



# 2012 ANNUAL REPORT

# OC WASTE & RECYCLING MORE THAN JUST LANDFILL OPERATIONS

## 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.

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Orange County  
**BOARD** of **SUPERVISORS**

**SHAWN  
NELSON**

BOARD CHAIRMAN  
*Supervisor*  
Fourth District



**PATRICIA C.  
BATES**

VICE CHAIR  
*Supervisor*  
Fifth District



**JANET  
NGUYEN**

*Supervisor*  
First District



**JOHN M. W.  
MOORLACH**

*Supervisor*  
Second District



**TODD  
SPITZER**

*Supervisor*  
Third District



# ORANGE COUNTY WASTE MANAGEMENT COMMISSION

## CHAIR (4TH DISTRICT)

Chad Wanke

## VICE-CHAIR (4TH DISTRICT)

Brett Murdock\*

## 1ST DISTRICT

Margie Rice\*

Xuan-Nhi Van Ho

Vacant

## 2ND DISTRICT

Joe Carchio\*

James Wahner

Daniel Worthington

## 3RD DISTRICT

Rebecca Gomez\*

John Beauman

Donald R. Froelich

## 4TH DISTRICT

Anthony J. Florentine

## 5TH DISTRICT

Cynthia Conners\*

Glenn Acosta

Joe Soto

## MEMBER AT LARGE

Vacant\*

## EX OFFICIO:

### CITY MANAGERS' REPRESENTATIVE

Doug Chotkevys\*

### DIRECTOR, OC WASTE & RECYCLING

Michael B. Giancola

\*Appointed by the Orange County City Selection Committee

# LETTER *from the* DIRECTOR

**A**t OC Waste & Recycling we are proud of the solid waste disposal system we have built. We are nationally renowned for our landfills that can handle more than 19,000 tons of waste per day. Even at our current, post-recessionary tonnage levels, Orange County is disposing of enough waste to fill up Anaheim Stadium more than five times every year. Our landfills, two of which are ranked in the top five largest landfills in the country, are equipped to handle waste now and for decades to come. We are proud of our landfill legacy, but at OC Waste & Recycling we are more than just landfills.

It might surprise some people to hear that in our business, OC Waste & Recycling hires biologists and teams of habitat conservationists to protect and enhance the canyons and hills that are home to the landfills. Instead of tearing down eco-systems, OC Waste & Recycling is creating new habitats and helping threatened species to flourish.

It might seem ironic that a department that operates on disposal fees employs a landfill surcharge to economically divert waste to recycling centers so valuable resources are reclaimed before the rest is disposed. Add to that, OC Waste & Recycling uses the proceeds from the surcharge to fund a County-wide educational effort targeting the 3-“R”s – Reduce, Reuse and Recycle.

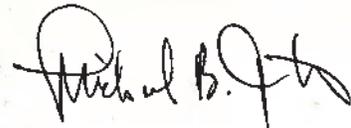
OC Waste & Recycling has even ventured into the energy business, expanding its Renewable Energy Program to host the second largest landfill-gas-to-energy facility in the nation.

A lot has been accomplished in 2012 at OC Waste & Recycling and much of it is related to the operational and regulatory excellence of the landfills. But that is only part of what we do. Managing Orange County’s waste disposal needs requires us to be experts in a dynamic range of fields

and, as you read through this year’s annual report, you may be surprised to see what that looks like.

Thank you for your continued support as we strive to meet our 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.

Sincerely,



**MICHAEL B. GIANCOLA**  
DIRECTOR



# RENEWABLE *energy*

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## LIGHTING THE WAY - ONE MEGAWATT AT A TIME

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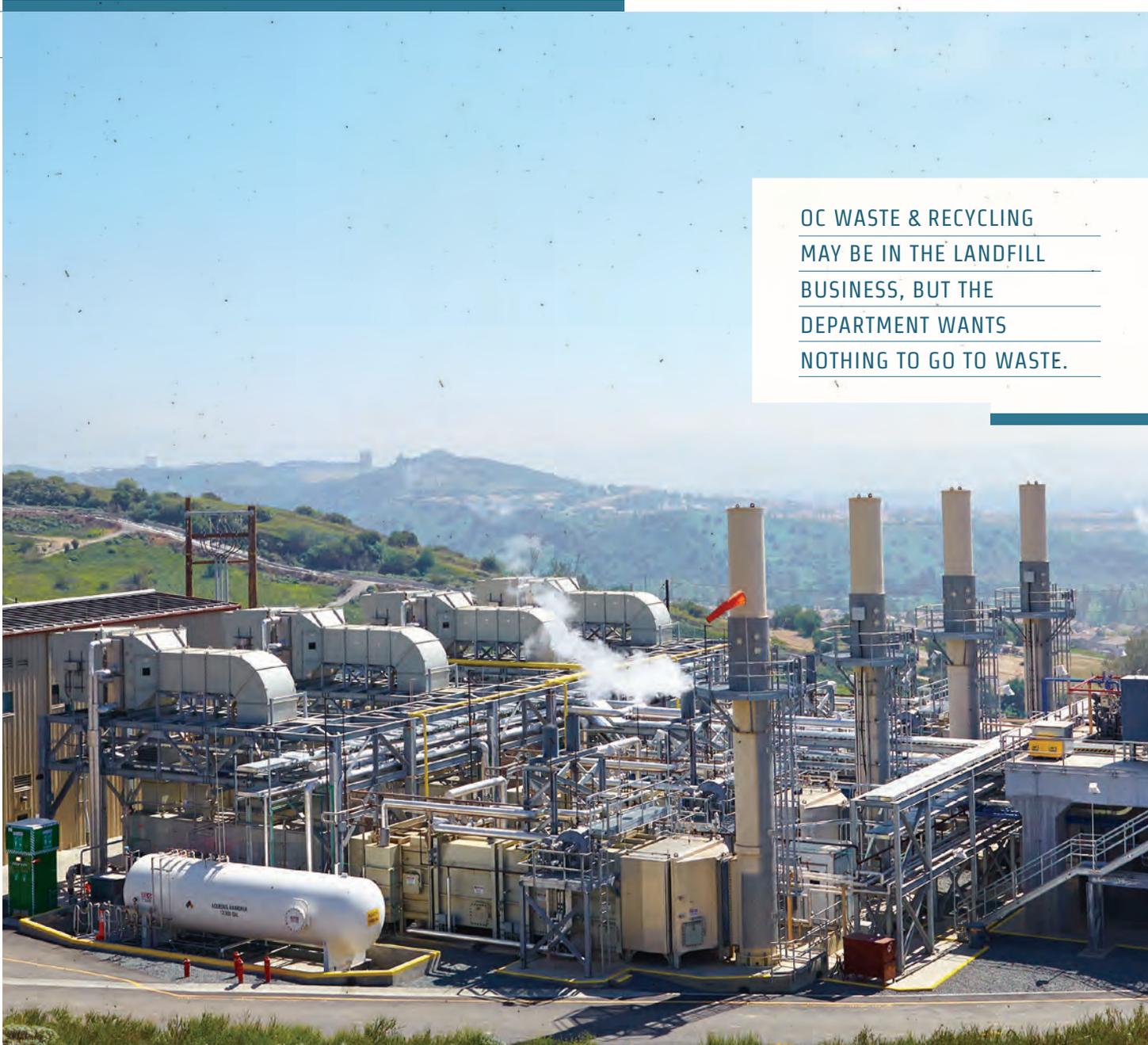
When you think of OC Waste & Recycling and its landfills, it's natural to think about throwing away something old. But a major part of what the landfills do is to create something new. As trash decomposes in Orange County landfills, state-of-the-art gas collection systems capture the methane gas produced. To complete the loop, facilities have been built to convert that gas to energy. It may sound obvious, but for years the industry-accepted practice was to dispose of the gas instead of putting it to work for local residents.

OC Waste & Recycling may be in the landfill business, but the department wants nothing to go to waste. That commitment shines brightly in the County's award winning Renewable Energy Program that converts landfill gas into approximately 51 megawatts of energy annually, enough to power almost 43,500 local homes.

The program just expanded to make Olinda Alpha's facility the second-largest landfill-gas-to-energy power plant in the United States, named "2012 Project of the Year" by the United States Environmental Protection Agency Landfill Methane Outreach Program.

In November 2012, OC Waste & Recycling – in partnership with Broadrock Renewables – brought the new landfill-gas-to-energy power plant online at the Olinda Alpha Landfill. This gas turbine combined cycle expansion project increased the existing output at the landfill from 5.6 MW to 37.5 MW. The energy from this project is sold to the City of Anaheim and provides electricity to almost 25,000 homes. The facility was built largely with federal funding, and features resource-maximizing technologies rarely used in landfill gas projects of its size.

OC WASTE & RECYCLING  
MAY BE IN THE LANDFILL  
BUSINESS, BUT THE  
DEPARTMENT WANTS  
NOTHING TO GO TO WASTE.



