

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

Independent Auditor's Reports  
and Financial Statements

For the Years Ended June 30, 2009 and 2008

**OC WASTE & RECYCLING  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**TABLE OF CONTENTS**

	<i>Page(s)</i>
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report.....	1-2
<b>Financial Statements:</b>	
Statements of Net Assets.....	3-4
Statements of Revenues, Expenses and Changes in Net Assets .....	5
Statements of Cash Flows .....	6-7
Notes to Financial Statements.....	8-28
<b>OTHER REPORT:</b>	
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 <i>Government Auditing Standards</i> .....	29-30



## INDEPENDENT AUDITOR'S REPORT

Honorable Board of Supervisors  
County of Orange, California

We have audited the accompanying financial statements of the Orange County Waste and Recycling Enterprise Fund of the County of Orange, California (OCWR), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the OCWR's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCWR's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Orange County Waste and Recycling Enterprise Fund is intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities of the County of Orange, California that is attributable to the transactions of OCWR. It does not purport to, and does not present fairly the financial position of the County of Orange, California as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Orange County Waste and Recycling Enterprise Fund of the County of Orange, California as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note #10, OCWR has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* as of July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, on our consideration of OCWR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California  
December 7, 2009

**COUNTY OF ORANGE  
OC WASTE & RECYCLING  
STATEMENTS OF NET ASSETS  
JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

	<u>2009</u>	<u>2008</u>
<b>ASSETS:</b>		
Current assets:		
Pooled cash and investments (Note 3)	\$ 300,036	\$ 329,998
Imprest cash funds (Note 3)	35	35
Accounts receivable, net of allowances of \$1 in 2009 and 2008	10,785	9,899
Interest receivable	1,253	1,750
Prepaid costs (Note 2)	786	787
Due from other governmental agencies	602	552
Due from other funds of the County (Note 12)	25	54
Total current assets	<u>313,522</u>	<u>343,075</u>
Noncurrent assets:		
Restricted assets:		
Pooled cash and investments-rate stabilization (Note 3)	27,492	26,796
Pooled cash and investments-closure and postclosure care costs (Note 3 and 9)	118,424	115,040
Pooled cash and investments- corrective action (Note 3)	5,745	1,155
Pooled cash and investments - San Joaquin Marsh project (Note 3)	3,120	3,120
Pooled cash and investments-customer deposits (Note 3)	660	640
Pooled cash and investments-contractor deposits (Note 3)	139	134
Investments with trustees (Note 3)	11,052	10,855
Deposits in-lieu of cash (Note 4)	17,183	17,131
Total restricted assets	<u>183,815</u>	<u>174,871</u>
Capital assets (Note 5)		
Nondepreciable	43,461	27,130
Depreciable, net	198,911	209,118
Net capital assets	<u>242,372</u>	<u>236,248</u>
Prepaid costs (Note 2)	3,144	3,929
Debt issuance costs	108	181
Total noncurrent assets	<u>429,439</u>	<u>415,229</u>
Total Assets	<u>\$ 742,961</u>	<u>\$ 758,304</u>

See accompanying notes to financial statements.

**COUNTY OF ORANGE**  
**OC WASTE & RECYCLING**  
**STATEMENTS OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES:</b>		
Current liabilities (payable from current assets):		
Accounts payable	\$ 6,885	\$ 7,558
Retainage Payable (Note 2)	944	-
Salaries and accrued employee benefits payable	757	621
Accrued closure and postclosure care costs (Notes 8 and 9)	1,906	1,037
Pollution remediation obligation (Note 10)	1,673	1,134
Interest payable	145	170
Deferred revenue	63	51
Compensated employee absences payable (Note 8)	1,372	1,343
Litigation settlement payable	-	5,176
Due to other funds of the County (Note 12)	2,245	1,847
Due to other governmental agencies	1,507	1,625
Total current liabilities (payable from current assets)	<u>17,497</u>	<u>20,562</u>
Current liabilities (payable from restricted assets):		
Revenue bonds payable, net (Note 8)	5,406	5,033
Deposits from others	17,982	17,905
Total current liabilities (payable from restricted assets)	<u>23,388</u>	<u>22,938</u>
Total current liabilities	<u>40,885</u>	<u>43,500</u>
Noncurrent liabilities:		
Arbitrage rebate payable	99	35
Compensated employee absences payable (Note 8)	1,320	845
Accrued closure and postclosure care costs (Notes 8 and 9)	171,143	190,167
Pollution remediation obligation (Note 10)	7,711	9,384
Revenue bonds payable, net (Note 8)	25,737	31,144
Total noncurrent liabilities	<u>206,010</u>	<u>231,575</u>
Total Liabilities	<u>246,895</u>	<u>275,075</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	211,190	200,251
Restricted	111,864	91,534
Unrestricted	173,011	191,442
Total Net Assets	<u>\$ 496,065</u>	<u>\$ 483,227</u>

