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
<b>Total Imported Tonnage</b>	<b>0*</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total System Tonnage</b>	<b>2,657,533</b>	<b>2,628,465</b>	<b>2,585,735</b>	<b>2,541,354</b>	<b>2,541,354</b>

\* Importation is projected to end June 30, 2016.

# OC Waste & Recycling

## 10 YEAR FINANCIAL FORECAST (CONTINUED)

### B. SYSTEM REVENUE

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Fund 299 Enterprise /					
Operating - Total Revenue	\$ 88,458,929	\$ 89,789,560	\$ 92,148,718	\$ 96,740,316	\$ 106,300,355
Fund 273 Capital Project /					
Operating - Total Revenue*	\$ -	\$ 8,000,000	\$37,070,547 **	\$ 4,208,110	\$ 2,892,298
Fund 285 Import / Bankruptcy					
Recovery - Total Revenue	\$ 16,791,243	\$ 16,341,500	\$ 16,285,000	\$ 16,835,000	\$ 17,275,000
<b>Total Projected Revenue</b>	<b>\$105,250,172</b>	<b>\$114,131,060</b>	<b>\$ 145,504,266</b>	<b>\$ 117,783,426</b>	<b>\$ 126,467,653</b>

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Fund 299 Enterprise /					
Operating - Total Revenue	\$ 108,977,121	\$110,071,317	\$ 106,126,119	\$ 107,004,411	\$ 108,257,506
Fund 273 Capital Project /					
Operating - Total Revenue	\$ 3,000	\$ 5,000	\$ 2,000	\$ 12,000	\$ 44,000
Fund 285 Import / Bankruptcy					
Recovery - Total Revenue	\$ -***	\$ -	\$ -	\$ -	\$ -
<b>Total Projected Revenue</b>	<b>\$108,980,121</b>	<b>\$110,076,317</b>	<b>\$ 106,128,119</b>	<b>\$ 107,016,411</b>	<b>\$ 108,301,506</b>

\* Effective FY 12/13, capital projects will be recorded in Fund 273 - OCWR Capital Project Fund, established February, 2012. Capital projects will be funded by Fund 299 revenue and interest from Fund 273.

\*\* FY 13/14 revenue assumes the transfer in of the Rate Stabilization Fund 277 cash balance of approximately \$28.3 million.

\*\*\* Importation is projected to end June 30, 2016

## OC Waste & Recycling

### 10 YEAR FINANCIAL FORECAST (CONTINUED)

#### C. SYSTEM EXPENSES

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Fund 299 Enterprise /					
Operating - Total Expense	\$ 73,344,020	\$ 86,028,448	\$ 87,994,318	\$ 97,850,661	\$ 100,932,234
Fund 273 Capital Project /					
Operating - Total Expense	\$8,900,500**	\$ 25,768,666	\$ 41,823,334	\$ 19,889,000	\$ 14,743,666
Fund 285 Import / Bankruptcy					
Recovery - Total Expense	\$ 17,121,806	\$ 16,341,500	\$ 16,285,000	\$ 16,835,000	\$ 17,275,000
<b>Total System Expenses</b>	<b>\$ 99,366,326</b>	<b>\$ 128,138,614</b>	<b>\$ 146,102,652</b>	<b>\$ 134,574,661</b>	<b>\$ 132,950,900</b>

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Fund 299 Enterprise /					
Operating - Total Expense	\$ 96,532,714	\$ 102,061,381	\$ 106,210,585	\$ 107,117,985	\$ 112,509,139
Fund 273 Capital Project /					
Operating - Total Expense	\$ 13,494,334	\$ 8,061,000	\$ 1,727,666	\$ 894,334	\$ 2,063,000
Fund 285 Import / Bankruptcy					
Recovery - Total Expense	\$ -*	\$ -	\$ -	\$ -	\$ -
<b>Total System Expenses</b>	<b>\$ 110,027,048</b>	<b>\$ 110,122,381</b>	<b>\$ 107,938,251</b>	<b>\$ 108,012,319</b>	<b>\$ 114,572,139</b>

\* Importation is projected to end in 2016.

\*\* Effective FY 11/12, capital projects will be recorded in Capital Project Fund 273, which was established February, 2012.

#### D. SYSTEM ENTERPRISE FUND

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
<b>CASH BALANCE</b>					
Fund 299 - Enterprise / Operating	\$ 63,215,686	\$ 28,356,998	\$ 22,828,085	\$ 30,982,266**	\$ 25,461,622
Fund 273 - Capital Project /					
Operating ***	\$ 99,500	\$ 14,538,601	\$ 13,051,214*	\$ 1,135,925	\$ 173,657
<b>Total Balance</b>	<b>\$ 63,315,186</b>	<b>\$ 42,895,599</b>	<b>\$ 35,879,299</b>	<b>\$ 32,118,191</b>	<b>\$ 25,635,279</b>

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>CASH BALANCE</b>					
Fund 299 - Enterprise / Operating	\$ 24,321,278	\$ 24,426,785	\$ 22,164,196	\$ 19,621,520	\$ 12,689,784
Fund 273 - Capital Project /					
Operating ***	\$ 279,023	\$ 139,723	\$ 604,757	\$ 2,163,123	\$ 2,834,823
<b>Total Balance</b>	<b>\$ 24,600,301</b>	<b>\$ 24,566,508</b>	<b>\$ 22,768,953</b>	<b>\$ 21,784,643</b>	<b>\$ 15,524,608</b>

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

\*\* Increase in cash is due to the release of restrictions on cash set aside for the Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds, Series 1997.

\*\*\* Effective FY 11/12, capital projects will be recorded in Capital Project Fund 273, which was established February, 2012

# OC Waste & Recycling

## 10 YEAR FINANCIAL FORECAST (CONTINUED)

### E. CORRECTIVE ACTION FUND

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14*	FY 2014/15*	FY2015/16*
<b>CASH BALANCE</b>					
Fund 274 - Corrective Action					
Total Balance	\$ 6,085,218	\$ 6,105,218	\$ 8,937,218	\$ 10,714,218	\$ 15,378,218

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>CASH BALANCE</b>					
Fund 274 - Corrective Action					
Total Balance	\$ 15,758,218	\$ 16,153,218	\$ 16,558,218	\$ 16,973,218	\$ 17,398,218

\* In FY 13/14, FY 14/15 and FY 15/16 Fund 274 Corrective Action cash balance is projected to increase due to higher financial assurance requirements.

