

OC WASTE & RECYCLING
(An Enterprise Fund of the
County of Orange, California)

Independent Auditor's Reports
and Financial Statements

For the Year Ended June 30, 2017



Certified
Public
Accountants

OC WASTE & RECYCLING

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Independent Auditor's Report

To the Honorable Board of Supervisors
County of Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of OC Waste & Recycling, an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OC Waste and Recycling, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements present only OC Waste & Recycling, an enterprise fund of the County, and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2017, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the County's internal control over OC Waste & Recycling's financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is solely to describe the scope of our testing of the County's internal control over OC Waste & Recycling's financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over OC Waste & Recycling's financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over OC Waste & Recycling's financial reporting and compliance.



Newport Beach, California
December 14, 2017

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Our management's discussion and analysis of the financial performance provides a narrative overview and analysis of the OC Waste and Recycling's financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the information furnished in OC Waste & Recycling's financial statements.

FINANCIAL HIGHLIGHTS

- OC Waste & Recycling's change in net position is \$26,615, or 4.8%, for the year ended June 30, 2017. The primary factors attributable to the change in net position includes operating income of \$48,176, nonoperating revenues of \$2,653, capital contributions of \$1,558, transfers in from County funds of \$33, and transfers out to County funds of \$25,805.
- Operating expenses increased by \$9,225, or 9.6%, for the year ended June 30, 2017. The increase is primarily due to the increase in the taxes and other fees and contributions to other agencies by \$9,177.
- Disposal revenue increased by \$6,162, or 4.3%, for the year ended June 30, 2017. The increase is primarily due to the increases in importation disposal revenue by \$2,450 and in-county disposal revenue by \$3,711.
- OC Waste & Recycling contributed \$25,805 of net importation revenue to the County General Fund for repayment of bankruptcy related obligations for the year ended June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements are divided into two components:

1. Financial Statements: Statement of Fund Net Position; Statement of Revenues, Expenses and Change in Fund Net Position; and Statement of Cash Flows; and
2. Notes to Financial Statements.

Statement of Fund Net Position

This section provides the statement of net position for all OC Waste & Recycling's current and noncurrent assets, deferred outflows of resources, current and noncurrent liabilities, and deferred inflows of resources in both financial and capital positions with the difference between the two reported as net position. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Statement of Revenues, Expenses and Change in Fund Net Position

This section provides the statement of operations for all the OC Waste & Recycling's revenues and expenses during the year, regardless of when cash is received or paid. This section also shows how net position changed during the fiscal year.

Statement of Cash Flows

This section provides the financial statement classifying OC Waste & Recycling's cash and cash equivalents receipts (inflows) and payments (outflows) resulting from operating, noncapital financing, capital and related financing, and investing activities.

Notes to Financial Statements

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

FINANCIAL ANALYSIS

Statement of Fund Net Position Summary

Increases or decreases in net position over time may serve as a useful indicator of OC Waste & Recycling's financial position.

At June 30, 2017, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$582,872.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

OC Waste & Recycling's condensed Statement of Fund Net Position is presented in **Table 1**.

TABLE 1			
STATEMENT OF FUND NET POSITION			
JUNE 30, 2017			
	2017	2016	2017 vs 2016 % change
ASSETS			
Current and other assets	\$557,305	\$540,625	3.1%
Capital assets	284,994	266,242	7.0%
TOTAL ASSETS	842,299	806,867	4.4%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	9,579	12,825	-25.3%
LIABILITIES			
Current and other liabilities	41,889	35,905	16.7%
Noncurrent liabilities	220,616	222,153	-0.7%
TOTAL LIABILITIES	262,505	258,058	1.7%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	6,501	5,377	20.9%
NET POSITION			
Net investment in capital assets	284,980	266,222	7.0%
Restricted	38,223	43,225	-11.6%
Unrestricted	259,669	246,810	5.2%
TOTAL NET POSITION	\$582,872	\$556,257	4.8%

OC Waste & Recycling's total assets increased by \$35,432, or 4.4%, from June 30, 2016, primarily due to the increases in capital assets and long-term advances to other County funds. Increases in capital assets were due to increases in the infrastructure for the East Flank Landslide Remediation project at Frank R. Bowerman Landfill and the Phase VIII B-1 Soil Buttress and Composite Liner at Frank R. Bowerman Landfill.

OC Waste & Recycling's total liabilities increased by \$4,447, or 1.7%, from June 30, 2016, primarily due to the increases in accounts payable, payable due to other County funds, and pollution remediation obligation, net of decreases in net pension liability and closure and postclosure care costs.

Statement of Revenues, Expenses and Change in Fund Net Position Summary

For the year ended June 30, 2017, change in net position is \$26,615, or 4.8%.

OC Waste & Recycling's condensed Statement of Revenues, Expenses and Change in Fund Net Position is presented in **Table 2**.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

TABLE 2			
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION			
FOR THE YEAR ENDED JUNE 30, 2017			
	2017	2016	2017 vs 2016 % change
OPERATING REVENUES			
Disposal fees	\$ 149,242	\$ 143,080	4.3%
Other charges for services	60	52	15.4%
Use of property, licenses, permits & franchise fees	4,499	3,935	14.3%
TOTAL OPERATING REVENUES	153,801	147,067	4.6%
OPERATING EXPENSES			
Salaries and employee benefits	26,271	25,845	1.6%
Services and supplies	19,339	19,938	-3.0%
Professional and specialized services	14,478	17,501	-17.3%
Other operating expenses	28,098	17,847	57.4%
Depreciation and amortization	17,439	15,269	14.2%
TOTAL OPERATING EXPENSES	105,625	96,400	9.6%
OPERATING INCOME	48,176	50,667	-4.9%
NONOPERATING REVENUES (EXPENSES), NET	2,653	5,563	-52.3%
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	50,829	56,230	-9.6%
Capital contributions	1,558	0	0.0%
Transfers in	33	0	0.0%
Transfers out to County Funds	(25,805)	(21,267)	21.3%
CHANGE IN NET POSITION	26,615	34,963	-23.9%
NET POSITION - BEGINNING OF YEAR	556,257	521,294	6.7%
NET POSITION - END OF YEAR	\$582,872	\$556,257	4.8%

Operating Revenues

For the year ended June 30, 2017, total operating revenues increased by \$6,734 or 4.6%, due primarily to the increases in importation disposal tonnage and fees of \$2,450 and in-county disposal tonnage and fees of \$3,711.