*Landfill-gas-to-energy power plant at the Olinda Alpha Landfill.*

# PUBLIC *education*

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## BUILDING NEW HABITS - NOT NEW LANDFILLS

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For decades waste management has relied on environmentally safe landfills. It's been the conventional way to dispose of our trash. But as Orange County looks towards its future, landfills are a finite resource. Eventually they will fill up and, as stewards of the County's waste management practices, OC Waste & Recycling knows that the time has come to teach the next generation better ways to think about local resources. It's time to build new habits that encourage reuse and recycling.

Enter the EcoChallenge, Orange County's premier educational partnership with the Discovery Science Center that hosts a team of environmental superheroes determined to save the world from the impact of waste and pollution. OC Waste & Recycling has invested in developing years of disposal capacity, but our mission goes beyond the limits of our landfill gates. The County believes in promoting new waste management habits to benefit the future of our local community.

To build these habits, the County established key partnerships to promote the EcoChallenge exhibits in the community. With more than 500,000 visitors each year, the Discovery Science Center partnership provides an

educational experience for all ages. Additionally, the Discovery Science Center contributes over \$800,000 worth of marketing, advertising and media services to attract more visitors to take the EcoChallenge. Through a grant from the County of Orange, the Discovery Science Center provides assemblies and field trips free of charge to over 7,000 children per year. The EcoChallenge outreach has been so successful that in August 2012, the exhibits were nationally recognized with a Silver Excellence Award in the Public Education Category by the Solid Waste Association of North America.

And the outreach doesn't end there. OC Waste & Recycling is teaming-up with iconic local venues like the Los Angeles Angels of Anaheim and the Anaheim Ducks to provide opportunities for recycling ambassadors to speak directly with Orange County residents about the EcoChallenge. The promotions reach over 30,000 Orange County residents at each local event.

Add to that, efforts at local environmental hot-spots like Inside the Outdoors and campaigns featured on buses run by the Orange County Transportation Authority - it all sums up to more than just landfilling.



THE COUNTY BELIEVES  
IN PROMOTING WASTE  
MANAGEMENT HABITS TO  
BENEFIT THE FUTURE  
OF OUR LOCAL COMMUNITY.

*EcoChallenge Exhibit at Discovery Science Center.*

# HABITAT *mitigation*

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## WHERE THE TRASH GOES - A HABITAT GROWS

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There is more to OC Waste & Recycling than meets the eye. While it may be obvious that the department manages the three active landfill sites, twenty closed disposal sites, and four household hazardous waste collection centers, our commitment to protecting the environment and restoring native habitat may not be apparent to the casual observer.

OC Waste & Recycling is in the business of landfilling. But with that job comes a responsibility to the environment. The department works hard to avoid any habitat impact, but when it's unavoidable in order to provide landfill space, a team of experts is on hand to make our hills and canyons better than before. Habitat mitigation - or the restoration and preservation of ecological sites - compensates for the impact of landfilling. Before a landfill phase can be constructed, OC Waste & Recycling works diligently with local, state and federal agencies to assess any potential impact and design a suitable compensation that improves the regional eco-system. Successful projects require well-designed landscape blueprints, careful financial planning, qualified restoration specialists and responsive habitat maintenance teams.

In 2012, as the landfills prepared to develop into several new areas, the OC Waste & Recycling team worked ahead of the curve to get mitigation projects underway. In south

Orange County, OC Waste & Recycling focused time and resources preserving a small purple wild-flower. The department salvaged and relocated approximately 450 of the state-endangered thread-leaved brodiaea plants that lay within the future landfill operational areas and in the path of the La Pata Avenue Gap Closure alignment.

In central Orange County, OC Waste & Recycling is thinking outside the box with a habitat mitigation solution to clear the path for the next phase of development at the Frank R. Bowerman Landfill. Despite the fact that the landfill lies 13 miles from the coast, the team is creating a fresh-water wetlands to enhance the local environment and mitigate the landfill's impacts. It may sound unconventional, but that's what it takes to care for the local environment, and OC Waste & Recycling is committed to making it work.

Habitat mitigation, although unexpected, plays an essential role in successful environmental stewardship at the Orange County landfills. OC Waste & Recycling restores, and improves our habitat in order to ensure a safe and healthy community, and that's definitely more than just landfilling.



HABITAT MITIGATION  
PLAYS AN ESSENTIAL ROLE IN  
SUCCESSFUL ENVIRONMENTAL  
STEWARDSHIP AT THE  
ORANGE COUNTY LANDFILLS.

*Brodiaea flowers in full bloom.*

#### 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. No tax revenues are utilized by the Department.

System tonnage (includes in-County and importation tonnage) is forecasted at approximately 3.37 million tons in FY 12/13. System tonnage has declined by approximately 37% from FY 04/05 through FY 11/12. Total 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).

Through June 30, 2016, the level of importation tonnage received by the system may be greater than what is included in this forecast. Due to the volatile nature of the market the forecasted importation amount is stated at a constant level. For the duration of the forecast period in-County tonnage is forecasted to slightly decline based upon the possible impact of state regulations regarding higher diversion and restrictions on types of tonnage disposed at the landfills.

System revenues (includes in-County and importation revenue) are forecasted to be mostly stable throughout the forecast period. 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 capital expenditure Fund 273. Fund 273 as established in FY 11/12 continues to provide OC Waste & Recycling with a dedicated fund specifically for capital improvement 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 12/13, the third year of the new rate structure the contract disposal fee is \$31.37 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).

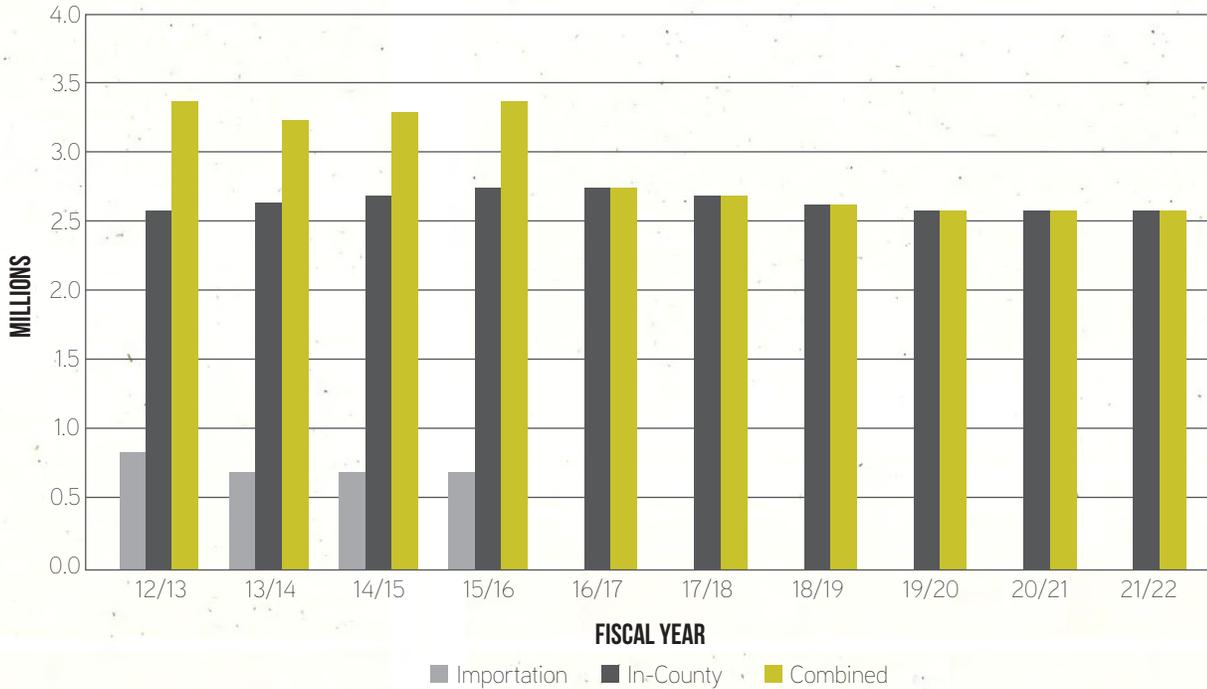
System expenses include significant capital project costs related to the future development of the landfill system (see Table C. System Expenses). System expenses are forecasted to be generally aligned with operating revenues during the ten year forecast period (see CHART 2.). In the years where expenses 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.

Two new funds Fund 272 Prima Deshecha Landfill and the La Pata Avenue Gap Closure, and Fund 288 FRB Landfill Wetland Creation & Agua Chinon Wash Riparian have been established to satisfy state requirements for habitat mitigation (see Table H.).

The schedules following CHART 1 and CHART 2 provide a two-year summary of audited financial data for Fiscal Years Ended June 30, 2012, and 2011, 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.).