### F. SYSTEM RESERVE FUND

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY2015/16
<b>CASH BALANCE</b>					
Fund 275 - Environmental Liability Reserve					
Total Balance	\$ 61,629,918	\$ 65,206,591	\$ 71,373,823	\$ 77,670,056	\$ 77,000,000

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>CASH BALANCE</b>					
Fund 275 - Environmental Liability Reserve					
Total Balance	\$ 70,000,000	\$ 63,000,000	\$ 60,000,000	\$ 58,000,000	\$ 57,400,000

### G. DEFERRED SECURITY DEPOSITS

DESCRIPTION	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
<b>CASH BALANCE</b>					
Fund 276 - Deferred Security Deposits					
Total Balance	\$ 756,657	\$ 756,657	\$ 756,657	\$ 756,657	\$ 756,657

DESCRIPTION	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
<b>CASH BALANCE</b>					
Fund 276 - Deferred Security Deposits					
Total Balance	\$ 756,657	\$ 756,657	\$ 756,657	\$ 756,657	\$ 756,657

**OC Waste & Recycling**  
10 YEAR FINANCIAL FORECAST (CONTINUED)

**H. SAN JOAQUIN MARSH PHASE II RESTORATION PROJECT ESCROW FUND**

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY2015/16
<b>CASH BALANCE</b>					
Fund 278 - San Joaquin Escrow					
Total Balance	\$ 3,120,000	\$ 3,120,000	\$ 3,120,000	\$ 3,120,000	\$ 3,120,000

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>CASH BALANCE</b>					
Fund 278 - San Joaquin Escrow					
Total Balance	\$ 3,120,000	\$ 3,120,000	\$ -	\$ -	\$ -

**I. ESCROW ACCOUNTS**

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY2015/16
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse	1,341,121	1,411,647	1,411,647	1,439,880	1,483,076
Cash Balance at 6/30/XX	\$ 28,744,077	\$ 28,814,077	\$ 29,315,077	\$ 29,833,077	\$ 30,372,077
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse	1,601,991	1,447,943	1,447,943	1,465,282	1,491,810
Cash Balance at 6/30/XX	\$ 38,307,853	\$ 38,397,853	\$ 39,064,853	\$ 39,754,853	\$ 40,473,853
<b>PRIMA DESHECHA LANDFILL</b>					
Annual Tonnage of Refuse	321,888	348,183	348,183	353,766	362,309
Cash Balance at 6/30/XX	\$ 20,289,799	\$ 20,334,799	\$ 20,379,799	\$ 20,733,799	\$ 21,100,799

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse	1,453,414	1,424,346	1,381,616	1,340,168	1,340,168
Cash Balance at 6/30/XX	\$ 30,933,077	\$ 31,517,077	\$ 32,124,077	\$ 32,755,077	\$ 33,400,077
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse	910,810	910,810	910,810	910,810	910,810
Cash Balance at 6/30/XX	\$ 41,221,853	\$ 41,999,853	\$ 42,809,853	\$ 43,652,853	\$ 44,511,853
<b>PRIMA DESHECHA LANDFILL</b>					
Annual Tonnage of Refuse	293,309	293,309	293,309	290,376	290,376
Cash Balance at 6/30/XX	\$ 21,482,799	\$ 21,879,799	\$ 22,293,799	\$ 22,723,799	\$ 23,171,799

# OC Waste & Recycling

## 10 YEAR FINANCIAL FORECAST (CONTINUED)

### J. RATE STABILIZATION FUND

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Fund 277 - Rate Stabilization Fund Security Deposits					
Required % of					
Net Operating Expenses *	\$ 28,029,308	\$ 28,088,308	\$ 28,450,257	\$ -	\$ -
Debt Service	\$ 7,379,206	\$ 7,380,744	\$ 3,694,275**	\$ -	\$ -
Required Balance at 7/01/XX	\$ 35,408,514	\$ 35,469,052	\$ -***	\$ -	\$ -

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2021/22
Fund 277 - Rate Stabilization Fund Security Deposits					
Required % of					
Net Operating Expenses *	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -
Required Balance at 7/01/XX	\$ -	\$ -	\$ -	\$ -	\$ -

\* Required percentage of Net Operating Expense calculated per the bond indenture for the following bonds:  
Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds, Series 1997

\*\* Last bond payment 12/1/2013.

\*\*\* Transfer of ending cash balance to Fund 273.

**OC Waste & Recycling**  
10 YEAR FINANCIAL FORECAST (CONTINUED)

**K. POST CLOSURE MAINTENANCE RESERVE**

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
<b>CASH BALANCE</b>					
Fund 279 - Post Closure Maintenance					
Beginning Balance at 7/01/XX	\$ 136,939,106	\$ 140,715,185	\$ 129,512,927	\$ 129,783,691	\$ 130,042,359
Expenditures	\$ (2,200,069)	\$ (2,246,270)	\$ (2,295,688)	\$ (2,350,784)	\$ (2,409,555)
Deposits (to) from					
Funds 299, 275, and 100	\$ 5,212,703	\$ (9,245,987)	\$ 313,452	\$ 313,452	\$ 313,452
Interest Earnings	\$ 763,444	\$ 290,000	\$ 2,253,000	\$ 2,296,000	\$ 2,352,000
Ending Balance at 6/30/XX	\$ 140,715,185	\$ 129,512,927	\$ 129,783,691	\$ 130,042,359	\$ 130,298,256

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>CASH BALANCE</b>					
Fund 279 - Post Closure Maintenance					
Beginning Balance at 7/01/XX	\$130,298,256	\$ 130,554,274	\$ 130,810,065	\$ 130,749,795	\$ 130,679,505
Expenditures	\$ (2,466,434)	\$ (2,524,661)	\$ (2,584,269)	\$ (2,645,290)	\$ (2,707,758)
Deposits (to) from					
Funds 299, 275, and 100	\$ 313,452	\$ 313,452	\$ -	\$ -	\$ -
Interest Earnings	\$ 2,409,000	\$ 2,467,000	\$ 2,524,000	\$ 2,575,000	\$ 2,574,000
Ending Balance at 6/30/XX	\$ 130,554,274	\$130,810,065	\$ 130,749,795	\$ 130,679,505	\$ 130,545,747