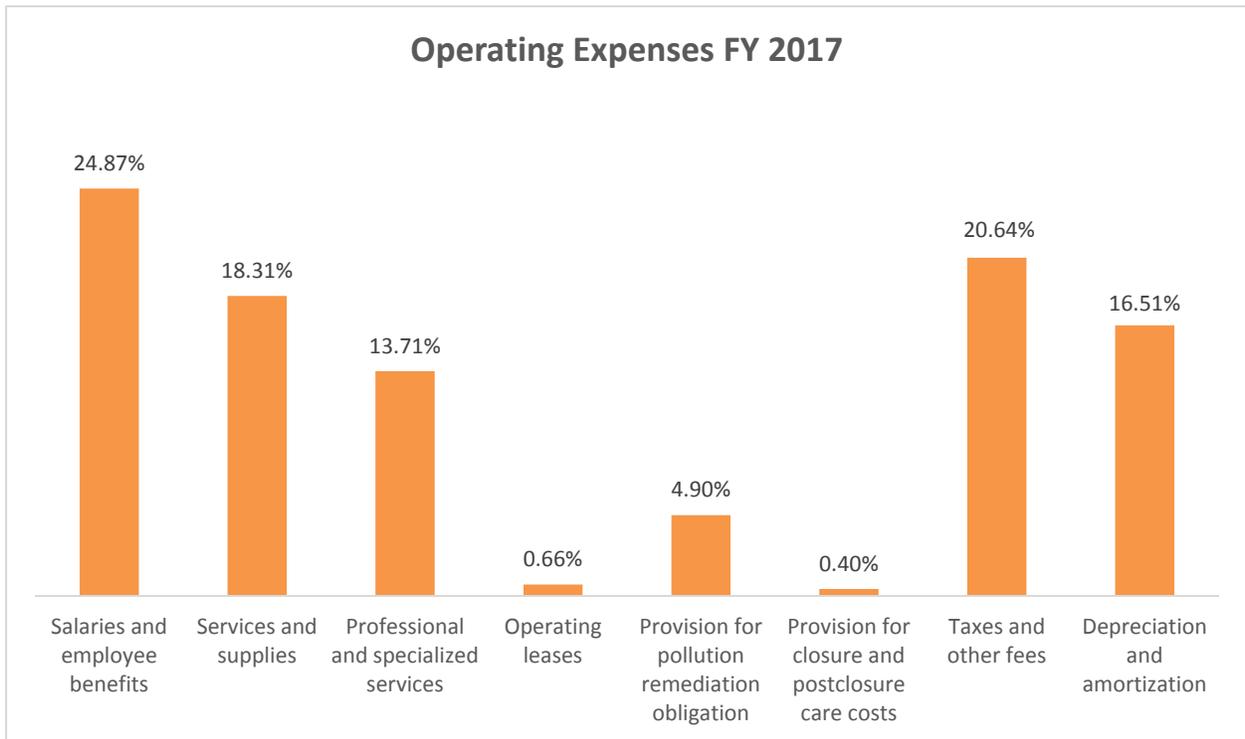
Disposal fees that are charged to users of the waste disposal sites comprise the largest revenue source of OC Waste & Recycling at approximately 97.0%. Other operating revenues include royalties received from the landfill gas rights, rents, and other fees.

Operating Expenses

OC WASTE & RECYCLING
 Management's Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2017
 (Dollar Amounts in Thousands)

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

For the year ended June 30, 2017, total operating expenses increased by \$9,225, or 9.6%, due primarily to the increases in the pollution remediation expenses and taxes and other fees and contributions to other agencies.



OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Nonoperating Revenues and Expenses

For the year ended June 30, 2017, nonoperating revenues and expenses decreased by \$2,910, or -52.3%, due primarily to decreases in interest revenue, gain on disposal of capital assets, and miscellaneous revenue.

CAPITAL ASSETS

OC Waste & Recycling's capital assets includes land, buildings and improvements, equipment, infrastructure, intangible assets, and construction in progress.

For the year ended June 30, 2017, investment in capital assets (net of accumulated depreciation) increased by \$18,752, or 7.0%.

A summary of the key elements that contributed to the changes in OC Waste & Recycling's capital assets is presented in **Table 3**.