See accompanying notes to financial statements.

**COUNTY OF ORANGE**  
**OC WASTE & RECYCLING**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
(Dollar Amounts in Thousands)

	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES</b>		
Disposal fees (Note 1)	\$ 89,570	\$ 98,019
Use of property	1,013	869
Licenses, permits, and franchises	90	68
Other	2,764	578
Total operating revenues	93,437	99,534
<b>OPERATING EXPENSES</b>		
Salaries and employee benefits	24,563	22,499
Services and supplies	8,766	8,132
Professional and specialized services	13,608	15,401
Equipment operating leases	438	244
Land operating leases	532	493
Transportation	2,650	3,926
Taxes and other fees	7,346	7,806
Ground and structure maintenance	9,131	5,052
Equipment maintenance	8,382	9,456
Provision for closure and postclosure care costs (Note 9)	(16,250)	9,876
Depreciation and amortization (Note 5)	17,370	16,652
Total operating expenses	76,536	99,537
Operating income (loss)	16,901	(3)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Intergovernmental revenue	20	185
Fines, forfeitures and penalties	19	15
Interest income	12,356	20,576
Interest expense	(2,144)	(2,480)
Gain (loss) on disposal of capital assets	(112)	20
Other	(73)	(87)
Total nonoperating revenues (expenses)	10,066	18,229
Income before transfers and capital contributions	26,967	18,226
Capital contributions	-	2,379
Transfers to County General Fund	(14,129)	(16,802)
Change in net assets	12,838	3,803
Net assets - Beginning of year (as restated, Note 10)	483,227	489,942
Adjustment for Pollution Remediation Obligations (Note 10)	-	(10,518)
Net assets - End of year (as restated, Note 10)	\$ 496,065	\$ 483,227

See accompanying notes to financial statements.

**COUNTY OF ORANGE  
OC WASTE & RECYCLING  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

	<u>2009</u>	<u>2008</u>
<b>Cash flows from operating activities</b>		
Receipts from customers	\$ 92,526	\$ 101,271
Payments to suppliers for goods and services	(42,384)	(40,057)
Payments to employees for services	(23,923)	(22,917)
Payments to other funds	398	(2,246)
Cash received (paid) for interfund charges	29	(33)
Litigation settlement payable	(5,176)	5,176
Landfill site closure and post-closure care costs	(1,905)	(1,038)
Pollution remediation obligation	(1,133)	-
Taxes and other fees	(7,346)	(7,806)
Other receipts (payments)	(162)	(5,749)
Net cash provided by operating activities	<u>10,924</u>	<u>26,601</u>
<b>Cash flows from noncapital and related financing activities</b>		
Transfers out	(14,129)	(16,802)
Intergovernmental revenues	20	185
Net cash used in noncapital and related financing activities	<u>(14,109)</u>	<u>(16,617)</u>
<b>Cash flows from capital and related financing activities</b>		
Acquisition of capital assets	(23,745)	(12,512)
Principal paid on bonds (Note 8)	(5,311)	(5,030)
Interest paid on bonds (Note 8)	(1,819)	(2,089)
Proceeds from sale of capital assets	137	201
Net cash used in capital and related financing activities	<u>(30,738)</u>	<u>(19,430)</u>
<b>Cash flows from investing activities</b>		
Interest on investments	12,853	22,466
Purchase of investments, net	(197)	(180)
Net cash provided by investing activities	<u>12,656</u>	<u>22,286</u>
Net increase (decrease) in cash and cash equivalents	(21,267)	12,840
Cash and cash equivalents - beginning of year	476,918	464,078
Cash and cash equivalents - end of year	<u>\$ 455,651</u>	<u>\$ 476,918</u>
<b>Reconciliation of cash and cash equivalents to statements of net assets:</b>		
Pooled cash and investments-current assets	\$ 300,036	\$ 329,998
Imprest cash funds	35	35
Pooled cash and investments-rate stabilization	27,492	26,796
Pooled cash and investment - San Joaquin Marsh project	3,120	3,120
Pooled cash and investments-closure and postclosure care costs	118,424	115,040
Pooled cash and investments- corrective action	5,745	1,155
Pooled cash and investments-customer deposits	660	640
Pooled cash and investments-contractor deposits	139	134
Total cash and cash equivalents	<u>\$ 455,651</u>	<u>\$ 476,918</u>