# OC Waste & Recycling

## 10 YEAR FINANCIAL FORECAST (CONTINUED)

### L. CLOSURE AND POST CLOSURE LIABILITIES

DESCRIPTION	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse Buried	1,341,121	1,411,647	1,411,647	1,439,880	1,483,076
% of Max Capacity	26.34%	27.14%	27.95%	28.76%	29.57%
Estimated Closure Cost for FRB	\$ 39,285,611	\$ 40,110,609	\$ 40,993,043	\$ 41,976,876	\$ 43,026,298
Accrued Closure Liability	\$ 10,347,830	\$ 10,886,019	\$ 11,457,555	\$ 12,072,549	\$ 12,722,876
Estimated Post Closure Cost	\$ 53,461,400	\$ 54,584,089	\$ 55,784,939	\$ 57,123,778	\$ 58,551,872
Accrued Post Closure Liability	\$ 14,081,733	\$ 14,814,122	\$ 15,591,890	\$ 16,428,799	\$ 17,313,789
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse Buried	1,601,991	1,447,943	1,447,943	1,465,282	1,491,810
% of Max Capacity	69.68%	71.41%	73.15%	74.88%	76.62%
Estimated Closure Cost	\$ 35,703,268	\$ 36,453,036	\$ 37,255,003	\$ 38,149,123	\$ 39,102,851
Accrued Closure Liability	\$ 24,878,037	\$ 26,031,113	\$ 27,252,035	\$ 28,566,063	\$ 29,960,605
Estimated Post Closure Cost	\$ 58,563,978	\$ 59,793,822	\$ 61,109,286	\$ 62,575,909	\$ 64,140,307
Accrued Post Closure Liability	\$40,806,567	\$ 42,700,966	\$ 44,700,672	\$ 46,859,220	\$ 49,143,576
<b>PRIMA DESHECHA LANDFILL ZONE 1</b>					
Annual Tonnage of Refuse Buried	321,888	348,183	348,183	353,766	362,309
% of Max Capacity	58.91%	60.00%	61.09%	62.18%	63.28%
Estimated Closure Cost	\$ 20,745,717	\$ 21,181,377	\$ 21,647,367	\$ 22,166,904	\$ 22,721,077
Accrued Closure Liability	\$ 12,221,302	\$ 12,708,826	\$ 13,224,377	\$ 13,783,381	\$ 14,377,897
Estimated Post Closure Cost	\$ 21,959,267	\$ 22,420,412	\$ 22,913,661	\$ 23,463,589	\$ 24,050,179
Accrued Post Closure Liability	\$ 12,935,652	\$ 13,452,141	\$ 13,998,314	\$ 14,590,506	\$ 15,217,906
<b>PRIMA DESHECHA LANDFILL ZONE 4</b>					
Annual Tonnage of Refuse Buried	0	0	0	0	0
% of Max Capacity	6.33%	6.33%	6.33%	6.33%	6.33%
Estimated Closure Cost	\$34,542,993	\$ 35,268,396	\$ 36,044,301	\$ 36,909,364	\$ 37,832,098
Accrued Closure Liability	\$ 2,186,571	\$ 2,232,489	\$ 2,281,604	\$ 2,336,363	\$ 2,394,772
Estimated Post Closure Cost	\$ 31,264,126	\$ 31,920,674	\$ 32,622,930	\$ 33,405,881	\$ 34,241,029
Accrued Post Closure Liability	\$ 1,979,019	\$ 2,020,579	\$ 2,065,031	\$ 2,114,296	\$ 2,167,154
<b>SANTIAGO CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 28,735,124	\$ 28,136,160	\$ 27,526,307	\$ 26,928,583	\$ 26,312,002
Less Post Closure Expenditures	\$ 1,177,669	\$ 1,202,400	\$ 1,228,853	\$ 1,258,345	\$ 1,289,804
Accrued Post Closure Liability	\$ 27,557,455	\$ 26,933,760	\$ 26,297,454	\$25,670,238	\$ 25,022,198
<b>COYOTE CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 22,515,885	\$ 22,988,720	\$ 23,494,475	\$ 24,058,339	\$ 24,659,806
Less Post Closure Expenditures	\$ 1,022,400	\$ 1,043,870	\$ 1,066,835	\$ 1,092,439	\$ 1,119,751
Accrued Post Closure Liability	\$ 21,493,485	\$ 21,944,850	\$ 22,427,640	\$ 22,965,900	\$ 23,540,055
<b>UNALLOCATED ACCRUED LIABILITY</b>					
Total Accrued Closure Liability	\$ 49,633,740	\$ 51,858,448	\$ 54,215,571	\$ 56,758,357	\$ 59,456,150
Total Accrued Post Closure Liability	\$118,853,911	\$ 121,866,418	\$ 125,081,001	\$ 128,628,959	\$ 132,404,678
Total Accrued Closure & Post Closure Liability	\$168,487,651	\$ 173,724,866	\$ 179,296,572	\$ 185,387,316	\$ 191,860,828

**OC Waste & Recycling**  
10 YEAR FINANCIAL FORECAST (CONTINUED)

**L. CLOSURE AND POST CLOSURE LIABILITIES (CONTINUED)**

DESCRIPTION	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse Buried	1,453,414	1,424,346	1,381,616	1,340,168	1,340,168
% of Max Capacity	30.38%	31.19%	32.00%	32.81%	33.62%
Estimated Closure Cost	\$ 44,101,955	\$ 45,204,504	\$ 46,334,617	\$ 47,492,982	\$ 48,680,306
Accrued Closure Liability	\$ 13,398,174	\$ 14,099,285	\$ 14,827,077	\$ 15,582,447	\$ 16,366,319
Estimated Post Closure Cost	\$ 60,015,669	\$ 61,516,061	\$ 63,053,963	\$ 64,630,312	\$ 66,246,070
Accrued Post Closure Liability	\$ 18,232,760	\$ 19,186,859	\$ 20,177,268	\$ 21,205,205	\$ 22,271,929
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse Buried	910,810	910,810	910,810	910,810	910,810
% of Max Capacity	78.35%	80.09%	81.82%	83.56%	85.29%
Estimated Closure Cost	\$40,080,423	\$ 41,082,433	\$ 42,109,494	\$ 43,162,231	\$ 44,413,936
Accrued Closure Liability	\$ 31,403,011	\$ 32,902,921	\$ 34,453,988	\$ 36,066,360	\$ 37,880,646
Estimated Post Closure Cost	\$ 65,743,815	\$ 67,387,410	\$ 69,072,095	\$ 70,798,897	\$ 72,568,869
Accrued Post Closure Liability	\$ 51,512,863	\$ 53,969,898	\$ 56,517,590	\$ 59,158,935	\$ 61,897,024
<b>PRIMA DESHECHA LANDFILL ZONE 1</b>					
Annual Tonnage of Refuse Buried	293,309	293,309	293,309	290,376	290,376
% of Max Capacity	64.37%	65.46%	66.55%	67.64%	68.74%
Estimated Closure Cost	\$ 23,289,104	\$ 23,871,331	\$ 24,468,115	\$ 25,079,818	\$ 25,706,813
Accrued Closure Liability	\$ 14,991,196	\$ 15,626,174	\$ 16,283,530	\$ 16,963,989	\$ 17,670,863
Estimated Post Closure Cost	\$ 24,651,433	\$ 25,267,719	\$ 25,899,412	\$ 26,546,897	\$ 27,210,569
Accrued Post Closure Liability	\$ 15,867,557	\$ 16,540,180	\$ 17,236,517	\$ 17,957,333	\$ 18,703,416
<b>PRIMA DESHECHA LANDFILL ZONE 4</b>					
Annual Tonnage of Refuse Buried	0	0	0	0	0
% of Max Capacity	6.33%	6.33%	6.33%	6.33%	6.33%
Estimated Closure Cost	\$ 38,777,900	\$ 39,747,348	\$ 40,741,032	\$ 41,759,558	\$ 42,803,547
Accrued Closure Liability	\$ 2,454,641	\$ 2,516,007	\$ 2,578,907	\$ 2,643,380	\$ 2,709,465
Estimated Post Closure Cost	\$ 35,097,056	\$ 35,974,483	\$ 36,873,846	\$ 37,795,693	\$ 38,740,586
Accrued Post Closure Liability	\$ 2,221,333	\$ 2,276,866	\$ 2,333,788	\$ 2,392,132	\$ 2,451,936
<b>SANTIAGO CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 25,647,751	\$ 24,933,840	\$ 24,168,217	\$ 23,348,713	\$ 23,348,720
Less Post Closure Expenditures	\$ 1,322,049	\$ 1,355,100	\$ 1,388,978	\$ 1,423,702	\$ 1,459,295
Accrued Post Closure Liability	\$ 24,325,702	\$ 23,578,740	\$ 22,779,239	\$ 21,925,011	\$ 21,889,425
<b>COYOTE CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 25,202,315	\$ 25,756,766	\$ 26,323,411	\$ 26,902,533	\$ 27,494,383
Less Post Closure Expenditures	\$ 1,144,385	\$ 1,169,561	\$ 1,195,291	\$ 1,221,588	\$ 1,248,463
Accrued Post Closure Liability	\$ 24,057,930	\$ 24,587,205	\$ 25,128,120	\$ 25,680,945	\$ 26,245,920
<b>UNALLOCATED ACCRUED LIABILITY</b>					
Total Accrued Closure Liability	\$ 62,247,022	\$ 65,144,386	\$ 68,143,503	\$ 71,256,176	\$ 74,627,293
Total Accrued Post Closure Liability	\$136,218,145	\$ 140,139,748	\$ 144,172,522	\$ 148,319,561	\$153,459,650
<b>Total Accrued Closure &amp; Post Closure Liability</b>	<b>\$198,465,167</b>	<b>\$205,284,134</b>	<b>\$ 212,316,025</b>	<b>\$ 219,575,737</b>	<b>\$228,086,943</b>