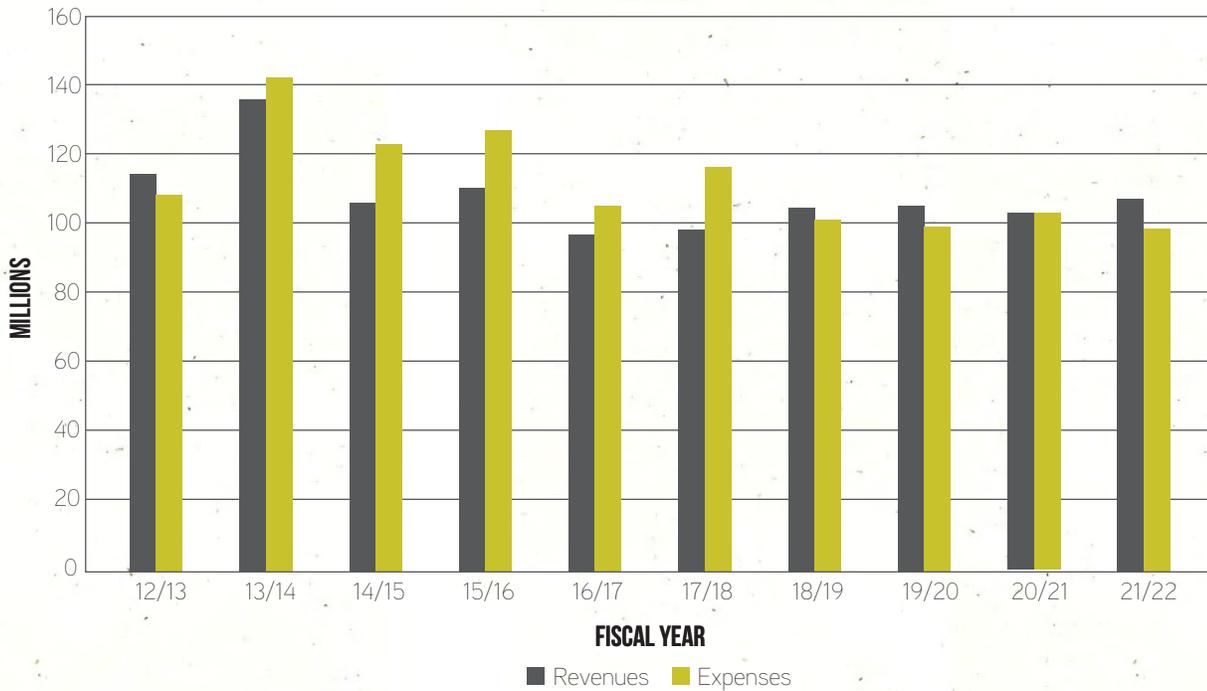
**SYSTEM TONNAGE**

**CHART 1**



**SYSTEM FINANCIAL PROJECTIONS**  
FUND 285 AND 299

**CHART 2**



## OC WASTE & RECYCLING

### TONNAGE & FINANCIAL DATA

For The Years Ended June 30, 2012 And 2011

#### ACCEPTABLE WASTE TONNAGE\*

	6/30/12	6/30/11
County Waste	2,632,719	2,708,547
Importation	671,789	786,894
Total System Tonnage	3,304,508	3,495,441

#### STATEMENTS OF REVENUES & EXPENSES FOR THE YEARS ENDED JUNE 30, 2012 & 2011\*\*

	6/30/12	6/30/11
Revenue	\$ 103,893,391	\$ 107,331,049
Expense	\$(105,812,698)	\$(106,299,594)
Net Income	\$ (1,919,307)	\$ 1,031,455

#### CASH BALANCES

	6/30/12	6/30/11
Enterprise/Operating Fund	\$ 98,540,661	\$ 90,617,895
Capital Project Fund	\$ 10,002,410	\$ -
Import/Bankruptcy Recovery Fund	\$ 29,342	\$ 297,838
Corrective Action Fund	\$ 6,086,400	\$ 6,054,131
Environmental Reserve Fund	\$ 62,253,347	\$ 69,426,694
Deferred Security Deposits Fund	\$ 753,755	\$ 701,187
Rate Stabilization Fund	\$ 28,054,322	\$ 27,914,741
San Joaquin Marsh Phase II Restoration Project Fund	\$ 3,120,000	\$ 3,120,000

#### ACCRUED CLOSURE AND POST CLOSURE

	6/30/12	6/30/11
Closure/Post Closure Liabilities**	\$ 167,057,013	\$ 163,328,000
Escrow Funds Cash Balance (Closure)***	\$ 87,398,258	\$ 86,958,573
Post-Closure Cash Balance***	\$ 167,536,645	\$ 137,409,515

\* Source: OC Waste & Recycling Fiscal Year Tonnage Report, June 2012 and June 2011.

\*\* Source: OC Waste & Recycling 2012 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 (CONTINUED)

**A. SYSTEM TONNAGE**

<b>DESCRIPTION</b>	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Frank R. Bowerman Landfill	1,381,815	1,391,819	1,419,655	1,462,245	1,433,000
Olinda Alpha Landfill	833,897	890,872	908,689	935,950	935,950
Prima Deshecha Landfill	337,781	326,772	332,694	341,754	341,754
<b>Total In-County Tonnage</b>	<b>2,553,493</b>	<b>2,609,463</b>	<b>2,661,038</b>	<b>2,739,949</b>	<b>2,710,704</b>
Frank R. Bowerman Landfill	72,468	59,290	59,290	59,290	0
Olinda Alpha Landfill	727,309	595,058	595,058	595,058	0
Prima Deshecha Landfill	21,317	17,441	17,441	17,441	0
<b>Total Imported Tonnage</b>	<b>821,094</b>	<b>671,789</b>	<b>671,789</b>	<b>671,789</b>	<b>0*</b>
<b>Total System Tonnage</b>	<b>3,374,587</b>	<b>3,281,252</b>	<b>3,332,827</b>	<b>3,411,738</b>	<b>2,710,704</b>

<b>DESCRIPTION</b>	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Frank R. Bowerman Landfill	1,404,340	1,362,210	1,321,344	1,325,176	1,329,019
Olinda Alpha Landfill	935,950	935,950	935,950	939,694	943,453
Prima Deshecha Landfill	341,754	341,754	338,643	339,783	340,927
<b>Total In-County Tonnage</b>	<b>2,682,044</b>	<b>2,639,914</b>	<b>2,595,937</b>	<b>2,604,653</b>	<b>2,613,399</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>2,682,044</b>	<b>2,639,914</b>	<b>2,595,937</b>	<b>2,604,653</b>	<b>2,613,399</b>

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

## OC WASTE & RECYCLING

### 10 YEAR FINANCIAL FORECAST (CONTINUED)

#### B. SYSTEM REVENUE

DESCRIPTION	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Fund 299 Enterprise / Operating - Total Revenue	\$ 95,852,830	\$ 93,290,072	\$ 91,746,166	\$ 96,810,474	\$ 98,137,483
Fund 273 Capital Project - Total Revenue*	\$ 100,000	\$ 28,295,000**	\$ 160,000	\$ 104,000	\$ 35,000
Fund 285 Import / Bankruptcy Recovery - Total Revenue	\$ 18,005,000	\$ 15,732,000	\$ 16,078,000	\$ 16,464,000	\$ -***
Total Projected Revenue	\$ 113,957,830	\$ 137,317,072	\$ 107,984,166	\$ 113,378,474	\$ 98,172,483

DESCRIPTION	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Fund 299 Enterprise / Operating - Total Revenue	\$ 99,466,176	\$ 105,762,006	\$ 105,445,901	\$ 104,520,404	\$ 107,367,512
Fund 273 Capital Project / Operating - Total Revenue	\$ 83,000	\$ 83,000	\$ 114,000	\$ 115,000	\$ 112,000
Fund 285 Import / Bankruptcy Recovery - Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total Projected Revenue	\$ 99,549,176	\$ 105,845,006	\$ 105,559,901	\$ 104,635,404	\$ 107,479,512

\* Effective FY 12/13, capital projects will be recorded in Fund 273 - OCWR Capital Project Fund. 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 \$28.2 million.

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

**C. SYSTEM EXPENSES**

<b>DESCRIPTION</b>	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Fund 299 Enterprise / Operating - Total Expense	\$ 76,937,494	\$ 92,496,723	\$ 90,018,938	\$ 100,466,354	\$ 94,022,339
Fund 273 Capital Project / Operating - Total Expense	\$ 19,552,354	\$ 48,450,000	\$ 24,522,000	\$ 15,009,000	\$ 12,703,000
Fund 285 Import / Bankruptcy Recovery - Total Expense	\$ 12,303,995	\$ 1,983,654	\$ 9,484,758	\$ 11,855,744	\$ -*
<b>Total System Expenses</b>	<b>\$ 108,793,843</b>	<b>\$ 142,930,377</b>	<b>\$ 124,025,696</b>	<b>\$ 127,331,098</b>	<b>\$ 106,725,339</b>

<b>DESCRIPTION</b>	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Fund 299 Enterprise / Operating - Total Expense	\$ 97,142,457	\$ 101,324,022	\$ 100,161,950	\$ 104,378,008	\$ 96,927,836
Fund 273 Capital Project / Operating - Total Expense	\$ 20,004,000	\$ 505,000	\$ 7,000	\$ 307,000	\$ 2,057,000
Fund 285 Import / Bankruptcy Recovery - Total Expense	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total System Expenses</b>	<b>\$ 117,146,457</b>	<b>\$ 101,829,022</b>	<b>\$ 100,168,950</b>	<b>\$ 104,685,008</b>	<b>\$ 98,984,836</b>

\* Importation is projected to end in 2016.