See accompanying notes to financial statements.

**COUNTY OF ORANGE**  
**OC WASTE & RECYCLING**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

	<u>2009</u>	<u>2008</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 16,901	\$ (3)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	17,370	16,652
Provision for landfill site closure/postclosure costs	(16,250)	9,876
Landfill site closure disbursements	(1,905)	(1,038)
Pollution remediation obligation	(1,133)	-
Fines, forfeitures and penalties	19	15
Other expense	(73)	(87)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	(886)	1,273
Prepaid costs (Note 2)	786	(4,715)
Due from other funds	29	(33)
Deposits in-lieu of cash	(52)	491
Due from other governmental agencies	(50)	471
Increase (decrease) in:		
Accounts payable	(673)	2,195
Retainage payable (Note 2)	944	-
Salaries and employee benefits payable	136	98
Deferred revenue	12	19
Deposits from others	77	(498)
Due to other funds	398	(2,246)
Due to other governmental agencies	(118)	(285)
Compensated employee absences payable	504	(516)
Arbitrage rebate payable	64	(244)
Litigation settlement payable	(5,176)	5,176
Net cash provided by operating activities	<u>\$ 10,924</u>	<u>\$ 26,601</u>
 Schedule of Noncash Investing, Capital, and Financing		
Activities - capital contribution	\$0	\$2,379

See accompanying notes to financial statements.

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

**NOTE 1 - COUNTY BANKRUPTCY RECOVERY**

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

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

*Impact of County Bankruptcy on OC Waste & Recycling*

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

The County requested proposals for waste-importation contracts and, in January 1996, entered into contracts of various durations. These contracts are estimated to generate revenue sufficient to support the Plan's estimated \$15 million of net importation revenue to be contributed to the County General Fund to pay bankruptcy related obligations. During the years ended June 30, 2009 and 2008, OC Waste & Recycling collected imported waste disposal fees of \$20,073 and \$19,453, respectively. Net import revenues totaling \$11,633 and \$13,788 were distributed to the County during the years ended June 30, 2009 and 2008, respectively, and are included as Transfers to County General Fund in the financial statements.

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

*Description of Reporting Entity*

OC Waste & Recycling is a department of the County and is included as an enterprise fund in the basic financial statements of the County.

The County assumed responsibility for establishing and maintaining waste disposal sites in 1946 and the OC Waste & Recycling enterprise fund was formally established in 1982. OC Waste & Recycling finances its operations through disposal fees charged to users of the waste disposal sites. Such disposal fees are OC Waste & Recycling's primary source of revenue. Disposal fees from two major customers accounted for revenues of approximately \$25,953 and \$18,287 during the year ended June 30, 2009 and \$26,546 and \$20,255 during the year ended June 30, 2008.

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

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

*Description of Reporting Entity (Continued)*

As of June 30, 2009 and 2008, the County continues to maintain the current waste disposal agreements with 31 cities, three (3) sanitary districts, one (1) Joint Powers Authority and 13 haulers. The waste disposal agreements cover approximately 93% 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 7% balance of in-county waste is delivered by self-haulers.