# OC Waste & Recycling

## INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL STATEMENTS

For The Years Ended June 30, 2011 And 2010

---

### TABLE OF CONTENTS

#### FINANCIAL SECTION

Independent Auditor's Report .....	25
------------------------------------	----

#### FINANCIAL STATEMENTS

Statements of Net Assets .....	26-27
--------------------------------	-------

Statements of Revenues, Expenses and Changes in Net Assets .....	28
--	----

Statements of Cash Flows .....	29-30
--------------------------------	-------

Notes to Financial Statements .....	31-53
-------------------------------------	-------

#### OTHER REPORT

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 .....	54
--	----

Schedule of Findings and Responses .....	55
--	----

HONORABLE BOARD OF SUPERVISORS  
COUNTY OF ORANGE, CALIFORNIA

We have audited the accompanying financial statements of Orange County Waste and Recycling Enterprise Fund of the County of Orange, California (OCWR), as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of OCWR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCWR's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Orange County Waste and Recycling Enterprise Fund and do not purport to, and do not, present fairly the financial position of the County of Orange, California, as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange County Waste and Recycling Enterprise Fund, as of June 30, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2011, on our consideration of OCWR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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* and should be considered in assessing the results of our audits.

OCWR has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

VAVRINEK, TRINE, DAY & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
Laguna Hills, California  
December 15, 2011

# OC Waste & Recycling

## STATEMENT OF NET ASSETS

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

	2011	2010
<b>ASSETS:</b>		
Current assets:		
Pooled cash and investments (Note 3)	\$ 295,062	\$ 300,226
Imprest cash funds (Note 3)	35	35
Accounts receivable	8,556	8,264
Interest receivable	611	936
Prepaid costs (Note 2)	5,014	787
Due from other governmental agencies	468	238
Due from other funds of the County (Note 13)	26	16
Debt issuance costs (Note 2)	13	35
Total current assets	309,785	310,537
Current restricted assets:		
Pooled cash and investments-customer deposits (Note 3)	701	658
Investments with trustees (Note 3)	11,391	11,209
Deposits in-lieu of cash (Note 4)	16,567	16,793
Total current restricted assets	28,659	28,660
Total current assets	338,444	339,197
Noncurrent assets:		
Restricted assets:		
Pooled cash and investments-customer deposits	21	21
Pooled cash and investments-contractor deposits	49	149
Pooled cash and investments-rate stabilization	27,915	27,744
Pooled cash and investments- corrective action	6,054	5,804
Pooled cash and investments - San Joaquin Marsh project	3,120	3,120
Pooled cash and investments-closure and postclosure care costs (Note 9)	89,543	89,258
Total noncurrent restricted assets	126,702	126,096
Capital assets (Note 5)		
Nondepreciable	34,307	31,589
Depreciable, net	189,575	205,252
Net capital assets	223,882	236,841
Prepaid costs (Note 2)	1,571	2,357
Advances to other funds (Note 12 and 13)	28,149	15,606
Debt issuance costs (Note 2)	3	16
Total noncurrent assets	380,307	380,916
Total Assets	\$ 718,751	\$ 720,113

See accompanying notes to financial statements.

# OC Waste & Recycling

## STATEMENT OF NET ASSETS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

	2011	2010
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	\$ 6,077	\$ 7,370
Retainage payable	175	120
Salaries and accrued employee benefits payable	898	831
Accrued closure and postclosure care costs (Notes 8 and 9)	1,615	1,988
Pollution remediation obligation (Note 8 and 10)	831	415
Interest payable	90	119
Deferred revenue	134	-
Compensated employee absences payable (Note 2 and 8)	1,345	1,359
Due to other funds of the County (Note 13)	2,307	2,980
Due to other governmental agencies	1,398	1,553
<b>Total current liabilities (payable from current assets)</b>	<b>14,870</b>	<b>16,735</b>
Current liabilities (payable from restricted assets):		
Revenue bonds payable, net (Note 8)	6,255	5,817
Deposits from others	17,339	17,620
<b>Total current liabilities (payable from restricted assets)</b>	<b>23,594</b>	<b>23,437</b>
<b>Total current liabilities</b>	<b>38,464</b>	<b>40,172</b>
Noncurrent liabilities:		
Arbitrage rebate payable	215	152
Compensated employee absences payable (Note 2 and 8)	1,472	1,394
Accrued closure and postclosure care costs (Notes 8 and 9)	161,713	161,897
Pollution remediation obligation (Note 8 and 10)	11,143	5,529
Revenue bonds payable, net (Note 8)	13,665	19,920
<b>Total noncurrent liabilities</b>	<b>188,208</b>	<b>188,892</b>
<b>Total Liabilities</b>	<b>226,672</b>	<b>229,064</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	203,977	211,155
Restricted for		
Debt service	33,128	33,222
Landfill closure and postclosure	41,754	44,785
Landfill corrective action	6,068	5,816
San Joaquin Marsh project	3,120	3,120
Unrestricted	204,033	192,951
<b>Total Net Assets</b>	<b>\$ 492,080</b>	<b>\$ 491,049</b>

See accompanying notes to financial statements.