TABLE 3			
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)			
JUNE 30, 2017			
CAPITAL ASSETS	2017	2016	2017 vs 2016 % change
Land (Nondepreciable)	\$22,164	\$22,164	0.0%
Construction in progress (Nondepreciable)	27,685	13,237	109.1%
Intangible assets in progress (Nondepreciable)	255	235	8.5%
Buildings (Depreciable)	12,044	12,951	-7.0%
Equipment (Depreciable)	22,781	21,050	8.2%
Infrastructure (Depreciable)	199,661	196,135	1.8%
Software (Amortizable)	404	470	-14.0%
TOTAL CAPITAL ASSETS	\$284,994	\$266,242	7.0%

The major capital asset events during fiscal year (FY) 2016-17 was the capitalization of \$11,531 for the Phase VIII B-2 Soil Buttress and Composite Liner at Frank R. Bowerman Landfill and \$12,174 for the Front Slope Improvement Project Phase 2 at Olinda Alpha Landfill.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

For the year ended June 30, 2017, OC Waste & Recycling is committed to capital expenditures of \$19,015 for the Phase VIII B-2 Soil Buttress and Composite Liner at Frank R. Bowerman Landfill, \$13,159 for the Front Slope Improvement Project Phase 2 at Olinda Alpha Landfill, and \$2,127 for the Crew Quarters and Storage Facility Construction at Frank R. Bowerman Landfill.

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

REVIEW OF OPERATIONS

Disposal Facilities

OC Waste & Recycling is responsible for the administration and waste management of the County's solid waste disposal system. The system consists of three (3) active regional landfill operations, 20 closed waste disposal sites, and four (4) household hazardous waste collection centers. The three (3) active landfill sites are located in Brea (North Region), Irvine (Central Region) and San Juan Capistrano (South Region). The four (4) household hazardous waste collection centers are located in the cities of Anaheim, Huntington Beach, Irvine, and San Juan Capistrano.

OC Waste & Recycling has been working with the Orange County cities to obtain approval of the amendment to the Waste Disposal Agreements (WDA) that would enable waste importation to continue beyond June 30, 2016. The amendment is critical to ensuring long-term and stable disposal rates for Orange County residents and businesses. It also yields other benefits including the sharing of net importation revenue with the County and cities. The WDA amendment has been approved and executed by all the cities in April 2016.

Several key projects completed during FY 2016-17 or continue to the following year includes:

- The Front Slope Improvement Project Phase II at the Olinda Alpha Landfill, a project to place regulatory mandated final cover on the landfill in order to best manage and utilize available onsite native materials and enhance visual aesthetics was started. Consuming approved cover material also facilitates operational needs by providing access to much needed airspace otherwise occupied by the cover material. The project also included relocating the remainder of the onsite soil stockpile, expanding a water supply system and constructing desilting basins for water quality.
- Completion of the Phase VIII B-1 construction project in December of 2016 at the Frank R. Bowerman Landfill included a soil buttress and the installation of a landfill liner allowing for additional air space while the Phase VIII B-2 is constructed. Construction of the second phase of the soil buttress and liner titled Phase VIII B-2 started in December of 2016 and is scheduled for completion in July of 2018. The Phase VIII B-2 project will create over 18 million cubic yards of air space through the construction of a soil buttress and liner. The project also includes a retention basin, concrete channels, and other site improvements.
- Completion of the La Pata Gap Closure Project within the boundaries of the Prima Deshecha Landfill on August 14, 2016. This project provides direct connectivity between the cities of San Juan Capistrano and San Clemente as an alternative to Interstate 5 and supported partial final closure of an old disposal site known as WMU-2. In addition, a number of beautification projects were completed to provide additional screening by the planting of trees and landscaping around Prima's main administrative office and facility entrance.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

- Substantial demolition of the former gas-to-energy plant at the closed Coyote Canyon Landfill. On December 28, 2015, the gas-to-energy plant previously operated by a private company was taken offline and the gas rights and landfill gas collection system were reverted to the County. As part of the energy plant decommission, OC Waste & Recycling worked with the City of Newport Beach and four wireless communication carriers to relocate the cell towers to a different location within the property until permanent towers can be built. Demolition of the energy plant was substantially completed by June 30, 2017, providing the County the opportunity to pursue new energy redevelopment projects at the site.

Renewable Energy Facilities and Planning

In FY 2016-17 over 420,000 MWh of renewable energy was generated, with an approximate equivalent of providing electricity for 49,500 homes in the County. As a result, \$3.6 million in royalty revenue was generated from OC Waste & Recycling's three landfill gas-to-electricity facilities.

OC Waste & Recycling completed the Renewable Technologies Strategic Plan in October 2017. This plan is to provide strategic guidance for managing OC Waste & Recycling's existing portfolio of renewable energy facilities, implementing new projects to produce renewable energy, fuel and products, and identify other activities that will help meet waste management mandates and initiatives. Mandates and initiatives include reducing greenhouse gas emissions, increasing diversion of organic waste from the landfills, diversifying sources of revenue and lowering waste disposal cost of service to Orange County residents.

REQUEST FOR INFORMATION

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

OC WASTE & RECYCLING
Statement of Fund Net Position
June 30, 2017
(Dollar Amounts in Thousands)

ASSETS

Current unrestricted assets:	
Pooled cash and investments (Note 3)	\$ 392,373
Imprest cash funds (Note 3)	35
Accounts receivable, net (Note 4)	10,736
Interest receivable	1,089
Prepaid costs (Note 5)	2,206
Due from other governmental agencies	2,709
Due from other funds of the County (Note 8)	86
Total current unrestricted assets	409,234
Current restricted assets:	
Pooled cash and investments - customer deposits (Note 3)	647
Deposits in-lieu of cash (Note 6)	16,934
Deposits with others	100
Total current restricted assets	17,681
Total current assets	426,915
Noncurrent assets:	
Restricted assets:	
Pooled cash and investments - customer deposits (Note 3)	21
Pooled cash and investments - contractor deposits (Note 3)	222
Pooled cash and investments - corrective action (Note 3)	8,256
Pooled cash and investments - Prima Deshecha/La Pata closure (Note 3)	104
Pooled cash and investments - Frank R. Bowerman landfill wetland and Agua Chinon Wash habitat mitigation (Note 3)	879
Pooled cash and investments - closure and postclosure care costs (Notes 3 and 13)	91,284
Total noncurrent restricted assets	100,766
Capital assets: (Note 9)	
Nondepreciable/Nonamortizable	50,104
Depreciable/Amortizable, net	234,890
Capital assets, net	284,994
Advances to other funds (Notes 7 and 8)	29,624
Total noncurrent assets	415,384
Total assets	842,299
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pension (Note 10)	\$ 9,579