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

*Basis of Accounting*

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

*Operating/Nonoperating Revenues and Expenses*

OC Waste & Recycling distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services from the OC Waste & Recycling's landfill operations. The principal operating revenue of OC Waste & Recycling is disposal fees charged to users of the waste disposal sites. Operating expenses include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*Cash and Cash Equivalents*

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

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Pooled Cash and Investments and Investments with Trustees*

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

*Capital Assets*

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

Structures and Improvements	10 to 50 years (or the remaining estimated useful life of the landfill)
Equipment	2 to 20 years
Infrastructure:	
Flood Channels	50 to 99 years
Roads	10 to 20 years
Bridges	50 years
Trails	20 years
Traffic Signals	15 years
Harbors	20 to 50 years

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

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

Interest is capitalized on construction in progress. Capitalized interest is the total interest cost from the date of the borrowing, net of any allowable interest earned on temporary investments. There was no net interest capitalized in 2009 or 2008.

*Debt Issuance Costs, Premiums and Deferred Charges on Refundings*

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

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

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

*Prepaid Costs*

In accordance with the Cooperative Agreement, OC Waste & Recycling prepaid \$5,500 for community amenities and transportation improvement costs associated with operating the Frank R. Bowerman Landfill to the City of Irvine for the period of 2007 through 2014. These prepaid costs are recognized in the fiscal year during which services are provided. Prepaid costs, net of amortization reported in the Statement of Net Assets, are \$3,929 and \$4,714 for 2009 and 2008, respectively.

*Landfill Closure and Postclosure Care Costs*

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

*Self-Insurance*

OC Waste & Recycling participates in the County's self-insurance programs for general and automobile liability claims, workers' compensation claims, group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits. Liabilities are accrued in these self-insurance programs based upon case reserves, development of known and incurred but not reported claims, including allocated and unallocated loss adjustment expenses. Also, OC Waste & Recycling participates in commercial insurance purchased for excess liability coverage, property coverage, and other risk exposures. OC Waste & Recycling records its portion of related self-insurance and commercial insurance premiums charged by the County as an expense. Insurance expense for the year ended June 30, 2009 was \$326 and \$261 for the year ended June 30, 2008.

*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.

*Retainage Payable*

Retainage Payable has been reported in 2009 to conform to the new balance sheet account set up in October 2009 for contract retention amount.

*Net Assets*

Net Assets are displayed in three distinct categories.

Invested in capital assets, net of related debt indicates the value of land, buildings, infrastructure, and equipment 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**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

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

*Net Assets (Continued)*

Restricted indicates the value of the restricted assets on hand and pooled cash and investments of closure and postclosure care costs and other restrictions required in excess of the related and recognized liabilities. It is expected that future liabilities will be recognized to match the restricted assets on hand. These monies are restricted by federal and state legislation, and third parties for specific use within their categories.

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

*Use of Estimates*

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

**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, 2009 and 2008, the Pool contains investments with an average maturity of 246 and 212 days, respectively. Interest is apportioned to individual funds based on the average daily balances on deposit with the Treasurer.

Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 of the County's Comprehensive Annual Financial Report (CAFR).

*Investments with Trustees*

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

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

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Investments with Trustees (Continued)*

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Restricted Investments with trustees:		
U.S. Government Securities	\$ 7,412	\$ 7,339
Mutual funds	3,640	3,516
Cash and investments pooled by the County Treasurer	455,616	476,883
Total investments	<u>\$ 466,668</u>	<u>\$ 487,738</u>
	<u>2009</u>	<u>2008</u>
Imprest cash funds	\$ 35	\$ 35
Total investments	466,668	487,738
Total cash and investments	<u>\$ 466,703</u>	<u>\$ 487,773</u>

As of June 30, 2009, the major classes of OC Waste & Recycling's deposits and investments consisted of the following:

	<u>Principal</u>	<u>Fair Value</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Maturity (Years)</u>
County Investment Pool	\$ -	\$ 455,616			0.67
Restricted Investments with Trustee:					
U.S. Government Securities	7,205	7,412	Discount	9/29/2009	0.17
Mutual Funds	3,640	3,640	Variable	On Demand	-
Total Restricted Investments with Trustee	<u>\$ 10,845</u>	<u>\$ 11,052</u>			0.11