# OC Waste & Recycling

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

	2011	2010
<b>OPERATING REVENUES</b>		
Disposal fees (Note 2)	\$ 100,918	\$ 80,903
Use of property	1,557	1,416
Licenses, permits, and franchises	106	73
Total operating revenues	102,581	82,392
<b>OPERATING EXPENSES</b>		
Salaries and employee benefits	24,830	24,244
Services and supplies	20,113	21,543
Professional and specialized services	11,942	13,092
Operating leases	808	764
Provision for pollution remediation obligation (Note 10)	6,896	(1,502)
Provision for closure and postclosure care costs (Note 9)	1,058	(7,175)
Taxes and other fees	6,729	13,557
Depreciation and amortiatlon (Note 5)	19,446	17,155
Total operating expenses	91,822	81,678
Operating income	10,759	714
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental revenue	491	1,131
Fines, forfeitures and penalties	14	17
Interest income	3,645	4,743
Interest expense	(1,356)	(1,771)
Gain (loss) on disposal of capital assets	7	84
Other revenues	452	1,304
Total nonoperating revenues	3,253	5,508
Income before transfers	14,012	6,222
Transfers in	113	-
Transfers out to County General Fund	(13,094)	(11,238)
Change in net assets	1,031	(5,016)
Net assets - Beginning of year	491,049	496,065
Net assets - End of year	\$ 492,080	\$ 491,049

See accompanying notes to financial statements.

# OC Waste & Recycling

## STATEMENT OF CASH FLOWS

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 102,004	\$ 85,305
Payments to suppliers for goods and services	(33,448)	(34,928)
Payments to employees for services	(24,699)	(24,109)
Payments to other funds	(673)	735
Cash received (paid) for interfund charges	(10)	9
Landfill site closure and post-closure care costs	(1,615)	(1,989)
Pollution remediation obligation	(866)	(1,938)
Taxes and other fees	(6,729)	(13,557)
Other receipts (payments)	(3,586)	1,333
Net cash provided by operating activities	30,378	10,861
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Transfers out	(13,094)	(11,238)
Transfers in	113	-
Intergovernmental revenues	491	1,131
Advances to other funds	(12,543)	(15,606)
Net cash used in noncapital and related financing activities	(25,033)	(25,713)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(6,491)	(11,776)
Principal paid on bonds (Note 8)	(5,950)	(5,620)
Interest paid on bonds (Note 8)	(1,217)	(1,526)
Proceeds from sale of capital assets	10	234
Net cash used in capital and related financing activities	(13,648)	(18,688)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	3,970	5,060
Purchase of investments, net	(182)	(156)
Net cash provided by investing activities	3,788	4,904
Net increase (decrease) in cash and cash equivalents	(4,515)	(28,636)
Cash and cash equivalents - beginning of year	427,015	455,651
Cash and cash equivalents - end of year	\$ 422,500	\$ 427,015
Reconciliation of cash and cash equivalents to statements of net assets:		
Pooled cash and investments-current assets	\$ 295,062	\$ 300,226
Imprest cash funds	35	35
Pooled cash and investments-rate stabilization	27,915	27,744
Pooled cash and investments-closure and postclosure care costs	89,543	89,258
Pooled cash and investments-corrective action	6,054	5,804
Pooled cash and investment-San Joaquin Marsh project	3,120	3,120
Pooled cash and investments-customer deposits	722	679
Pooled cash and investments-contractor deposits	49	149
Total cash and cash equivalents	\$ 422,500	\$ 427,015

See accompanying notes to financial statements.

## OC Waste & Recycling

### STATEMENT OF CASH FLOWS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

	2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 10,759	\$ 714
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	19,446	17,155
Provision for landfill site closure/postclosure costs	1,058	(7,175)
Landfill site closure costs and disbursements	(1,615)	(1,989)
Provision for pollution remediation obligation	6,896	(1,502)
Pollution remediation costs and disbursements	(866)	(1,938)
Fines, forfeitures and penalties	14	17
Other revenues (expenses)	452	1,304
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(292)	2,521
Deposits in-lieu of cash	226	390
Prepaid costs (Note 2)	(3,441)	786
Due from other funds	(10)	9
Due from other governmental agencies	(230)	364
Increase (decrease) in:		
Accounts payable	(1,293)	485
Retainage payable	55	(824)
Salaries and employee benefits payable	67	74
Deferred revenue	134	(63)
Deposits from others	(281)	(362)
Due to other funds	(673)	735
Due to other governmental agencies	(155)	46
Compensated employee absences payable	64	61
Arbitrage rebate payable	63	53
Net cash provided by operating activities	\$ 30,378	\$ 10,861

See accompanying notes to financial statements.

#### NOTE 1 - 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, 2011 and 2010, OC Waste & Recycling collected imported waste disposal fees of \$17,321 and \$16,090, respectively. Net import revenues totaling \$13,094 and \$11,226 were distributed to the County during the years ended June 30, 2011 and 2010, 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 a department of the County and is included as an enterprise fund in the basic financial statements of the County.

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 15, Major Customers, for additional discussion.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 2 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### DESCRIPTION OF REPORTING ENTITY (CONTINUED)

The County has entered into new waste disposal agreements with 34 cities, three (3) Sanitary Districts, one (1) Joint Powers Authority and five (5) Facility Operators effective July 1, 2010 through June 30, 2020. The new waste disposal agreements cover approximately 96% 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 4% 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. Under GASB Statement No. 20, OC Waste & Recycling has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

#### 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.

#### 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.

**NOTE 2 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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:	
Flood Channels	50 to 99 years
Roads	10 to 20 years
Bridges	50 years
Trails	20 years
Traffic Signals	15 years
Harbors	20 to 50 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 Assets.

Interest is capitalized on construction in progress. Capitalized interest is the total interest cost from the date of the borrowing, net of any allowable interest earned on temporary investments. There was no net interest capitalized in 2011 or 2010.

**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.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 2 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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 \$4,227 for FY 2011-12 pension obligation to the Orange County Employees Retirement System (OCERS) in May 2011. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$276, based on the discount rate of 6.14%. 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 Assets, are \$6,585 and \$3,144 for 2011 and 2010, respectively.

#### 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, 2011 was \$206 and \$272 for the year ended June 30, 2010.

#### 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.

#### NET ASSETS

Net Assets are displayed in three distinct categories:

Invested in capital assets, net of related debt 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.

### NOTE 2 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### NET ASSETS (CONTINUED)

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, 2011 and 2010, OCWR reported restricted net assets of \$84,070 and \$86,943, respectively, for debt service, landfill closure and postclosure, landfill corrective action, and San Joaquin Marsh project, of which \$50,942 and \$53,721 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, 2011 and 2010, the Pool contains investments with an average maturity of 342 and 288 days, respectively. Interest is apportioned to individual funds based on the average daily balances on deposit with the Treasurer.