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Fund Net Position (Continued)
June 30, 2017
(Dollar Amounts in Thousands)

LIABILITIES

Current liabilities (payable from unrestricted assets):	
Accounts payable	\$ 10,421
Retainage payable	1,050
Salaries and accrued employee benefits payable	587
Accrued closure and postclosure care costs (Notes 12 and 13)	2,613
Pollution remediation obligation (Notes 12 and 14)	570
Unearned revenue	136
Compensated employee absences payable (Note 12)	1,305
Capital asset obligation (Note 12)	7
Due to other funds of the County (Note 8)	3,934
Due to other governmental agencies	3,443
Total current liabilities (payable from unrestricted assets)	24,066
Current liabilities (payable from restricted assets):	
Deposits from others	17,823
Total current liabilities (payable from restricted assets)	17,823
Total current liabilities	41,889
Noncurrent liabilities:	
Compensated employee absences payable	1,348
Capital asset obligation	7
Accrued closure and postclosure care costs (Notes 13)	155,868
Pollution remediation obligation (Notes 14)	15,120
Net pension liability (Note 10)	48,273
Total noncurrent liabilities	220,616
Total liabilities	262,505
DEFERRED INFLOW OF RESOURCES	
Deferred inflows of resources related to pension (Note 10)	6,501
NET POSITION	
Net investment in capital assets	284,980
Restricted:	
Prima Deshecha/La Pata closure	104
Landfill closure and postclosure	28,962
Landfill corrective action	8,278
Frank R. Bowerman landfill	879
Unrestricted (Note 15)	259,669
Total net position	\$ 582,872

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Revenues, Expenses and Change in Fund Net Position
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

OPERATING REVENUES	
Disposal fees (Notes 1 and 2)	\$ 149,242
Other charges for services	60
Use of property	4,443
Licenses, permits, and franchise fees	56
Total operating revenues	<u>153,801</u>
OPERATING EXPENSES	
Salaries and employee benefits	26,271
Services and supplies	19,339
Professional and specialized services	14,478
Operating leases	702
Provision for pollution remediation obligation (Note 14)	5,178
Provision for closure and postclosure care costs (Note 13)	418
Taxes and other fees	21,800
Depreciation and amortization	17,439
Total operating expenses	<u>105,625</u>
Operating income	<u>48,176</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue	18
Fines, forfeitures and penalties	41
Interest income	2,061
Gain on disposal of capital assets, net	11
Other revenues	522
Total nonoperating revenues	<u>2,653</u>
Income before capital contributions and transfers	50,829
Capital contributions	1,558
Transfer in from County funds	33
Transfers out to County funds (Note 1)	<u>(25,805)</u>
Change in net position	26,615
Net position - beginning of year	556,257
Net position - end of year	<u>\$ 582,872</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Cash Flows
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Cash flows from operating activities	
Receipts from customers	\$ 153,921
Payments to suppliers	(31,893)
Payments to employees	(27,165)
Receipts from other funds of the County	4,901
Landfill site closure and postclosure care costs	(2,613)
Pollution remediation obligation payments	(678)
Taxes and other fees	(21,800)
Other receipts	302
Net cash provided by operating activities	<u>74,975</u>
Cash flows from noncapital and related financing activities	
Transfers out to other funds of the County	(25,805)
Transfers in from other funds of the County	33
Intergovernmental revenues	18
Advances to other funds of the County	(24,057)
Net cash used in noncapital and related financing activities	<u>(49,811)</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(31,911)
Intangible assets obligation payable	(6)
Proceeds from sale of capital assets	11
Net cash used in capital and related financing activities	<u>(31,906)</u>
Cash flows from investing activities	
Interest on investments	1,778
Net cash provided by investing activities	<u>1,778</u>
Net decrease in cash and cash equivalents	(4,964)
Cash and cash equivalents - beginning of year	498,785
Cash and cash equivalents - end of year	<u>\$ 493,821</u>
Reconciliation of cash and cash equivalents to statement of net position	
Pooled cash and investments - current assets	\$ 392,373
Imprest cash funds	35
Pooled cash and investments - closure and postclosure care costs	91,284
Pooled cash and investments - corrective action	8,256
Pooled cash and investments - Prima Deshecha/La Pata closure	104
Pooled cash and investments - Frank R. Bowerman landfill wetland and Agua Chinon Wash habitat mitigation	879
Pooled cash and investments - customer deposits	668
Pooled cash and investments - contractor deposits	222
Total cash and cash equivalents	<u>\$ 493,821</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Reconciliation of operating income to net cash

provided by operating activities:

Operating income	\$	48,176
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		17,439
Fines, forfeitures and penalties		41
Other revenues		522
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable		(262)
Deposits in-lieu of cash		(363)
Prepaid costs		(169)
Due from other funds		3,302
Due from other governmental agencies		188
Deferred outflows of resources related to pension		3,246
Increase (decrease) in:		
Accounts payable		1,549
Salaries and accrued employee benefits payable		(796)
Accrued closure and postclosure care costs		(2,194)
Pollution remediation obligation		4,500
Unearned revenue		16
Compensated employee absences payable		(98)
Due to other funds		1,599
Due to other governmental agencies		375
Deposits from others		557
Net pension liability from pension contribution and expenses		(3,776)
Deferred inflows of resources related to pension		1,123
Net cash provided by operating activities	\$	74,975

Noncash Investing, Capital, and Financing Activities

Loss on disposition of capital assets	\$	502
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See accompanying notes to financial statements.