The following is a summary of credit quality distribution and concentration of credit risk by investment type at June 30, 2009 (NR denotes Not Rated):

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
County Investment Pool	AAAm	N/R	AAAm	97.63%
U.S. Government Securities	N/R	P-1	F1+	1.59%
Mutual Funds	AAAm	Aaa	N/R	0.78%
				<u>100.00%</u>

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Investments with Trustees (Continued)*

As of June 30, 2008, the major classes of OC Waste & Recycling's deposits and investments consisted of the following:

	Principal	Fair Value	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Investment Pool	\$ -	\$ 476,883			0.58
Restricted Investments with Trustee:					
U.S. Government Securities	7,205	7,339	Discount	11/28/2008	0.28
Mutual Funds	3,516	3,516	Variable	On Demand	-
Total Restricted Investments with Trustee	<u>\$ 10,721</u>	<u>\$ 10,855</u>			0.19

The following is a summary of credit quality distribution and concentration of credit risk by investment type at June 30, 2008 (NR denotes Not Rated):

	S&P	Moody's	Fitch	% of Portfolio
County Investment Pool	AAAm	Aaa	N/R	97.78%
U.S. Government Securities	A1+	NR	F1+	1.50%
Mutual Funds	AAAm	Aaa	AAA	0.72%
				<u>100.00%</u>

*Interest Rate Risk*

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the Investment Policy Statement (IPS). At June 30, 2009 and 2008, the WAM for the Pool approximated 246 and 212 days, respectively, and for investments with trustees approximated 40 and 69 days, respectively.

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, OC Waste & Recycling's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Credit Risk*

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than “A-1” or “SP-1” (Standard & Poors), “P-1” or “MIG 1/VMIG 1” (Moody’s), or “F1” (Fitch). For an issuer of long-term debt, the rating must be no less than an “A” in the Money Market funds and “AA” in the Extended Fund. As of June 30, 2009, the County’s investments in commercial paper were rated A-1 by S&P, P-1 by Moody’s and F1 by Fitch.

*Concentration of Credit Risk*

Most of OC Waste & Recycling’s cash and investments are combined with the County’s pooled investments. At June 30, 2009, the County did not exceed the IPS limitation that states that no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the U.S. government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

On May 7, 2009, the Whistlejacket Structured Investment Vehicle was restructured into Serpentine Funding Limited (Serpentine). The restructured entity is not a structured investment vehicle, has no leverage, and is unrated. Serpentine holds the restructured portfolio of securities and receives all principal and interest payments on the underlying securities. As of June 30, 2009, the Extended Fund B (jointly owned by the County and Educational Pools) held \$39,948 fair value of Serpentine’s Restricted P-T Notes. For additional information on the concentration of credit risk, refer to Note 4 of the County’s Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller’s website at [www.ac.ocgov.com/finrpt.asp](http://www.ac.ocgov.com/finrpt.asp).

**NOTE 4 - DEPOSITS IN-LIEU OF CASH**

OC Waste & Recycling requires security deposits from landfill deferred payment program users. These security deposits are comprised primarily of certificates of deposit and security bonds, which are held by OC Waste & Recycling.

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2009
<b><i>Capital assets, nondepreciable:</i></b>					
Land	\$ 22,380	\$ 25	\$ -	\$ -	\$ 22,405
Construction in progress	4,750	17,464	-	(1,158)	21,056
Total capital assets, nondepreciable	<u>27,130</u>	<u>17,489</u>	<u>-</u>	<u>(1,158)</u>	<u>43,461</u>
<b><i>Capital assets, depreciable:</i></b>					
Buildings and improvements	17,565	-	-	949	18,514
Equipment	59,774	7,413	(3,074)	(285)	63,828
Infrastructure	259,768	-	-	-	259,768
Total capital assets, depreciable	<u>337,107</u>	<u>7,413</u>	<u>(3,074)</u>	<u>664</u>	<u>342,110</u>
<b><i>Less accumulated depreciation for:</i></b>					
Buildings and improvements	(4,320)	(883)	-	-	(5,203)
Equipment	(28,154)	(5,564)	2,800	(640)	(31,558)
Infrastructure	(95,515)	(10,923)	-	-	(106,438)
Total accumulated depreciation	<u>(127,989)</u>	<u>(17,370)</u>	<u>2,800</u>	<u>(640)</u>	<u>(143,199)</u>
Total capital assets, depreciated, net	209,118	(9,957)	(274)	24	198,911
Total capital assets, net	<u>\$ 236,248</u>	<u>\$ 7,532</u>	<u>\$ (274)</u>	<u>\$ (1,134)</u>	<u>\$ 242,372</u>