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 assessing the Auditor-Controller's website at <http://www.ac.ocgov.com>.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

#### 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. Guaranteed Investment contracts are stated at cost.

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, 2011 and 2010 were as follows:

	2011	2010
Restricted Investments with Trustees:		
U.S. Government Securities	\$ 7,412	\$ 7,410
Money market mutual funds	3,979	3,799
Cash and investments pooled by the County Treasurer	422,465	426,980
<b>Total investments</b>	<b>\$ 433,856</b>	<b>\$ 438,189</b>

	2011	2010
Imprest cash funds	\$ 35	\$ 35
Total investments	433,856	438,189
<b>Total cash and investments</b>	<b>\$ 433,891</b>	<b>\$ 438,224</b>

As of June 30, 2011, 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					
Restricted Investments with Trustee:	\$ -	\$422,465			0.94
U.S. Government Securities	7,204	7,412	Discount	11/21/2011	0.27
Money market mutual funds	3,979	3,979	Variable	On Demand	-
<b>Total Restricted Investments with Trustee</b>	<b>\$ 11,183</b>	<b>\$ 11,391</b>			<b>0.17</b>

### NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

#### INVESTMENTS WITH TRUSTEES (CONTINUED)

The following is a summary of credit quality distribution by investment type at June 30, 2011 (NR denotes Not Rated):

	S&P	Moody's	Fitch	% of Portfolio
County Investment Pool	AAAm	N/R	N/R	97.37%
U.S. Government Securities	N/R	P-1	F1+	1.71%
Money market mutual Funds	AAAm	Aaa-MF	N/R	0.92%
				100.00%

As of June 30, 2010, 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					
Restricted Investments with Trustee:	\$ -	\$426,980			0.79
U.S. Government Securities	7,205	7,410	Discount	11/29/2011	0.28
Money market mutual funds	3,799	3,799	Variable	On Demand	-
Total Restricted Investments with Trustee	\$ 11,004	\$ 11,209			0.18

The following is a summary of credit quality distribution by investment type at June 30, 2010 (NR denotes Not Rated):

	S&P	Moody's	Fitch	% of Portfolio
County Investment Pool	AAAm	N/R	N/R	97.44%
U.S. Government Securities	N/R	P-1	F1+	1.69%
Money market mutual Funds	AAAm	Aaa	N/R	0.87%
				100.00%

#### 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 amended on December 7, 2010 and later on September 13, 2011.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

---

### NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

#### INTEREST RATE RISK (CONTINUED)

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, 2011 and 2010, the WAM for the Pool approximated 0.94 and 0.79 years (342 and 288 days), respectively, and for investments with trustees approximated 0.17 and 0.18 years (62 and 66 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 there was no securities lending.

#### 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 & Poors), "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, 2011 and 2010, the County's investments in commercial paper were in compliance with the IPS limits. Subsequent to June 30, 2011, the U.S. Government Debt was downgraded to AA from AAA. On September 13, 2011, the Board approved an amended IPS which exempts U.S. Government Debt from any ratings restrictions.

### NOTE 4 - 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 the deposits in-lieu of cash as of June 30, 2011 and 2010 were \$16,567 and 16,793, respectively.

### NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2011
Capital assets, nondepreciable:					
Land	\$ 22,405	\$ -	\$ -	\$ -	\$ 22,405
Construction in progress	9,184	3,705	-	(987)	11,902
Total capital assets, nondepreciable	31,589	3,705	-	(987)	34,307
Capital assets, depreciable:					
Buildings and improvements	18,514	-	-	-	18,514
Equipment	68,211	2,786	(745)	-	70,252
Infrastructure	278,690	-	-	987	279,677
Total capital assets, depreciable	365,415	2,786	(745)	987	368,443
Less accumulated depreciation for:					
Buildings and improvements	(6,062)	(861)	-	-	(6,923)
Equipment	(36,201)	(7,000)	741	-	(42,460)
Infrastructure	(117,900)	(11,585)	-	-	(129,485)
Total accumulated depreciation	(160,163)	(19,446)	741	-	(178,868)
Total capital assets, depreciated, net	205,252	(16,660)	(4)	987	189,575
Total capital assets, net	\$ 236,841	\$ (12,955)	\$ (4)	\$ -	\$ 223,882

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2010
Capital assets, nondepreciable:					
Land	\$ 22,405	\$ -	\$ -	\$ -	\$ 22,405
Construction in progress	21,056	7,050	-	(18,922)	9,184
Total capital assets, nondepreciable	43,461	7,050	-	(18,922)	31,589
Capital assets, depreciable:					
Buildings and improvements	18,514	-	-	-	18,514
Equipment	63,828	5,495	(1,775)	663	68,211
Infrastructure	259,768	-	-	18,922	278,690
Total capital assets, depreciable	342,110	5,495	(1,775)	19,585	365,415
Less accumulated depreciation for:					
Buildings and improvements	(5,203)	(859)	-	-	(6,062)
Equipment	(31,558)	(4,834)	1,639	(1,448)	(36,201)
Infrastructure	(106,438)	(11,462)	-	-	(117,900)
Total accumulated depreciation	(143,199)	(17,155)	1,639	(1,448)	(160,163)
Total capital assets depreciated, net	198,911	(11,660)	(136)	18,137	205,252
Total capital assets, net	\$ 242,372	\$ (4,610)	\$ (136)	\$ (785)	\$ 236,841

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 5 - 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, 2011 and 2010 are as follows:

Landfill	2011	2010
Frank R. Bowerman (FRB)		
FRB - Phase 8 East Flank/Buttress Excavation	\$ 2,507	\$ 2,205
Prima		
Prima Constr Admin/Crew Quarters	3,918	2,817
Prima Geotechnical Investigation ZN4	2,096	1,951
Prima Zone 1 Construction Management/CQAI AP Svcs	2,618	-
Other	763	2,211
Total construction in progress	11,902	9,184

#### CONSTRUCTION CONTRACTS

OC Waste & Recycling entered into various major construction contracts to facilitate its landfill operations. At June 30, 2011, OC Waste & Recycling is committed to open construction contracts for the following projects:

Description	Remaining Commitments
FRB Construction Management, CQA Slide/Buttress	\$ 1,497
Total	\$ 1,497

### NOTE 6 - 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](http://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.

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

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, 2011 and 2010, employer's contributions as a percentage of covered payrolls were 24.79% and 21.83%, 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 of Orange (approximately 14,000) became eligible for the benefit formula of 2.7% 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% at age 55 formula. 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 \$17,387, \$17,679, and \$18,053 and the payroll expense for employees covered by OCERS was \$17,253, \$17,527, and \$17,944 for the years ended June 30, 2011, 2010, and 2009, respectively. Total pension expense (which equals the actuarially required contributions) for OC Waste & Recycling was \$4,068, \$3,708, and \$3,814, for the years ended June 30, 2011, 2010, and 2009, respectively. OCWR also prepaid \$4,227 for FY 2011-12 pension obligations in May 2011. Refer to Note 2, Description of Reporting Entity and Summary of Significant Accounting Policies – Prepaid Costs, for additional discussion.