**D. SYSTEM ENTERPRISE FUND**

<b>DESCRIPTION</b>	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
<b>CASH BALANCE</b>					
Fund 299 - Enterprise / Operating	\$ 56,506,587	\$ 50,049,178	\$ 61,009,229**	\$ 55,209,472	\$ 44,338,685
Fund 273 - Capital Project / Operating***	\$ 31,129,468	\$ 26,298,815*	\$ 10,654,261	\$ 2,503,207	\$ 4,822,952
<b>Total Balance</b>	<b>\$ 87,636,056</b>	<b>\$ 76,347,992</b>	<b>\$ 71,663,490</b>	<b>\$ 57,712,679</b>	<b>\$ 49,161,637</b>

<b>DESCRIPTION</b>	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>CASH BALANCE</b>					
Fund 299 - Enterprise / Operating	\$ 44,506,517	\$ 46,755,615	\$ 52,041,380	\$ 52,183,776	\$ 61,122,052
Fund 273 - Capital Project / Operating***	\$ 4,822,952	\$ 6,591,652	\$ 6,698,652	\$ 6,506,652	\$ 7,252,352
<b>Total Balance</b>	<b>\$ 49,329,469</b>	<b>\$ 53,347,266</b>	<b>\$ 58,740,031</b>	<b>\$ 58,690,427</b>	<b>\$ 68,374,403</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 12/13, capital projects will be recorded in Capital Project Fund 273.

## OC WASTE & RECYCLING

### 10 YEAR FINANCIAL FORECAST (CONTINUED)

#### E. CORRECTIVE ACTION FUND

DESCRIPTION	FY 2012/13	FY 2013/14	FY 2014/15*	FY 2015/16*	FY2016/17
<b>CASH BALANCE</b>					
Fund 274 - Corrective Action					
Total Balance	\$ 6,113,795	\$ 7,133,795	\$ 9,736,795	\$ 14,331,795	\$ 14,535,795

DESCRIPTION	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>CASH BALANCE</b>					
Fund 274 - Corrective Action					
Total Balance	\$ 14,786,795	\$ 15,041,795	\$ 15,301,795	\$ 15,565,795	\$ 15,834,795

\* In 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 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY2016/17
<b>CASH BALANCE</b>					
Fund 275 - Environmental Liability Reserve					
Total Balance	\$ 69,170,608	\$ 69,625,720	\$ 70,361,008	\$ 71,374,282	\$72,697,962

DESCRIPTION	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>CASH BALANCE</b>					
Fund 275 - Environmental Liability Reserve					
Total Balance	\$ 56,474,748	\$ 52,000,000	\$ 58,000,000	\$ 58,807,996	\$ 59,587,270

#### G. DEFERRED SECURITY DEPOSITS

DESCRIPTION	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY2016/17
<b>CASH BALANCE</b>					
Fund 276 - Deferred Security Deposits					
Total Balance	\$ 722,791	\$ 722,791	\$ 722,791	\$ 722,791	\$ 722,791

DESCRIPTION	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>CASH BALANCE</b>					
Fund 276 - Deferred Security Deposits					
Total Balance	\$ 722,791	\$ 722,791	\$ 722,791	\$ 722,791	\$ 722,791

**H. HABITAT MITIGATION ESCROW ACCOUNTS**

<b>DESCRIPTION</b>	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY2016/17
Fund 272 - Prima Deshecha Landfill and the La Pata Avenue Gap Closure - Cash Balance*	\$ 104,279	\$ 104,279	\$ 104,279	\$ 104,279	\$ 104,279
Fund 288 - FRB Landfill Wetland Creation & Agua Chinon Wash Riparian - Cash Balance**	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010
<b>Total Balance</b>	<b>\$ 983,289</b>				

<b>DESCRIPTION</b>	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
Fund 272 - Prima Deshecha Landfill and the La Pata Avenue Gap Closure - Cash Balance	\$ 104,279	\$ 104,279	\$ 104,279	\$ 104,279	\$ 104,279
Fund 288 - FRB Landfill Wetland Creation & Agua Chinon Wash Riparian - Cash Balance	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010	\$ 879,010
<b>Total Balance</b>	<b>\$ 983,289</b>				

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

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

## OC WASTE & RECYCLING

### 10 YEAR FINANCIAL FORECAST (CONTINUED)

#### I. CLOSURE ESCROW ACCOUNTS

DESCRIPTION	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY2016/17
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse	1,454,283	1,451,109	1,478,945	1,521,535	1,433,000
Cash Balance at 6/30/XX	\$ 28,848,439	\$ 28,918,439	\$ 29,070,439	\$ 29,330,439	\$ 29,724,439
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse	1,561,206	1,485,930	1,503,747	1,531,008	935,950
Cash Balance at 6/30/XX	\$ 38,451,482	\$ 38,545,482	\$ 38,748,482	\$ 39,095,482	\$ 39,621,482
<b>PRIMA DESHECHA LANDFILL</b>					
Annual Tonnage of Refuse	359,098	344,213	350,135	359,195	341,754
Cash Balance at 6/30/XX	\$ 20,314,289	\$ 20,361,289	\$ 20,412,289	\$ 20,520,289	\$ 20,705,289

DESCRIPTION	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse	1,404,340	1,362,210	1,321,344	1,325,176	1,329,019
Cash Balance at 6/30/XX	\$ 30,213,439	\$ 30,704,439	\$ 31,204,439	\$ 31,711,439	\$ 32,227,439
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse	935,950	935,950	935,950	939,694	943,453
Cash Balance at 6/30/XX	\$ 40,273,482	\$ 40,928,482	\$ 41,595,482	\$ 42,272,482	\$ 42,960,482
<b>PRIMA DESHECHA LANDFILL</b>					
Annual Tonnage of Refuse	341,754	341,754	338,643	339,783	340,927
Cash Balance at 6/30/XX	\$ 20,985,289	\$ 21,331,289	\$ 21,679,289	\$ 22,033,289	\$ 22,392,289

#### J. RATE STABILIZATION FUND

DESCRIPTION	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
Fund 277 - Rate Stabilization Fund					
Security Deposits					
Required % of Net Operating Expenses*	\$ 28,138,924	\$ 28,172,924**	\$ -	\$ -	\$ -
Debt Service	\$ 7,380,744	\$ 3,694,275***	\$ -	\$ -	\$ -
Required Balance at 7/01/XX	\$ 35,519,668	\$ 31,867,199	\$ -	\$ -	\$ -

DESCRIPTION	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	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

\*\* Transfer of ending cash balance to Fund 273 will occur subsequent to the last bond payment.

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

**K. POST CLOSURE MAINTENANCE RESERVE**

<b>DESCRIPTION</b>	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
<b>CASH BALANCE</b>					
Fund 279 - Post Closure Maintenance					
Beginning Balance at 7/01/XX	\$ 167,274,796	\$ 144,089,176	\$ 133,311,377	\$ 129,197,771	\$ 130,059,403
Expenditures	\$ (2,356,299)	\$ (2,407,357)	\$ (2,819,296)	\$ (2,886,960)	\$ (2,954,379)
Deposits (to) from					
Funds 299, 275, and 100	\$ (21,189,321)	\$ (8,520,442)	\$ (1,973,311)	\$ 2,612,592	\$ 2,612,592
Interest Earnings	\$ 360,000	\$ 150,000	\$ 679,000	\$ 1,136,000	\$ 1,728,000
Ending Balance at 6/30/XX	\$ 144,089,176	\$ 133,311,377	\$ 129,197,771	\$ 130,059,403	\$ 131,445,616

<b>DESCRIPTION</b>	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22
<b>CASH BALANCE</b>					
Fund 279 - Post Closure Maintenance					
Beginning Balance at 7/01/XX	\$ 131,445,616	\$ 133,176,830	\$ 133,928,091	\$ 124,519,000	\$ 123,444,763
Expenditures	\$ (3,023,379)	\$ (3,093,997)	\$ (3,166,272)	\$ (3,240,241)	\$ (3,315,946)
Deposits (to) from					
Funds 299, 275, and 100	\$ 2,612,592	\$ 1,676,258	\$ (8,424,819)	\$ 137,004	\$ 178,726
Interest Earnings	\$ 2,142,000	\$ 2,169,000	\$ 2,182,000	\$ 2,029,000	\$ 2,011,000
Ending Balance at 6/30/XX	\$ 133,176,830	\$133,928,091	\$ 124,519,000	\$ 123,444,763	\$ 122,318,543