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2008
<b><i>Capital assets, nondepreciable:</i></b>					
Land	\$ 22,380	\$ -	\$ -	\$ -	\$ 22,380
Construction in progress	8,304	7,294	(338)	(10,510)	4,750
Total capital assets, nondepreciable	<u>30,684</u>	<u>7,294</u>	<u>(338)</u>	<u>(10,510)</u>	<u>27,130</u>
<b><i>Capital assets, depreciable:</i></b>					
Buildings and improvements	6,989	-	-	10,576	17,565
Equipment	53,334	7,856	(1,281)	(135)	59,774
Infrastructure	259,768	-	-	-	259,768
Total capital assets, depreciable	<u>320,091</u>	<u>7,856</u>	<u>(1,281)</u>	<u>10,441</u>	<u>337,107</u>
<b><i>Less accumulated depreciation for:</i></b>					
Buildings and improvements	(3,668)	(652)	-	-	(4,320)
Equipment	(24,616)	(4,788)	1,100	150	(28,154)
Infrastructure	(84,303)	(11,212)	-	-	(95,515)
Total accumulated depreciation	<u>(112,587)</u>	<u>(16,652)</u>	<u>1,100</u>	<u>151</u>	<u>(127,989)</u>
Total capital assets, depreciated, net	207,504	(8,797)	(181)	10,592	209,118
Total capital assets, net	<u>\$ 238,188</u>	<u>\$ (1,503)</u>	<u>\$ (519)</u>	<u>\$ 82</u>	<u>\$ 236,248</u>

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

*Construction in progress*

Construction in progress consists of projects for drainage systems, water irrigation and collection systems, gas collection systems, monitoring systems, truck scales automatic systems, landfill grading and re-vegetation. The projects at June 30, 2009 and 2008 are as follows:

<u>Landfill</u>	<u>2009</u>	<u>2008</u>
Frank R. Bowerman (FRB)		
FRB - Phase 8 East Flank/Buttress Excavation	\$ 1,115	\$ -
FRB - Construction Management and Construction Quality Control Services	2,291	1,070
FRB - Temporary Landslide Backcut Excavation	14,243	2,736
Olinda Alpha		
Olinda - Truck Scales Installation	1,127	-
Other	2,280	944
Total construction in progress	<u>\$ 21,056</u>	<u>\$ 4,750</u>

*Construction Contracts*

OC Waste & Recycling entered into various construction contracts to facilitate its landfill operations. At June 30, 2009, OC Waste & Recycling is committed to open construction contracts for the following projects:

Olinda Truck Scales Installation	\$ 2,100
Prima Constr Admin/Crew Quarters	5,250
FRB Phase 8 East Flank/Buttress Excavation	2,300
FRB Construction Management, CQA Slide/Buttress	2,200
Total	<u>\$ 11,850</u>

**NOTE 6 - DEFINED BENEFIT PENSION PLAN**

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

OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each OC Waste & Recycling employee receives a defined-benefit pension at retirement, that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

amount of money credited to the employee's account at the time of retirement. The OCERS Board does not set the benefit amounts. OCERS administers benefits that are set by the County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement Law.

Funding Policy: In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For the years ended June 30, 2009 and 2008, employer's contributions as a percentage of covered payrolls were 22.20% and 22.56%, respectively, for General members.

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

OC Waste & Recycling's total payroll expense was \$18,053, \$16,138, and \$15,811 and the payroll expense for employees covered by OCERS was \$17,944, \$16,072, and \$15,672 for the years ended June 30, 2009, 2008, and 2007, respectively. Total pension expense (which equals the actuarially required contributions) for OC Waste & Recycling was \$3,814, \$3,499, and \$3,218 for the years ended June 30, 2009, 2008, and 2007, respectively.