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 7 – 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.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 7 – POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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% 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 required to contribute a percentage of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$449 and \$438 for the years ended June 30, 2011 and 2010, respectively, which is 100% 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 8 - 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% to 5.75%, to advance refund the 1988 Certificates of Participation, with interest rates ranging from 7.20% to 7.875%, 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% of the aggregate debt service requirement over the life of the bonds. For the years ended June 30, 2011 and 2010, the principal and interest paid were \$7,167 and \$7,146, and the total net revenues as defined by the bond covenants were \$18,703 and \$8,878, respectively. The outstanding principal amount and interest on these bonds as of June 30, 2011 and 2010 were \$19,980 and \$1,626; and \$25,930 and \$2,878, respectively.

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.

### NOTE 8 - LONG-TERM OBLIGATIONS (CONTINUED)

#### ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS

Annual debt service requirements for the outstanding revenue bonds as of June 30, 2011, excluding the premium and deferred charges on refunding, are as follows:

Year Ending June 30,	Principal	Interest
2012	\$ 6,305	\$ 899
2013	6,655	543
2014	7,020	184
<b>Total 1997 Refunding Revenue Bonds</b>	<b>\$ 19,980</b>	<b>\$ 1,626</b>

Long-term liability activities for the year ended June 30, 2011 were as follows:

Long - Term Liabilities	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Revenue bonds	\$ 25,930	\$ -	\$ (5,950)	\$ 19,980	\$ 6,305
Less premium/deferred amount on refunding, net	(193)		133	(60)	(50)
<b>Total bonds payable, net</b>	<b>25,737</b>	<b>-</b>	<b>(5,817)</b>	<b>19,920</b>	<b>6,255</b>
Compensated absences	2,753	2,335	(2,271)	2,817	1,345
Closure and postclosure care costs	163,885	3,339	(3,896)	163,328	1,615
Pollution Remediation Obligation	5,944	6,895	(865)	11,974	831
<b>Total other long-term liabilities</b>	<b>172,582</b>	<b>12,569</b>	<b>(7,032)</b>	<b>178,119</b>	<b>3,791</b>
<b>Total long-term liabilities</b>	<b>\$ 198,319</b>	<b>\$ 12,569</b>	<b>\$ (12,849)</b>	<b>\$ 198,039</b>	<b>\$ 10,046</b>

Long-term liability activities for the year ended June 30, 2010 were as follows:

Long - Term Liabilities	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due Within One Year
Revenue bonds	\$ 31,550	\$ -	\$ (5,620)	\$ 25,930	\$ 5,950
Less premium/deferred amount on refunding, net	(407)		214	(193)	(133)
<b>Total bonds payable, net</b>	<b>31,143</b>	<b>-</b>	<b>(5,406)</b>	<b>25,737</b>	<b>5,817</b>
Compensated absences	2,692	2,173	(2,112)	2,753	1,359
Closure and postclosure care costs	173,049		(9,164)	163,885	1,988
Pollution Remediation Obligation	9,384		(3,440)	5,944	415
<b>Total other long-term liabilities</b>	<b>185,125</b>	<b>2,173</b>	<b>(14,716)</b>	<b>172,582</b>	<b>3,762</b>
<b>Total long-term liabilities</b>	<b>\$ 216,268</b>	<b>\$ 2,173</b>	<b>\$ (20,122)</b>	<b>\$ 198,319</b>	<b>\$ 9,579</b>

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 9 - 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 will report 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, 2011 and 2010 were \$163,328 and \$163,885, respectively. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (25.53% for FRB, 67.94% for Olinda Alpha and 22.26% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. The 22.26% amount for Prima Deshecha represents the cumulative amount of landfill capacity used for both Zone 1 and Zone 4. This amount was segregated to more accurately reflect the greater usage to date of Zone 1 in relation to the closure and postclosure care costs. OC Waste & Recycling will recognize the remaining estimated cost of closure and postclosure care of \$177,174 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010 dollars (using the 2010 inflation factor of 1.010). 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.

### NOTE 9 - ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)

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. Also in compliance with regulations, OC Waste & Recycling has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure 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 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, 2011 and 2010, a total of \$89,543 and \$89,258, respectively, has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Assets 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 10, Pollution Remediation Obligations and Note 11, Commitments and Contingencies for additional discussion.

### NOTE 10 – 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, 2011 and 2010, after deducting actual pollution remediation expenses incurred during fiscal year 2011 and 2010 are \$11,974 and \$5,944, respectively.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 10 – POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

#### 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 exceedences 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. Pursuant to the Settlement Agreement, the County installed a landfill gas collection and control system at the site. The remaining cost to the County for on-going engineering and quality assurance/quality control is \$0.

The County retained responsibility for the operation, maintenance, and monitoring of the landfill gas collection and control system installed at the site. 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 \$133.

#### 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 exceedences, 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.

**NOTE 10 – POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)****LANE ROAD FORMER REFUSE DISPOSAL STATION (CONTINUED)**

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 \$176. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is reduced to \$2,424.

**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.

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 \$144. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$1,421.

**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 indicate that further site assessment is 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 is conducting a series of additional site investigations and assessments. Upon completion of these site assessments and based on the results contained therein, it is possible that DTSC will renew its request for a Voluntary Cleanup Agreement.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 10 – POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

#### LA VETA FORMER REFUSE DISPOSAL STATION (CONTINUED)

The County is currently performing a complete environmental assessment of the site, under oversight by the DTSC. Remaining cost to the County for performing the site assessment work is \$414.

It is possible that the County will incur costs as a result of site conditions. However, because the County is still conducting site assessment and investigation efforts, it cannot predict additional costs that would be associated with this matter. The costs could be significant.

#### 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.

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 a five year period, but is dependent upon actions by the owner and regulatory approvals for the project. The County will continue to incur additional costs for work related to the County's current obligation to monitor the groundwater underlying the site. This responsibility will be transferred to the site owner upon completion of one of the settlement agreement milestones, but due to the uncertainty of specific timing, the County is unable to fully estimate the remaining ground water obligations.

The remaining balance for landfill gas remediation at the Forster site is \$7,582. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

### NOTE 11 - COMMITMENTS AND CONTINGENCIES

#### 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.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)****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.

**OTHER CONTINGENCIES**

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 Harris case discussed below. In the REAOC case, after lengthy litigation, on June 19, 2009, the Federal Court ruled in the County's favor on Cross-Motions for Summary Judgment. Plaintiff's appealed that decision and oral argument was heard at the Ninth Circuit 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 to the 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 county 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." However, the Court also confirms that to create such a vested benefit through an implied contract the plaintiffs must prove that the legislative body had the specific intent to do so. The County believes that it is unlikely Plaintiffs will meet this burden when the case returns to the Ninth Circuit for the final determination of the appeal.