# OC WASTE & RECYCLING

## 10 YEAR FINANCIAL FORECAST (CONTINUED)

### L. CLOSURE AND POST CLOSURE LIABILITIES

DESCRIPTION	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse Buried	1,454,283	1,451,109	1,478,945	1,521,535	1,433,000
% of Max Capacity	27.53%	28.51%	29.56%	30.64%	31.65%
Estimated Closure Cost	\$ 40,626,884	\$ 41,439,422	\$ 42,433,968	\$ 43,452,384	\$ 44,538,693
Accrued Closure Liability	\$ 11,184,581	\$ 11,814,379	\$ 12,543,481	\$ 13,313,810	\$ 14,096,496
Estimated Post Closure Cost	\$ 55,286,657	\$ 56,392,390	\$ 57,745,807	\$ 59,131,706	\$ 60,609,999
Accrued Post Closure Liability	\$ 15,220,417	\$ 16,077,470	\$ 17,069,661	\$ 18,117,955	\$ 19,183,065
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse Buried	1,561,206	1,485,930	1,503,747	1,531,008	935,950
% of Max Capacity	71.24%	73.12%	74.52%	75.94%	76.81%
Estimated Closure Cost	\$ 36,922,234	\$ 37,660,678	\$ 38,564,535	\$ 39,490,084	\$ 40,477,336
Accrued Closure Liability	\$ 26,303,399	\$ 27,537,488	\$ 28,738,291	\$ 29,988,769	\$ 31,090,642
Estimated Post Closure Cost	\$ 60,563,445	\$ 61,774,714	\$ 63,257,307	\$ 64,775,482	\$ 66,394,869
Accrued Post Closure Liability	\$ 43,145,398	\$ 45,175,848	\$ 47,145,671	\$ 49,196,979	\$ 50,997,899
<b>PRIMA DESHECHA LANDFILL - ZONE 1</b>					
Annual Tonnage of Refuse Buried	359,098	344,213	350,135	359,195	341,754
% of Max Capacity	60.53%	61.75%	63.24%	64.76%	66.22%
Estimated Closure Cost	\$ 21,975,633	\$ 22,415,146	\$ 22,953,109	\$ 23,503,984	\$ 24,091,583
Accrued Closure Liability	\$ 13,301,851	\$ 13,841,352	\$ 14,515,546	\$ 15,221,180	\$ 15,953,447
Estimated Post Closure Cost	\$ 36,855,626	\$ 37,592,739	\$ 38,494,965	\$ 39,418,844	\$ 40,404,315
Accrued Post Closure Liability	\$ 22,316,082	\$ 23,221,035	\$ 24,351,915	\$ 25,535,527	\$ 26,759,778
<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	\$ 33,829,996	\$ 34,506,596	\$ 35,334,754	\$ 36,182,788	\$ 37,087,358
Accrued Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Estimated Post Closure Cost	\$ 41,812,869	\$ 42,649,127	\$ 43,672,707	\$ 44,720,853	\$ 45,838,875
Accrued Post Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>SANTIAGO CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 26,052,660	\$ 25,331,945	\$ 24,668,342	\$ 23,958,309	\$ 23,222,632
Less Post Closure Expenditures	\$ 1,217,414	\$ 1,241,762	\$ 1,271,564	\$ 1,302,082	\$ 1,334,634
Accrued Post Closure Liability	\$ 27,270,074	\$ 26,573,707	\$ 25,939,906	\$ 25,260,391	\$ 24,557,266
Accrued Post Closure Reserves - 15 Years*	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>COYOTE CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 18,833,945	\$ 17,699,161	\$ 16,576,210	\$ 15,389,165	\$ 14,107,979
Less Post Closure Expenditures	\$ 1,481,821	\$ 1,511,457	\$ 1,547,732	\$ 1,584,878	\$ 1,619,745
Accrued Post Closure Liability	\$ 17,352,124	\$ 16,187,704	\$ 15,028,478	\$ 13,804,287	\$ 12,488,234
Accrued Post Closure Reserves - 15 Years*	\$ 4,875,191	\$ 6,484,151	\$ 8,187,502	\$ 9,968,883	\$ 11,807,941
<b>UNALLOCATED ACCRUED LIABILITY</b>					
Total Accrued Closure Liability	\$ 50,789,831	\$ 53,193,220	\$ 55,797,319	\$ 58,523,760	\$ 61,140,584
Total Accrued Post Closure Liability	\$ 125,304,095	\$ 127,235,764	\$ 129,535,630	\$ 131,915,139	\$ 133,986,241
Total Accrued Post Closure Reserves - 15 Years*	\$ 4,875,191	\$ 6,484,151	\$ 8,187,502	\$ 9,968,883	\$ 11,807,941
Total Accrued Closure & Post Closure Liability	\$ 180,969,117	\$ 186,913,135	\$ 193,520,451	\$ 200,407,781	\$ 206,934,767

\* Effective FY 12/13 OCWR will maintain reserves of 15 years Post Closure Maintenance costs for each closed site that has been in its post closure phase longer than 15 years.

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

<b>DESCRIPTION</b>	<b>FY 2017/18</b>	<b>FY 2018/19</b>	<b>FY 2019/20</b>	<b>FY 2020/21</b>	<b>FY 2021/22</b>
<b>FRANK R. BOWERMAN LANDFILL</b>					
Annual Tonnage of Refuse Buried	1,404,340	1,362,210	1,321,344	1,325,176	1,329,019
% of Max Capacity	32.65%	33.62%	34.55%	35.49%	36.44%
Estimated Closure Cost	\$ 45,652,160	\$ 46,793,464	\$ 47,963,301	\$ 49,162,384	\$ 50,391,443
Accrued Closure Liability	\$ 14,905,430	\$ 15,731,963	\$ 16,571,321	\$ 17,447,730	\$ 18,362,642
Estimated Post Closure Cost	\$ 62,125,249	\$ 63,678,380	\$ 65,270,340	\$ 66,902,099	\$ 68,574,651
Accrued Post Closure Liability	\$ 20,283,894	\$ 21,408,671	\$ 22,550,902	\$ 23,743,555	\$ 24,988,603
<b>OLINDA ALPHA LANDFILL</b>					
Annual Tonnage of Refuse Buried	935,950	935,950	935,950	939,694	943,453
% of Max Capacity	77.68%	78.55%	79.42%	80.29%	81.16%
Estimated Closure Cost	\$ 41,489,269	\$ 42,526,501	\$ 43,589,663	\$ 44,853,764	\$ 46,154,523
Accrued Closure Liability	\$ 32,228,864	\$ 33,404,566	\$ 34,618,911	\$ 36,013,087	\$ 37,459,011
Estimated Post Closure Cost	\$ 68,054,741	\$ 69,756,110	\$ 71,500,013	\$ 73,287,513	\$ 75,119,701
Accrued Post Closure Liability	\$ 52,864,923	\$ 54,793,424	\$ 56,785,310	\$ 58,842,544	\$ 60,967,149
<b>PRIMA DESHECHA LANDFILL - ZONE 1</b>					
Annual Tonnage of Refuse Buried	341,754	341,754	338,643	339,783	340,927
% of Max Capacity	67.67%	69.12%	70.56%	72.01%	73.45%
Estimated Closure Cost	\$ 24,693,873	\$ 25,311,220	\$ 25,944,000	\$ 26,592,600	\$ 27,257,415
Accrued Closure Liability	\$ 16,710,344	\$ 17,495,115	\$ 18,306,087	\$ 19,149,331	\$ 20,020,572
Estimated Post Closure Cost	\$ 41,414,423	\$ 42,449,784	\$ 43,511,029	\$ 44,598,805	\$ 45,713,775
Accrued Post Closure Liability	\$ 28,029,281	\$ 29,345,536	\$ 30,701,382	\$ 32,120,059	\$ 33,585,910
<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	\$ 38,014,542	\$ 38,964,906	\$ 39,939,029	\$ 40,937,505	\$ 41,960,943
Accrued Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Estimated Post Closure Cost	\$ 46,984,848	\$ 48,159,470	\$ 49,363,458	\$ 50,597,545	\$ 51,862,485
Accrued Post Closure Liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>SANTIAGO CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 22,435,200	\$ 21,593,880	\$ 20,696,472	\$ 19,740,692	\$ 18,724,198
Less Post Closure Expenditures	\$ 1,368,000	\$ 1,402,200	\$ 1,437,255	\$ 1,473,186	\$ 1,510,016
Accrued Post Closure Liability	\$ 23,803,200	\$ 22,996,080	\$ 22,133,727	\$ 21,213,878	\$ 20,234,214
Accrued Post Closure Reserves - 15 Years*	\$ 0	\$ 0	\$ 0	\$ 883,912	\$ 2,416,026
<b>COYOTE CANYON LANDFILL</b>					
Estimated Post Closure Cost	\$ 12,762,972	\$ 11,351,958	\$ 9,872,687	\$ 8,322,829	\$ 6,700,000
Less Post Closure Expenditures	\$ 1,655,379	\$ 1,691,797	\$ 1,729,017	\$ 1,767,055	\$ 1,805,930
Accrued Post Closure Liability	\$ 11,107,593	\$ 9,660,161	\$ 8,143,670	\$ 6,555,774	\$ 4,894,070
Accrued Post Closure Reserves - 15 Years*	\$ 13,723,092	\$ 15,716,794	\$ 17,791,585	\$ 19,950,051	\$ 22,194,880
<b>UNALLOCATED ACCRUED LIABILITY</b>					
Total Accrued Closure Liability	\$ 63,844,638	\$ 66,631,644	\$ 69,496,318	\$ 72,610,148	\$ 75,842,224
Total Accrued Post Closure Liability	\$ 136,088,891	\$ 138,203,872	\$ 140,314,991	\$ 142,475,810	\$ 144,669,946
Total Accrued Post Closure Reserves - 15 Years*	\$ 13,723,092	\$ 15,716,794	\$ 17,791,585	\$ 20,833,963	\$ 24,610,906
Total Accrued Closure & Post Closure Liability	\$ 213,656,621	\$ 220,552,311	\$ 227,602,894	\$ 235,919,921	\$ 245,123,076

\* Effective FY 12/13 OCWR will maintain reserves of 15 years Post Closure Maintenance costs for each closed site that has been in its post closure phase longer than 15 years.