OC WASTE & RECYCLING
Notes to Financial Statements
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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 (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's (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 renewed on April 2016 and will terminate on June 30, 2025. 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 year ended June 30, 2017, OC Waste & Recycling collected imported waste disposal fees of \$45,484. Net importation revenues totaling \$25,805 was distributed to the County during the year ended June 30, 2017 and is included as Transfers out to County Funds in the accompanying financial statements.

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

Description of Reporting Entity

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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

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

The County has waste disposal agreements with thirty-two (32) cities, four (4) Sanitary Districts, one (1) Joint Powers Authority and five (5) Facility Operators through June 30, 2025. The waste disposal agreements cover approximately 94% 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 6% balance of in-county waste is delivered by self-haulers.

Basis of Presentation – Fund Accounting

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

Basis of Accounting

OC Waste & Recycling prepares its financial statements on the accrual basis of accounting in conformity with U.S. GAAP. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

New Accounting Pronouncement - Change in Accounting Principle

At July 1, 2016, OC Waste & Recycling implemented the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

In August 2015, GASB issued Statement No. 77, "Tax Abatement Disclosures." This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; 2) The gross dollar amount of taxes abated during the period; 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2015. This statement does not have an impact on OC Waste & Recycling's financial statements.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

In January 2016, GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units— an amendment of GASB Statement No. 14.*” The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, “The Financial Reporting Entity,” for the financial statement presentation of component units of all state and local government. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016. This statement does not have an impact on OC Waste & Recycling’s financial statements.

In March 2016, GASB issued Statement No. 82, “*Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.*” This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016. This statement does not have an impact on OC Waste & Recycling’s financial statements.

The following summarizes recent GASB pronouncements issued, but not yet adopted that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of OC Waste & Recycling:

In June 2015, GASB issued Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”. This statement replaces the requirements of Statements No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,” as amended, and No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.” Statement No. 74 establishes new accounting and financial reporting requirements for OPEB plans. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The provisions of this statement are effective for financial statement for periods beginning after June 15, 2017, which requires OC Waste & Recycling to implement this statement in fiscal year (FY) 2017-18.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

In March 2016, GASB issued Statement No. 81, “*Irrevocable Split-Interest Agreements.*” This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. The provisions of this statement are effective for financial statements beginning after December 15, 2016, which requires OC Waste & Recycling to implement this statement in FY 2017-18.

In March 2017, GASB issued Statement No. 85, “*Omnibus 2017.*” The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions of this statement are effective for financial statements beginning after December 15, 2017, which requires OC Waste & Recycling to implement this statement in FY 2018-19.

In May 2017, GASB issued Statement No. 86, “*Certain Debt Extinguishment Issues.*” The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The provisions of this statement are effective for financial statements beginning after December 15, 2017, which requires OC Waste & Recycling to implement this statement in FY 2018-19.

In June 2017, GASB issued Statement No. 87, “*Leases.*” This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor to recognize a lease receivable and a deferred inflows of resources. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, which requires the County to implement this statement in FY 2020-21.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

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 employee benefits, cost of services and supplies, taxes and fees, closure and postclosure care costs, pollution remediation obligations, and depreciation and amortization 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 statement 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 (3) months of their original purchase. Pooled cash and investments are considered cash and cash equivalents.

Pooled Cash and Investments

Pooled cash and investments are stated at fair value. Pooled cash and investments are funds OC Waste & Recycling has on deposit with the Treasurer’s Orange County Investment Pool (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.

Capital Assets

Property, plant and equipment purchased or constructed by OC Waste & Recycling are capitalized at cost, while contributed assets are recorded at fair 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 buildings and improvements, \$5 for intangible assets, \$150 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 buildings and improvements, equipment, intangible assets, and infrastructure are as follows:

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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

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

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

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. Unpaid claim liabilities have been discounted and 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, 2017, was \$277.

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 Position

Net position is displayed in three distinct categories:

Net investment in capital assets represents 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

Restricted represents 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, 2017, OC Waste & Recycling reported a restricted net position of \$38,223 for landfill closure and postclosure, landfill corrective action, Prima Deshecha/La Pata closure, and Frank R. Bowerman (FRB) landfill wetland and Agua Chinon Wash habitat mitigation.

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

Use of Restricted Funds

When both restricted and unrestricted assets are available for use, it is OC Waste & Recycling's policy to use restricted assets first, then unrestricted assets as they are needed.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of fund net position will report a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

Pension

OC Waste & Recycling recognizes a net pension liability to reflect its portion in the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the County's retirement plans.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Orange County Employees Retirement System (OCERS) and the Extra-Help Defined Benefit Plan and additions to/deductions to OCERS and the Extra-Help Defined Benefit Plan fiduciary net position have been determined on the same basis as they are reported by OCERS and the Extra-Help Defined Benefit Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2017, the Pool contains investments with an average maturity of 366 days. Interest is apportioned to individual funds based on the average daily balances on deposit with the Treasurer.

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, 2017, were as follows:

Cash and investments pooled by the County Treasurer	\$	493,786
Imprest cash funds		35
Total cash and investments	\$	493,821

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. OC Waste & Recycling’s share is 4.5% of the Pool. Investments in the investment pool are not subject within the level hierarchy.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 3 – Cash and Investments (Continued)

Interest Rate Risk

The IPS serves as the formal policy for the Treasurer’s office and provides specific guidelines and limitations to mitigate interest rate risk. The IPS is reviewed and approved by the Board of Supervisors (Board) annually, and any amendments to the IPS must first be reviewed and approved by the Treasury Oversight Committee and then by the Board. The IPS is therefore considered formally adopted. The IPS was last adopted on November 22, 2016.