**NOTE 7 – POSTEMPLOYMENT HEALTH CARE BENEFITS**

In compliance with GASB Statement No. 45 "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*," the County implemented the annual Other Post Employment Benefit (OPEB) cost calculation in fiscal year 2007-08 based on the Annual Required Contribution (ARC), which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period of time not to exceed thirty years. The County also elected to compute the Net OPEB Obligation (NOO) at transition retroactively, using a 1-year look back period.

Plan: OC Waste & Recycling is a participant in the County of Orange's Third Amended Retiree Medical Plan (The Retiree Medical Plan). The Retiree Medical Plan is a single employer defined benefit Other Post Employment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the County Board of Supervisors. The Board is also the authority for amending the Plan. Eligible

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plan and/or Medicare A and/or B premiums.

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

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

Funding Policy: As an enterprise fund of the County of Orange, OC Waste & Recycling is required to contribute a percentage of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$449 for the year ended June 30, 2009, which is 100% of the annual required contribution.

For additional details on the Retiree Medical Plan, actuarial assumptions, funded status of the plan and required supplemental information refer to the County's Comprehensive Annual Financial Report (CAFR).

**NOTE 8 - LONG-TERM DEBT**

*1997 Refunding Revenue Bonds*

In November 1997, the Orange County Public Financing Authority (OCPFA) issued \$77,300 in revenue bonds, with interest rates ranging from 4.375% to 5.75%, to advance refund the 1988 Certificates of Participation, with interest rates ranging from 7.20% to 7.875%, which were originally issued in December 1988 maturing in installments through December 1, 2013. The defeased debt is no longer outstanding. The bonds were issued at a premium of \$2,190. These refunding revenue bonds are payable through December 2013 from OC Waste & Recycling's net operating revenues and are not a general obligation of the County. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120% of the aggregate debt service requirement over the life of the bonds. For the years ended June 30, 2009 and 2008, the principal and interest paid were \$7,130 and \$7,119, and the total net revenues as defined by the bond covenants were \$29,296 and \$20,773, respectively. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120% of the aggregate debt service requirement, over the life of the bonds. The outstanding principal amount and interest on these bonds as of June 30, 2009 and 2008 were \$31,550 and \$4,462; and \$36,860 and \$6,354, respectively.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7,274. In accordance with GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities", this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through fiscal year 2014 using the effective interest method.

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

*Annual Principal and Interest Requirements*

Annual debt service requirements for the outstanding revenue bonds as of June 30, 2009, excluding the premium and deferred charges on refunding, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 5,620	\$ 1,584
2011	5,950	1,252
2012	6,305	899
2013	6,655	543
2014	7,020	184
 Total 1997 Refunding Revenue Bonds	 <u>\$ 31,550</u>	 <u>\$ 4,462</u>

Long-term liability activities for the year ended June 30, 2009 were as follows:

<u>Long - Term Liabilities</u>	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due Within</u> <u>One Year</u>
Revenue bonds	\$ 36,860	\$ -	\$ (5,310)	\$ 31,550	\$ 5,620
Less premium/deferred amount on refunding, net	(683)		276	(407)	(214)
Total bonds payable, net	<u>36,177</u>	<u>-</u>	<u>(5,034)</u>	<u>31,143</u>	<u>5,406</u>
 Compensated absences	 2,188	 2,443	 (1,939)	 2,692	 1,372
Closure and postclosure care costs	191,204		(18,155)	173,049	1,906
Total other long-term liabilities	<u>193,392</u>	<u>2,443</u>	<u>(20,094)</u>	<u>175,741</u>	<u>3,278</u>
Total long-term liabilities	<u>\$ 229,569</u>	<u>\$ 2,443</u>	<u>\$ (25,128)</u>	<u>\$ 206,884</u>	<u>\$ 8,684</u>