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**HONORABLE BOARD OF SUPERVISORS  
COUNTY OF ORANGE, CALIFORNIA**

We have audited the accompanying financial statements of Orange County Waste & Recycling Enterprise Fund of the County of Orange, California (OCWR), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of OCWR's management. Our responsibility is to express opinions 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 audits 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 opinions.

As discussed in Note 2, the financial statements present only the Orange County Waste & 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, 2012 and 2011, 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 previously present fairly, in all material respects, the respective financial position of Orange County Waste & Recycling Enterprise Fund, as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, 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 11, 2012, 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.

Management has not presented a management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants  
Laguna Hills, California  
December 11, 2012

See accompanying notes to financial statements.

## OC WASTE & RECYCLING

### STATEMENTS OF NET ASSETS

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

	2012	2011
<b>ASSETS:</b>		
Current assets:		
Pooled cash and investments (Note 3)	\$ 335,530	\$ 295,062
Imprest cash funds (Note 3)	35	35
Accounts receivable	8,321	8,556
Interest receivable	574	611
Prepaid costs (Note 2)	4,136	5,014
Due from other governmental agencies	103	468
Due from other funds of the County (Note 13)	13	26
Debt issuance costs (Note 2)	2	13
Total current assets	348,714	309,785
Current restricted assets:		
Pooled cash and investments-customer deposits (Note 3)	754	701
Investments with trustees (Note 3)	11,564	11,391
Deposits in-lieu of cash (Note 4)	16,510	16,567
Total current restricted assets	28,828	28,659
Total current assets	377,542	338,444
Noncurrent assets:		
Restricted assets:		
Pooled cash and investments-customer deposits	21	21
Pooled cash and investments-contractor deposits	138	49
Pooled cash and investments-rate stabilization	28,054	27,915
Pooled cash and investments-corrective action	6,086	6,054
Pooled cash and investments-San Joaquin Marsh project	3,120	3,120
Pooled cash and investments-closure and postclosure care costs (Note 9)	90,037	89,543
Total noncurrent restricted assets	127,456	126,702
Capital assets (Note 5)		
Nondepreciable	32,749	34,307
Depreciable, net	175,566	189,575
Net capital assets	208,315	223,882
Prepaid costs (Note 2)	786	1,571
Advances to other funds (Note 12 and 13)	-	28,149
Debt issuance costs (Note 2)	1	3
Total noncurrent assets	336,558	380,307
Total Assets	\$ 714,100	\$ 718,751

See accompanying notes to financial statements.

**STATEMENTS OF NET ASSETS (CONTINUED)**

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

	2012	2011
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	\$ 4,606	\$ 6,077
Retainage payable	256	175
Salaries and accrued employee benefits payable	1,021	898
Accrued closure and postclosure care costs (Notes 8 and 9)	1,665	1,615
Pollution remediation obligation (Note 8 and 10)	509	831
Interest payable	60	90
Deferred revenue	73	134
Compensated employee absences payable (Note 2 and 8)	1,349	1,345
Due to other funds of the County (Note 13)	2,154	2,307
Due to other governmental agencies	1,376	1,398
Arbitrage rebate payable	281	-
<b>Total current liabilities (payable from current assets)</b>	<b>13,350</b>	<b>14,870</b>
Current liabilities (payable from restricted assets):		
Revenue bonds payable, net (Note 8)	6,648	6,255
Deposits from others	17,423	17,339
<b>Total current liabilities (payable from restricted assets)</b>	<b>24,071</b>	<b>23,594</b>
<b>Total current liabilities</b>	<b>37,421</b>	<b>38,464</b>
Noncurrent liabilities:		
Arbitrage rebate payable	-	215
Compensated employee absences payable (Note 2 and 8)	1,515	1,472
Accrued closure and postclosure care costs (Notes 8 and 9)	165,392	161,713
Pollution remediation obligation (Note 8 and 10)	12,593	11,143
Revenue bonds payable, net (Note 8)	7,018	13,665
<b>Total noncurrent liabilities</b>	<b>186,518</b>	<b>188,208</b>
<b>Total Liabilities</b>	<b>223,939</b>	<b>226,672</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	194,652	203,977
Restricted for:		
Debt service	33,019	33,128
Landfill closure and postclosure	39,970	41,754
Landfill corrective action	6,097	6,068
San Joaquin Marsh project	3,120	3,120
Unrestricted	213,303	204,033
<b>Total Net Assets</b>	<b>\$ 490,161</b>	<b>\$ 492,080</b>

See accompanying notes to financial statements.

## OC WASTE & RECYCLING

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

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

	2012	2011
<b>OPERATING REVENUES</b>		
Disposal fees (Note 2)	\$ 97,507	\$ 100,918
Use of property	1,620	1,557
Licenses, permits, and franchises	68	106
Total operating revenues	99,195	102,581
<b>OPERATING EXPENSES</b>		
Salaries and employee benefits	24,988	24,830
Services and supplies	20,403	20,113
Professional and specialized services	11,907	11,942
Operating leases	1,080	808
Provision for pollution remediation obligation	1,840	6,896
Provision for closure and postclosure care costs	5,394	1,058
Taxes and other fees	9,941	6,729
Depreciation and amortization (Note 5)	17,613	19,446
Total operating expenses	93,166	91,822
Operating income	6,029	10,759
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental revenue	26	491
Fines, forfeitures and penalties	53	14
Interest income	2,540	3,645
Interest expense	(919)	(1,356)
Gain (loss) on disposal of capital assets	53	7
Other revenues	762	452
Total nonoperating revenues (expenses)	2,515	3,253
Income before transfers	8,544	14,012
Capital contributions	1,304	-
Transfers in	-	113
Transfers out to County General Fund	(11,767)	(13,094)
Change in net assets	(1,919)	1,031
Net assets - Beginning of year	492,080	491,049
Net assets - End of year	\$ 490,161	\$ 492,080

See accompanying notes to financial statements.

**OC WASTE & RECYCLING****STATEMENTS OF CASH FLOWS**

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 99,936	\$ 102,004
Payments to suppliers for goods and services	(33,722)	(33,448)
Payments to employees for services	(24,818)	(24,699)
Payments to other funds	(153)	(673)
Cash received (paid) for interfund charges	13	(10)
Landfill site closure and post-closure care costs	(1,665)	(1,615)
Pollution remediation obligation	(712)	(866)
Taxes and other fees	(9,941)	(6,729)
Other receipts (payments)	1,403	(3,586)
Net cash provided by operating activities	30,341	30,378
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Transfers out	(11,767)	(13,094)
Transfers in	-	113
Intergovernmental revenues	26	491
Advances to other funds	28,149	(12,543)
Net cash provided by (used in) noncapital and related financing activities	16,408	(25,033)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(903)	(6,491)
Principal paid on bonds (Note 8)	(6,305)	(5,950)
Interest paid on bonds (Note 8)	(885)	(1,217)
Proceeds from sale of capital assets	215	10
Net cash used in capital and related financing activities	(7,878)	(13,648)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	2,577	3,970
Purchase of investments, net	(173)	(182)
Net cash provided by investing activities	2,404	3,788
Net increase (decrease) in cash and cash equivalents	41,275	(4,515)
Cash and cash equivalents - beginning of year	422,500	427,015
Cash and cash equivalents - end of year	\$ 463,775	\$ 422,500
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS</b>		
Pooled cash and investments-current assets	\$ 335,530	\$ 295,062
Imprest cash funds	35	35
Pooled cash and investments-rate stabilization	28,054	27,915
Pooled cash and investments-closure and postclosure care costs	90,037	89,543
Pooled cash and investments-corrective action	6,086	6,054
Pooled cash and investment-San Joaquin Marsh project	3,120	3,120
Pooled cash and investments-customer deposits	775	722
Pooled cash and investments-contractor deposits	138	49
Total cash and cash equivalents	\$ 463,775	\$ 422,500

See accompanying notes to financial statements.

## OC WASTE & RECYCLING

### STATEMENTS OF CASH FLOWS (CONTINUED)

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

	2012	2011
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 6,029	\$ 10,759
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	17,613	19,446
Provision for landfill site closure/postclosure costs	5,394	1,058
Landfill site closure costs and disbursements	(1,665)	(1,615)
Provision for pollution remediation obligation	1,840	6,896
Pollution remediation costs and disbursements	(712)	(866)
Fines, forfeitures and penalties	53	14
Other revenues (expenses)	762	452
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	235	(292)
Deposits in-lieu of cash	57	226
Prepaid costs	1,663	(3,441)
Due from other funds	13	(10)
Due from other governmental agencies	365	(230)
Increase (decrease) in:		
Accounts payable	(1,471)	(1,293)
Retainage payable	81	55
Salaries and employee benefits payable	123	67
Deferred revenue	(61)	134
Deposits from others	84	(281)
Due to other funds	(153)	(673)
Due to other governmental agencies	(22)	(155)
Compensated employee absences payable	47	64
Arbitrage rebate payable	66	63
Net cash provided by operating activities	\$ 30,341	\$ 30,378
Schedule of noncash investing, capital and related financing activities		
Capital contributions	\$ 1,304	\$ -

See accompanying notes to financial statements.