Interest rate risk refers to the risk that changes in interest rates will adversely 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.

As of June 30, 2017, the major classes of OC Waste & Recycling’s deposits and investments consisted of the following:

	Fair Value	Weighted Average Maturity (Years)
County Investment Pool	\$ 493,786	1.01

Custodial Credit Risk

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

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two (2) of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody’s) or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an “A”. As of June 30, 2017, the County’s investments were in compliance with the IPS limits. In addition, OC Waste & Recycling's pooled cash and investments are combined with the County’s pooled investments, and therefore, do not represent specific identifiable investments and are not discretely rated.

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 3 to 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 Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 4 – Accounts Receivable

Accounts receivable as of June 30, 2017, were as follows:

Imported waste disposal fees	\$	2,514
County of Orange (In-county) waste disposal fees		7,120
Miscellaneous		1,103
Allowance for estimated uncollectible receivables		(1)
Total accounts receivable, net		\$ 10,736

Note 5 – Prepaid Costs

OC Waste & Recycling prepaid \$4,216 for FY 2017-18, for pension obligations to OCERS in January 2017. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$190, based on the discount rate of 4.31%. The prepaid cost is recognized in the fiscal year during which services are provided. Due to the difference in the County’s fiscal year end date and the net pension liability measurement date, half of the prepaid pension contribution is recognized as deferred outflows of resources, and the other half will remain as a prepaid costs. Prepaid costs for pension obligation and software licenses, net of amortization reported in the accompanying Statement of Fund Net Position, is \$2,206 for 2017.

For additional details on prepaid costs, refer to the County’s Comprehensive Annual Financial Report at the Auditor-Controller’s website at <http://www.ac.ocgov.com>.

Note 6 – Deposits In-Lieu of Cash

OC Waste & Recycling requires security deposits from landfill deferred payment program users. These security deposits are comprised primarily of certificates of deposit and security bonds, which are held by OC Waste & Recycling. The balance for deposits in-lieu of cash as of June 30, 2017, was \$16,934.

Note 7 – Advances to Other County Agencies for County Projects

On June 23, 2009, the Board adopted Resolution 09-090 authorizing the temporary transfer of monies to the County General Fund from OC Waste & Recycling 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 OC Waste & Recycling for part of the costs associated with the upgrades of various County Information Technology projects. In June 2014, the Board issued Resolution 14-060 identifying new projects that may require borrowing monies from OC Waste & Recycling, such as the Sheriff-Coroner Department’s Musick Jail Capital Project and OC Community Resources Department’s Animal Care Project.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 7 – Advances to Other County Agencies for County Projects (Continued)

On June 28, 2016, by Resolution 16-062, the Board authorized the borrowing up to \$172,000 for FY 2016-17. Repayment of the amount to be borrowed includes interest. The actual amount repaid from the County General Fund in FY 2016-17 was \$784. The outstanding balance as of June 30, 2017, was \$784 from the County General Fund, \$7,500 from the Sheriff-Coroner, and \$21,340 from the OC Community Resources for a total of \$29,624.

Note 8 – Interfund and Transfers

The composition of interfund balances as of June 30, 2017, was as follows:

Due From/To Other Funds of the County:

Receivable Fund	Payable Fund	
Waste Management	General	\$ 9
Waste Management	Roads	30
Waste Management	Flood Control District	46
Waste Management	Parks	1
Total Due from Other Funds:		<u>86</u>
Waste Management	General	784
Waste Management	Sheriff-Coroner	7,500
Waste Management	OCCR	21,340
Total Advances to Other Funds:		<u>29,624</u>
General	Waste Management	3,732
Roads	Waste Management	156
Flood Control District	Waste Management	17
Other Governmental Funds	Waste Management	10
Internal Service Funds	Waste Management	19
Total Due to Other Funds:		<u>\$ 3,934</u>

Amounts payable to the County General Fund include net importation revenue to pay bankruptcy related obligations in accordance with the County’s Plan. Amounts receivable from the Flood Control District Fund is for disposal charges. The interfund loans represent an advance made to the County General Fund, Sheriff-Coroner Department, and OC Community Resources from OC Waste & Recycling for various county projects. Refer to Note 7, Advances to Other County Agencies for County Projects, for additional information.

OC Waste & Recycling transferred \$25,805 to the General Fund to pay bankruptcy related obligations in accordance with the County’s plan. Total transfers from the County General Fund and Sheriff-Coroner to repay interest for borrowings to fund various county projects was \$33.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 9 – Capital Assets

Capital asset activities for the year ended June 30, 2017, were as follows:

	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
Capital Assets, Not Depreciated/Amortized				
Land	\$ 22,164	\$ --	\$ --	\$ 22,164
Construction in progress	13,237	27,267	(12,819)	27,685
Intangible Assets in progress	235	20	--	255
Total Capital Assets, Not Depreciated/Amortized	<u>35,636</u>	<u>27,287</u>	<u>(12,819)</u>	<u>50,104</u>
Capital Assets, Depreciable/Amortizable				
Building and improvements	24,409	--	--	24,409
Equipment	69,533	6,441	(4,823)	71,151
Infrastructure	376,220	15,600	--	391,820
Software	626	--	--	626
Total Capital Assets, Depreciable/Amortizable	<u>470,788</u>	<u>22,041</u>	<u>(4,823)</u>	<u>488,006</u>
Less Accumulated Depreciation/Amortization				
Buildings and improvements	(11,458)	(907)	--	(12,365)
Equipment	(48,483)	(4,392)	4,505	(48,370)
Infrastructure	(180,085)	(12,074)	--	(192,159)
Software	(156)	(66)	--	(222)
Total Accumulated Depreciation/Amortization	<u>(240,182)</u>	<u>(17,439)</u>	<u>4,505</u>	<u>(253,116)</u>
Total Capital Assets, Depreciable/Amortizable, (Net)	<u>230,606</u>	<u>4,602</u>	<u>(318)</u>	<u>234,890</u>
Total Capital Assets, Net	<u>\$ 266,242</u>	<u>\$ 31,889</u>	<u>\$ (13,137)</u>	<u>\$ 284,994</u>