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 10. Many of the former disposal sites were operated under lease agreements with the property owners.

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### OTHER CONTINGENCIES (CONTINUED)

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, 2011, amounts classified in unrestricted net assets totaled approximately \$204,033.

#### 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, 2011 and 2010 are not significant.

### NOTE 12 – 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.

On October 6, 2009, by Resolution 09-163, the Board amended Resolution 09-090 authorizing the County to borrow up to \$22,000 from OCWR in FY 2009-10 for part of the costs associated with the upgrades of various County Information Technology projects including the Assessment Tax System (ATS), Property Tax Management System (PTMS), Countywide Cost Allocation Plan Human Resources/Payroll (CAPS-HR), and CAPS Budget Reporting and Analysis Support System (BRASS) to Performance Budgeting (PB) System. On June 29, 2010, by Resolution 10-132, the Board authorized an additional borrowing of up to \$17,000 during FY 2010-11. On October 19, 2010, the Board amended Resolution 10-132 and increased the borrowing of up to \$21,000 for FY 2010-11. The actual amount borrowed for FY 2010-11 and FY 2009-10 was \$15,667 and \$15,606, respectively. Repayment of the amount to be borrowed, plus interest, is from the County’s General Fund and is amortized over five years with the first installment for monies borrowed in FY 2009-10 starting in FY 2010-11 and continuing through FY 2014-15. The actual amount repaid from the General Fund in FY 2010-11 was \$3,124. The outstanding balance as of June 30, 2011 and 2010 were \$28,149 and \$15,606, respectively.

The Board authorized the borrowing of up to \$10,100 for FY 2011-12, by Resolution 11-105 on June 28, 2011. Total authorized borrowing is \$53,100 as of June 30, 2011.

**NOTE 13 – INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2011 and 2010 are as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund	2011	2010
General Fund	Waste Management	\$ 2,244	\$ 2,970
Other Governmental Funds	Waste Management	1	1
Internal Service Funds	Waste Management	62	9
<b>Total Due to Other Funds:</b>		<b>\$ 2,307</b>	<b>\$ 2,980</b>
Waste Management	General Fund	\$ 1	\$ 4
Waste Management	Roads	4	2
Waste Management	Flood Control District	20	9
Waste Management	OC Parks	1	1
<b>Total Due From Other Funds:</b>		<b>\$ 26</b>	<b>\$ 16</b>
Waste Management	General Fund	\$ 28,149	\$ 15,606
<b>Total Advances to Other Funds:</b>		<b>\$ 28,149</b>	<b>\$ 15,606</b>

Amounts payable to the General Fund represent 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 12, Advance to General Fund, for additional information.

**NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS APPLICABLE TO OC WASTE & RECYCLING**

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

In June 2010, GASB issued statement No. 59, “Financial Instruments Omnibus.” This statement updates and improves the existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement did not have a material effect in the financial statements.

The following summarizes recent GASB pronouncements and their impact, if any, on future financial statements:

In November 2010, GASB issued Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements.” This statement addresses issues related to service concession arrangements (SCA), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which 1) the transferor conveys to an operator the right

# OC Waste & Recycling

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2011 And 2010

(Dollar Amounts In Thousands)

### NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS APPLICABLE TO OC WASTE & RECYCLING (CONTINUED)

and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and 2) the operator collects and is compensated by fees from third parties. The requirements 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. The provisions of this statement generally are required to be applied retroactively for all periods presented.

In November 2010, GASB issued Statement No. 61, “The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.” This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012, which requires OC Waste & Recycling to implement this statement in FY 2012-13. The provisions of this statement generally are required to be applied retroactively for all periods presented.

In December 2010, GASB issued Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” The objective of this statement is to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The requirements of this statement are effective for periods beginning after December 15, 2011, which requires OC Waste & Recycling to implement this statement in FY 2012-13. The provisions of this statement generally are required to be applied retroactively for all periods presented.

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. The provisions of this statement generally are required to be applied retroactively for all periods presented.

### NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS APPLICABLE TO OC WASTE & RECYCLING (CONTINUED)

In June 2011, GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53." This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2011. Currently, the County Treasurer's Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County's investment pools and the Public Financing Advisory Committee policy prohibits derivative instruments. The provisions of this statement generally are required to be applied retroactively for all periods presented.

### NOTE 15 – MAJOR CUSTOMERS

Disposal fees from three major customers accounted for revenues of approximately \$30,590, \$19,415 and \$15,071 during the year ended June 30, 2011, and \$25,614, \$15,919 and \$10,148 during the year ended June 30, 2010.

# OC Waste & Recycling

## INDEPENDENT AUDITORS' 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*

Honorable Board of Supervisors  
County of Orange, California

We have audited the financial statements of the Orange County Waste and Recycling Enterprise Fund of the County of Orange, California (OCWR) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 15, 2011. Our report includes explanatory paragraphs stating that the financial statements present only OCWR and do not purport to, and do not, present fairly the financial position of the County of Orange, California and describing OCWR's omission of management's discussion and analysis. 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.

### **Internal Control Over Financial Reporting**

Management of OCWR is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered OCWR's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCWR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the OCWR's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OCWR's financial statements are free of 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*. This report is intended solely for the information and use of the Board of Supervisors, the Audit Oversight Committee, and management of OCWR and is not intended to be and should not be used by anyone other than these specified parties.

VAVRINEK, TRINE, DAY & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS  
Laguna Hills, California  
December 15, 2011

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and response.

Finding No.	Condition	Status
2010-01	Rate Covenant Calculation	Implemented

# Orange County Waste Management Commission

**Cheryl Brothers** | Chair, League of Cities\*, Second District

**Chad Wanke** | Vice Chair, Fourth District

**Glenn Acosta** | Fifth District

**Don Bankhead** | League of Cities\* - At Large

**John Beauman** | Third District

**Art Brown** | League of Cities\*, Fourth District

**Cynthia Connors** | League of Cities\*, Fifth District

**Anthony J. Florentine** | Fourth District

**Donald R. Froelich** | Third District

**Xuan-Nhi Van Ho** | First District

**Margie Rice** | League of Cities\*, First District

**Joe Soto** | Fifth District

**James Wahner** | Second District

**Daniel Worthington** | Second District

## **EX OFFICIO:**

**Michael B. Giancola** | Director, OC Waste & Recycling

**Doug Chotkevys** | League of Cities\* - City Manager

\*The City Selection Committee for the County of Orange, California has replaced the Orange County Division, League of California Cities as the appointing body for the elected city official representatives on the Commission effective March 6, 2012.





300 North Flower Street, Suite 400, Santa Ana, CA 92703 | [www.oilandfills.com](http://www.oilandfills.com)