## **NOTE 1 - IMPORTATION REVENUE TRANSFER FOR COUNTY BANKRUPTCY RECOVERY**

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

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

### **IMPACT OF COUNTY BANKRUPTCY ON OC WASTE & RECYCLING**

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

The County requested proposals for waste-importation contracts and, in January 1996, entered into contracts of various durations, which will terminate on June 30, 2016. These contracts are estimated to generate revenue sufficient to support the Plan's estimated \$15 million of net importation revenue per year for 20 years to be contributed to the County General Fund to pay bankruptcy related obligations. During the years ended June 30, 2012 and 2011, OC Waste & Recycling collected imported waste disposal fees of \$14,963 and \$17,321, respectively. Net import revenues totaling \$11,779 and \$13,094 were distributed to the County during the years ended June 30, 2012 and 2011, 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, 2012 And 2011

(Dollar Amounts In Thousands)

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

##### **DESCRIPTION OF REPORTING ENTITY (CONTINUED)**

The County has entered into 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 waste disposal agreements cover approximately 97 percent of all solid waste generated in the County and obligate the cities and haulers to deliver all controllable waste to landfills operated by OC Waste & Recycling. The 3 percent balance of in-county waste is delivered by self-haulers.

##### **BASIS OF PRESENTATION – FUND ACCOUNTING**

The operations of OC Waste & Recycling are accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. 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 and 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 Statements 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 2012 or 2011. The total interest paid for the fiscal years ended June 30, 2012 and 2011, were \$885 and \$1,217, respectively.

**DEBT ISSUANCE COSTS, PREMIUMS AND DEFERRED CHARGES ON REFUNDINGS**

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

## OC WASTE & RECYCLING

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2012 And 2011

(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 \$3,349 and \$4,227, for fiscal years 2012-2013 and 2011-2012, respectively, for pension obligations to the Orange County Employees Retirement System (OCERS) in January 2012 and May 2011. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$281, based on the discount rate of 7.75 percent. These prepaid costs are recognized in the fiscal year during which services are provided. Prepaid costs, net of amortization reported in the Statements of Net Assets, are \$4,922 and \$6,585, for 2012 and 2011, 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, 2012 and 2011, was \$234 and \$206, respectively.

##### COMPENSATED ABSENCES

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

##### 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, 2012 and 2011, OCWR reported restricted net assets of \$82,206 and \$84,070, respectively, for debt service, landfill closure and postclosure, landfill corrective action, and San Joaquin Marsh project, of which \$49,187 and \$50,942 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, 2012 and 2011, the Pool contains investments with an average maturity of 359 and 342 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 accessing 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, 2012 And 2011

(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.

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, 2012 and 2011, were as follows:

	2012	2011
Restricted Investments with Trustees:		
U.S. Government Securities	\$ 7,412	\$ 7,412
Money market mutual funds	4,152	3,979
Cash and investments pooled by the County Treasurer	463,740	422,465
<b>Total investments</b>	<b>\$ 475,304</b>	<b>\$ 433,856</b>

	2012	2011
Imprest cash funds	\$ 35	\$ 35
<b>Total investments</b>	<b>475,304</b>	<b>433,856</b>
<b>Total cash and investments</b>	<b>\$ 475,339</b>	<b>\$ 433,891</b>

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

	Principal	Fair Value	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	\$ -	\$ 463,740			0.98
Restricted Investments with Trustee:					
U.S. Government Securities	\$ 7,205	\$ 7,412	Discount	11/21/2012	0.27
Money market mutual funds	4,152	4,152	Variable	On Demand	-
<b>Total Restricted Investments with Trustee</b>	<b>\$ 11,357</b>	<b>\$ 11,564</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, 2012 (NR denotes Not Rated):

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

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	\$ -	\$ 422,465			0.94
Restricted Investments with Trustee:					
U.S. Government Securities	\$ 7,204	\$ 7,412	Discount	11/21/2012	0.27
Money market mutual funds	3,979	3,979	Variable	On Demand	-
Total Restricted Investments with Trustee	<u>\$ 11,183</u>	<u>\$ 11,391</u>			0.17

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	N/R	0.92%
				<u>100.00%</u>

**INTEREST RATE RISK**

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, 2012 and 2011, the WAM for the Pool approximated 0.98 and 0.94 years (359 and 342 days), respectively, and for investments with trustees approximated 0.17 years (62 days) for both years.

## **OC WASTE & RECYCLING**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

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

##### **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, 2012 and 2011, the County's investments in commercial paper were in compliance with the IPS limits.

#### **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 deposits in-lieu of cash as of June 30, 2012 and 2011, were \$16,510 and \$16,567, respectively.

**NOTE 5 – CAPITAL ASSETS**

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

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

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

## OC WASTE & RECYCLING

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2012 And 2011

(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, 2012 and 2011, are as follows:

Landfill	2012	2011
Frank R. Bowerman (FRB)		
FRB - Phase 8 East Flank/Buttress Excavation	\$ 2,698	\$ 2,507
Prima		
Prima Constr Admin/Crew Quarters	3,938	3,918
Prima Geotechnical Investigation ZN4	-	2,096
Prima Zone 1 Construction Management/CQA/A/P Svcs	2,631	2,618
Other	1,077	763
Total construction in progress	\$ 10,344	\$ 11,902

##### CONSTRUCTION CONTRACTS

OC Waste & Recycling entered into various major construction contracts to facilitate its landfill operations. At June 30, 2012, OC Waste & Recycling is committed to open construction contracts for the following projects:

Description	Remaining Commitments
Prima Zone 1 Phase C3 Mass Excavation/Groundwater Project	\$ 7,378
FRB Construction Management, CQA Slide/Buttress	1,271
Olinda Drainage Channel Improvements and Repairs	1,436
Prima Zone 1 Construction Management/CQA/A/P Svcs	2,400
Total	\$ 12,485

## 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.

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, 2012 and 2011, employer's contributions as a percentage of covered payrolls were 27.11 percent and 24.79 percent, respectively, for General members.

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

OC Waste & Recycling's total payroll expense was \$17,206, \$17,387, and \$17,679 and the payroll expense for employees covered by OCERS was \$17,068, \$17,253, and \$17,527 for the years ended June 30, 2012, 2011, and 2010, respectively. Total pension expense (which equals the actuarially required contributions) for OC Waste & Recycling was \$3,877, \$4,068, and \$3,708, for the years ended June 30, 2012, 2011, and 2010, respectively. OCWR also prepaid \$3,349 and \$4,227 for fiscal years 2012-13 and 2011-12, respectively, for pension obligations in January 2012 and 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. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums.

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

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

Funding Policy: As an enterprise fund of the County of Orange, OC Waste & Recycling is currently setting aside contributions of 2.6 percent of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$444 and \$449 for the years ended June 30, 2012 and 2011, respectively, which is 100 percent of the annual required contribution.

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

#### NOTE 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 percent to 5.750 percent, to advance refund the 1988 Certificates of Participation, with interest rates ranging from 7.200 percent to 7.875 percent, which were originally issued in December 1988 maturing in installments through December 1, 2013. The defeased debt is no longer outstanding. The bonds were issued at a premium of \$2,190. These refunding revenue bonds are payable through December 2013 from OC Waste & Recycling's net operating revenues and are not a general obligation of the County. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120 percent of the aggregate debt service requirement over the life of the bonds. For the years ended June 30, 2012 and 2011, the principal and interest paid were \$7,190 and \$7,167, and the total net revenues as defined by the bond covenants were \$13,743 and \$18,703, respectively. The outstanding principal amount and interest on these bonds as of June 30, 2012 and 2011, were \$13,675 and \$727; and \$19,980 and \$1,626, 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, 2012, excluding the premium and deferred charges on refunding, are as follows:

Year Ending June 30,	Principal	Interest
2013	\$ 6,655	\$ 543
2014	7,020	184
<b>Total 1997 Refunding Revenue Bonds</b>	<b>\$ 13,675</b>	<b>\$ 727</b>

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

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

**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, 2012 and 2011, were \$167,057 and \$163,328, respectively. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (26.54 percent for FRB, 69.3 percent for Olinda Alpha and 22.73 percent for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. The 22.73 percent 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 \$177,956 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011 dollars (using the 2011 inflation factor of 1.021). 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 which is adjusted annually by the Cal Recycle provided CPI factor. Also in compliance with regulations, OC Waste & Recycling has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure maintenance costs. The agreements state that OC Waste & Recycling pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OC Waste & Recycling ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OC Waste & Recycling has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on state provided inflation factors. The state mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or 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, 2012 and 2011, a total of \$90,037 and \$89,543, respectively, has been set aside for estimated closure and postclosure costs and is included in the accompanying Statements 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, Litigation, Contingencies and Subsequent Events for additional discussion.