Total depreciation and amortization expense for the year ended June 30, 2017, was \$17,439.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 9 – Capital Assets (Continued)

Construction in Progress

Construction in progress consists of projects for drainage systems, water irrigation and collection systems, gas collection systems, monitoring systems, truck scales automatic systems, landfill grading and re-vegetation. The projects at June 30, 2017, were as follows:

Landfills

Frank R. Bowerman (FRB)		
FRB Phase VIII B-2 Soil Buttress and Liner Construction	\$	12,336
FRB Crew Quarters Trailers & Storage Facility Construction		575
 Olinda Alpha (OAL)		
OAL Front Slope Improvement Project - Phase 2		13,282
 San Juan Capistrano (Prima)		
Prima Zn 1 Phase D1 Mass Excavation		859
 Other		633
Total construction in progress	\$	<u>27,685</u>

Construction Contracts

OC Waste & Recycling entered into various major construction contracts to facilitate its landfill operations. At June 30, 2017, OC Waste & Recycling is committed to open construction contracts for the following project:

<u>Description</u>	<u>Remaining Commitments</u>
FRB Phase VIII B-2 Soil Buttress and Liner Project	\$ 19,015
Olinda Front Slope Improvement Project Phase 2	13,159
FRB Crew Quarters Trailers and Storage Facility Construction	2,127
Total	<u>\$ 34,301</u>

Note 10 – Defined Benefit Pension Plan

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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 10 – Defined Benefit Pension Plan (Continued)

OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each 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 of Retirement (OCERS Board) does not set the benefit amounts. OCERS administers benefits that are set by the Board through the collective bargaining process with County employees in accordance with the Retirement Law.

Contributions: In accordance with various Board 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 Retirement 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 year ended June 30, 2017, employer's contributions as a percentage of covered payrolls was 34.94% for General Members. OC Waste & Recycling's total contribution to OCERS for the year ended June 30, 2017, was \$4,317.

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

On September 12, 2012, the Governor signed the Public Employees' Pension Reform Act (PEPRA) of 2013. PEPRA created a new pension retirement formula, commonly referred to as 2% at 62 retirement formula, for all new non-safety public employees hired on or after January 1, 2013. PEPRA also allowed a public employer to continue to offer another retirement formula, if offered before December 31, 2012, to new public employees if the retirement formula has a lower benefit factor at normal retirement age and results in a lower normal cost than the 2% at 62 PEPRA retirement formula. On December 18, 2012, the Board approved and adopted the 1.62% at 65 retirement formula for certain general (non-safety) public employees hired on or after January 1, 2013.

OC Waste & Recycling's total payroll expense was \$16,799 and the covered payroll participating in OCERS was \$16,761 for the year ended June 30, 2017.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 10 – Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension:

The County reported a liability of \$4,046,632 for its proportionate share of the net pension liability (NPL) at June 30, 2017. OC Waste & Recycling’s allocated share of the County’s NPL is \$48,273, which is based on its percentage of covered payroll.

OC Waste & Recycling recognized pension expense of \$2,467 for the year ended June 30, 2017, which represents the change in the NPL during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits. The total deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017, was \$9,579 and \$6,501, respectively. Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to NPL to be recognized in future periods in a systematic and rational manner.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	\$ 4,079	\$ -
Differences Between Expected and Actual Experience	-	5,062
Changes of Assumptions	881	1,438
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	183	1
County contributions subsequent to the measurement date	2,328	-
County Prepaid Pension Contribution	2,108	-
Total	<u>\$ 9,579</u>	<u>\$ 6,501</u>

Amounts, provided by OCERS’ actuarial study reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:

Year ending June 30:	
2018	\$165
2019	165
2020	(268)
2021	(1,043)
2022	(377)
2023	-
Thereafter	-

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 10 – Defined Benefit Pension Plan (Continued)

For additional details on the defined benefits pension plan, actuarial assumptions, funded status of the plan and required supplemental information, refer to the County’s CAFR at the Auditor-Controller’s website at <http://www.ac.ocgov.com>.

Note 11 – Postemployment Health Care Benefits

Plan: OC Waste & Recycling is a participant in the County of Orange’s Third Amended Retiree Medical Plan (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 Board. The Board is also the authority for amending the Retiree Medical Plan. Eligible retired County employees receive a monthly grant (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 OCERS. To qualify as a retiree as defined by the Retiree Medical Plan, the employee upon retirement must be at least 50 years of age or have at least 20 years of service for a safety member of OCERS or at least 30 years of service for a general member of OCERS.

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The frozen lump sum payment is equal to 1% of the employee’s final average hourly pay (as defined in the Retirement Medical 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, OC Waste & Recycling is currently setting aside an actuarially determined contribution of 4% of its payroll for the Retiree Medical Plan. OC Waste & Recycling’s contribution was \$670 for the year ended June 30, 2017, which is 100% of the annual required contribution.