## OC WASTE & RECYCLING

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

#### 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, 2012 and 2011, after deducting actual pollution remediation expenses incurred during fiscal year 2012 and 2011, are \$13,102 and \$11,974, respectively.

##### **CANNERY FORMER REFUSE DISPOSAL STATION**

A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County of Orange (County) from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City, requiring the City to remedy the landfill gas 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.

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 \$71.

##### **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 \$284. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is reduced to \$3,579.

**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 \$167. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$1,869.

**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.

The County is currently performing a complete environmental assessment of the site. Remaining cost to the County for performing the site assessment work is \$83.

## **OC WASTE & RECYCLING**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

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

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

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 \$7,500. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

#### **NOTE 11 - COMMITMENTS, LITIGATION, CONTINGENCIES, AND SUBSEQUENT EVENTS**

##### **COMMITMENTS UNDER OPERATING LEASES**

OC Waste & Recycling leases various equipment used at the waste disposal sites on a short-term basis and office space under operating leases, which are primarily on a month-to-month basis. Total future minimum lease payments under non-cancelable lease agreements with terms greater than one year as of June 30, 2012 and 2011, are not significant.

##### **LITIGATION**

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

**NOTE 11 - COMMITMENTS, LITIGATION, CONTINGENCIES, AND SUBSEQUENT EVENTS (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.

**COUNTY OF ORANGE V. HORIZONS CONSTRUCTION CO. AND FIRST NATIONAL INSURANCE, LOS ANGELES COUNTY SUPERIOR COURT CASE NO. BC462901**

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

**NOTE 11 - COMMITMENTS, LITIGATION, CONTINGENCIES, AND SUBSEQUENT EVENTS (CONTINUED)****COUNTY OF ORANGE V. HORIZONS CONSTRUCTION CO. AND FIRST NATIONAL INSURANCE, LOS ANGELES COUNTY SUPERIOR COURT CASE NO. BC462901 (CONTINUED)**

Horizons also cross-complained against three of its subcontractors for indemnity. Horizons alleges that if it is found liable to the County for any amount, then the subcontractors are liable to Horizons for that amount. At the same time, several subcontractors have filed separate actions against Horizons (and the County under the stop notice procedures) for collection of alleged unpaid amounts. Those actions have now been consolidated into the main action. In September 2012, counsel for the County filed a cross-complaint against Horizons for filing false claims, which affect two or more of the claims presented in the case by Horizons. Now that the pleadings are set in the case, counsel for the County is now in the process of engaging expert trial consultants, having them analyze the County's damages in the case, conducting discovery and analysis of the claims and defenses of Horizons and its surety. As this case is still in the discovery stage, the County's exposure to liability and its chances of obtaining significant recovery of its own against Horizons and its surety are difficult to estimate.

**RETIRED EMPLOYEES ASSOCIATION OF ORANGE COUNTY, INC. V. COUNTY OF ORANGE**

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

**NOTE 11 - COMMITMENTS, LITIGATION, CONTINGENCIES, AND SUBSEQUENT EVENTS (CONTINUED)****OTHER CONTINGENCIES**

As the owner and/or operator of a number of active and former solid waste disposal sites, OC Waste & Recycling has potential exposure to environmental liability even though these sites have not incurred obligating events like those sites identified in Note 10. Many of the former disposal sites were operated under lease agreements with the property owners. OC Waste & Recycling may be required to perform corrective action at any of its current or former refuse disposal stations and landfills, irrespective of past or current County ownership of the site. OC Waste & Recycling completed preliminary environmental site assessments for the former solid waste disposal sites with their Closed Landfills Environmental Assessment and Response (CLEAR) Project. On the basis of information currently available, OC Waste & Recycling management believes it has sufficient reserves for known and potential remediation costs. At June 30, 2012, amounts classified in unrestricted net assets totaled approximately \$213,303.

**SUBSEQUENT EVENTS**

Temporary Transfer: On June 26, 2012, the County Board of Supervisors adopted Resolution No. 12-072 authorizing the temporary cash transfers to the County General Fund of up to a total of \$173,000 from OC Waste & Recycling Fund 279 and Fund 275 in order to meet County cash shortfalls or deficits. The draw must be repaid no later than June 30, 2013. On October 31, 2012, a transfer of \$30,000 was drawn from Fund 279 to the County General Fund. An additional transfer of \$40,000 was made on November 16, 2012. Repayment of \$70,000 is expected to be received by January 11, 2013.

Underbilled Accounts: During their internal review process, OC Waste & Recycling (OCWR) determined that as of March 31, 2012, 10 out of over 400 total deferred hauler accounts had been underbilled since the new Waste Disposal Agreements were implemented on July 1, 2010. This occurred when some system entries were not updated at the time the Waste Disposal Agreements were implemented, and as a result, OCWR has added additional controls and procedures to prevent recurrence of this problem. OCWR contacted the ten haulers and seven were able to satisfy their respective underbilled amount. The remaining three were underbilled a combined total of \$1,385 which represents less than 1 percent of the total disposal revenue during this period. OCWR has worked with County Counsel to examine various legal options to remedy the situation which could include filing a lawsuit to recover the amounts, requiring haulers to immediately repay amounts due, and allowing haulers to sign repayment agreements to reimburse the County over several years. The likelihood of collection from these haulers is not known at this time, however, on July 24, 2012, in Closed Session, the Board of Supervisors authorized OCWR to negotiate repayment agreements with the three outstanding haulers and to retain an outside counsel firm which specializes in collection work to assist OCWR. OCWR has recently entered into a contract with a qualified outside legal firm which is currently providing guidance on legal actions to take to increase the likelihood of collecting the underbilled amounts.

**NOTE 12 – ADVANCE TO GENERAL FUND FOR THE COUNTY'S INFORMATION TECHNOLOGY PROJECTS**

On June 23, 2009, the County Board of Supervisors adopted Resolution No. 09-090 authorizing the temporary transfer of monies between the County General Fund and OCWR in order to meet County cash flow shortages or deficits.

Since October 2009, the Board has issued resolutions authorizing the County to borrow monies from OCWR for part of the costs associated with the upgrades of various County Information Technology projects. Repayment of the amount to be borrowed, plus interest, is from the County's General Fund. The actual amount repaid from the General Fund in FY 2011-2012 and 2010-2011 were \$28,161 and \$3,124, respectively. The outstanding balance as of June 30, 2012 and 2011, were \$0 and \$28,149, respectively.

On June 28, 2011, by Resolution No. 11-105, the Board authorized the borrowing up to \$10,100 for FY 2011-2012. The disbursement of this amount has been rescheduled to FY 2012-2013.

## OC WASTE & RECYCLING

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For The Years Ended June 30, 2012 And 2011

(Dollar Amounts In Thousands)

#### NOTE 13 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2012 and 2011 are as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund	2012	2011
General Fund	Waste Management	\$ 2,131	\$ 2,244
Other Governmental Funds	Waste Management	2	1
Internal Service Funds	Waste Management	21	62
Total Due to Other Funds:		\$ 2,154	\$ 2,307
Waste Management	General Fund	\$ 1	\$ 1
Waste Management	Roads	1	4
Waste Management	Flood Control District	11	20
Waste Management	OC Parks	-	1
Total Due From Other Funds:		\$ 13	\$ 26
Waste Management	General Fund	\$ -	\$ 28,149
Total Advances to Other Funds:		\$ -	\$ 28,149

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 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. 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. As such, the Statement does not affect 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.

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

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 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 2012-2013. 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 2012-2013. 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 2012-2013. 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 2012-2013. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

In March 2012, GASB issued Statement No. 65, *"Item Previously Reported as Assets and Liabilities."* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

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

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, which requires OC Waste & Recycling to implement this Statement in FY 2013-2014.

In March 2012, GASB issued Statement No. 66, *“Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.”* This Statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, which requires OC Waste & Recycling to implement this Statement in FY 2013-2014.

In June 2012, GASB issued Statement No. 67, *“Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25”* which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *“Financial Reporting for Defined Benefit Pension Plans,”* and No. 50, *“Pension Disclosures,”* as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This Statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013, which requires OC Waste & Recycling to implement this Statement in FY 2013-2014.

In June 2012, GASB issued Statement No. 68, *“Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27”* which also results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *“Accounting for Pensions by State and Local Governmental Employers,”* as well as the requirements of Statement No. 50, *“Pension Disclosures,”* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, which requires OC Waste & Recycling to implement this Statement in FY 2014-2015.

**NOTE 15 – MAJOR CUSTOMERS**

Disposal fees from three major customers accounted for revenues of approximately \$29,114, \$18,846 and \$16,190 during the year ended June 30, 2012, and \$30,590, \$19,415, and \$15,071, during the year ended June 30, 2011.

**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***

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**HONORABLE BOARD OF SUPERVISORS  
COUNTY OF ORANGE, CALIFORNIA**

We have audited the financial statements of the Orange County Waste & Recycling Enterprise Fund of the County of Orange, California (OCWR), as of and for the year ended June 30, 2012, and have issued our report thereon dated December 11, 2012. Our report included an explanatory paragraph 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 control 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 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 previously.

**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, 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 11, 2012



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