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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 12 - Long-Term Obligations

Long-term liability activities for the year ended June 30, 2017, were as follows:

Long-Term Liabilities	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
Compensated absences	\$2,751	\$2,352	(\$2,450)	\$2,653	\$1,305
Capital asset obligation	20		(6)	14	7
Closure and postclosure care costs	160,675	3,229	(5,423)	158,481	2,613
Pollution remediation obligation	11,190	5,178	(678)	15,690	570
Total long-term liabilities	<u>\$174,636</u>	<u>\$10,759</u>	<u>(\$8,557)</u>	<u>\$176,838</u>	<u>\$4,495</u>

Note 13 - Accrued Closure and Postclosure Care Costs

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

The total landfill closure and postclosure care liability at June 30, 2017, was \$158,481. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (31.65% for FRB, 79.97% for Olinda Alpha and 20.69% for Prima Deshecha), less actual costs paid related to both closure, and postclosure of the Santiago and Coyote Canyon landfills. OC Waste & Recycling will recognize the remaining estimated cost of closure and postclosure care of \$168,040 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2016 dollars (using the 2016 inflation factor of 1.013). OC Waste & Recycling has enough landfill capacity to operate the system for a minimum of 25 years. However, OC Waste & Recycling intends to operate the landfills well beyond this period as a result of approved and planned expansions.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

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

In compliance with Title 27 – Environmental Protection of California Code of Regulations, OC Waste & Recycling makes cash contributions as required to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the GASB Statement No. 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 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, 2017, a total of \$91,284 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Fund Position as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs.

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

Note 14 – Pollution Remediation Obligations

GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations,” requires government agencies to identify and disclose current and potential pollution remediation obligations. Six (6) 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 year ended June 30, 2017, after deducting actual pollution remediation expenses incurred during fiscal year 2017 is \$15,690.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (Continued)

Cannery Former Refuse Disposal Station

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

The County, Huntington Beach, and Huntington Beach School District entered into a Settlement Agreement in 2007 whereby Huntington Beach 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 \$46.

Lane Road Former Refuse Disposal Station

The site located in the City of Irvine (Irvine), California and owned by NGP Realty Sub, L.P. and others, was leased and operated by the County as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owner requiring them to remedy the landfill gas exceedances, and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with the County Executive Office (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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (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 \$285. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$2,207.

San Joaquin Former Refuse Disposal Station

The site, owned by the University of California at Irvine (UC Irvine), was leased and operated by the County as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the U.S. 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 UC Irvine that was approved by the Board 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 \$109. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$615.

La Veta Former Refuse Disposal Station

Located in the City of Orange (Orange), California, 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 California 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 requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County conducted a series of additional site investigations and assessments. Based on the findings of the site investigations, YMCA is performing required methane monitoring. The County reimburses the YMCA for the costs associated with the monitoring efforts, and are accrued as estimable at June 30, 2017.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (Continued)

In addition, the findings of site investigations identified the existence of subsurface refuse extending laterally onto a single-family residence located within the lease boundaries of the former La Veta solid waste disposal site, and immediately adjacent to land owned by the YMCA (also covering a portion of the former disposal site). Buried waste was discovered under part of the back yard of the residence, which includes a swimming pool. Since then, CalRecycle and the LEA have required continuous methane monitoring at the property. The current owners have not cooperated with County or regulator attempts to monitor or remediate potential pollution of the property.

The County has executed an acquisition contract for the single-family residence in the amount of \$860. Upon close of escrow, the County will retain responsibility for any required monitoring for the property. Monitoring may be required for up to 25 years.

Forster Former Refuse Disposal Station

The site, located in the City of San Juan Capistrano (San Juan Capistrano), California, was formerly leased and operated as a refuse disposal station by the County 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, 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 San Juan Capistrano 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 (5) 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (Continued)

Yorba Refuse Disposal Station

The site, located in Orange, California, was owned and operated as a solid waste disposal site by the County. After disposal operations ceased, the site was sold to Orange 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, Orange filed a cross-complaint against the County. 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 County and Orange entered into negotiations to resolve the issues brought forth by Orange. The negotiations resulted in a settlement agreement and release of claims executed on November 5, 2015. This settlement agreement and release of claims will remedy the differential settlement or subsidence, to replace the irrigation system, and for costs associated with site maintenance with monies paid for by the County. In addition, effective on the date of the agreement, the County assumed responsibility and ownership of the landfill gas control system at the site. In exchange, indemnification has been provided by Orange to the County. 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 30 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 system need upgrades and relocation of critical equipment. 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 will be \$172. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$4,462.

Note 15 – Commitments and Contingencies

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 (1) year as of June 30, 2017, are not significant.

Contingencies

As the owner and/or operator of a number of active and former solid waste disposal sites, OC Waste & Recycling has potential exposure to environmental liability even though these sites have not incurred obligating events like those sites identified in Note 14. Many of the former disposal sites were operated under lease agreements with the property owners. OC Waste & Recycling may be required to perform

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2017
(Dollar Amounts in Thousands)

Note 15 – Commitments and Contingencies (Continued)

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, management believes it has sufficient reserves for known and potential remediation costs. At June 30, 2017, amounts classified in unrestricted net position totaled \$259,669.

Note 16 – Major Customers

Disposal fees from three (3) major customers accounted for revenues of approximately \$25,952; \$18,814; and \$16,533 during the year ended June 30, 2017.



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*

To the Board of Supervisors
County of Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the OC Waste & Recycling, an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2017. Our report includes an emphasis of matter paragraph indicating that the financial statements present only OC Waste & Recycling and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2017, and the changes in its financial position or its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Macias Gini E O'Connell LPA". The signature is written in a cursive, slightly slanted style.

Newport Beach, California
December 14, 2017