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

*Annual Principal and Interest Requirements (Continued)*

Long-term liability activities for the year ended June 30, 2008 were as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Long - Term Liabilities					
Revenue bonds	\$ 41,890	\$ -	\$ (5,030)	\$ 36,860	\$ 5,310
Less premium/deferred amount on refunding, net	(1,010)	327	-	(683)	(277)
Total bonds payable, net	40,880	327	(5,030)	36,177	5,033
Compensated absences	2,704	1,069	(1,585)	2,188	1,343
Closure and postclosure care costs	182,366	9,875	(1,037)	191,204	1,037
Total other long-term liabilities	185,070	10,944	(2,622)	193,392	2,380
Total long-term liabilities	\$ 225,950	\$ 11,271	\$ (7,652)	\$ 229,569	\$ 7,413

**NOTE 9 - ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS**

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

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

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

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

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

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

The total landfill closure and postclosure care liability for the years ended June 30, 2009 and 2008 were \$173,049 and \$191,204, respectively. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (24.51% for FRB, 77.82% for Olinda Alpha and 21.75% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. As a result of the landfill expansion at the FRB landfill in FY 2008-09, the total estimated maximum capacity has increased, thereby reducing the cumulative percentage of landfill used and the total landfill closure and postclosure care liability at June 30, 2009. OC Waste & Recycling will recognize the remaining estimated cost of closure and postclosure care of \$169,813 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008 dollars (using the 2008 inflation factor of 1.022). OC Waste & Recycling has enough landfill capacity to operate the system for a minimum of twenty-five years. However, OC Waste & Recycling intends to operate the landfills well beyond this period as a result of approved and planned expansions.

In compliance with the California Integrated Waste Management Board's regulations, OC Waste & Recycling makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the state mandated formula. Also in compliance with regulations, OC Waste & Recycling has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure costs. The agreements state that OC Waste & Recycling pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OC Waste & Recycling ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OC Waste & Recycling has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted for inflation, 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, 2009 and 2008, a total of \$118,424 and \$115,040, respectively, has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs.

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities, acceptable and prohibited waste types, and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever operated by the County. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase. Refer to Note 10, Pollution Remediation Obligations and Note 11, Commitments and Contingencies for additional discussion.

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

**NOTE 10 – POLLUTION REMEDIATION OBLIGATIONS**

GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*”, requires government agencies to identify and disclose current and potential pollution remediation obligations. OC Waste & Recycling was required to implement this statement retroactively in the fiscal year ending June 30, 2009. To comply with GASB 49, OC Waste & Recycling program staff worked with County Counsel to identify any closed landfill sites not accounted for under GASB 18 that have had obligating events resulting in current and potential liabilities. Four 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. Because the Pollution Remediation Obligations began prior to the fiscal year ending June 30, 2009, the net assets beginning balance on July 1, 2009 has been reduced by \$10,518, which represents the combined estimated liabilities for the four sites. The combined Pollution Remediation Obligation ending balance for the fiscal year ending June 30, 2009 after deducting actual Pollution Remediation expenses incurred during fiscal year 2009 and 2008 are \$9,384 and \$10,518, respectively.

*Cannery Former Refuse Disposal Station*

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

The City, County and School District entered into a Settlement Agreement in 2007 whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas. Pursuant to the Settlement Agreement, the County is currently installing a landfill gas collection and control system at the site. Construction is anticipated to be complete in October of 2009. The remaining cost to the County for the design and construction of the system, and the cost to prepare a cooperative Site Maintenance Plan is \$316.

Upon completion of the landfill gas system construction, the County will retain responsibility for the operation, maintenance, and monitoring of that system. 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 and 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 \$653.

Total obligations for landfill gas remediation at the Cannery site over the anticipated 15-year operational period is \$969.

*Lane Road Former Refuse Disposal Station*

The site located in the City of Irvine and owned by NGP Realty Sub, L.P and others, was leased and operated by the County of Orange as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owner requiring them to remedy the

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Lane Road Former Refuse Disposal Station (Continued)*

landfill gas exceedences, and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with the CEO Risk Management. The County entered into a Settlement Agreement with the property owner in 2005. Per terms of that Settlement Agreement, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and is constructing an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site. The County anticipates that this construction will be completed in October of 2009.

Remaining cost to the County for the design and construction of the system is \$875.

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal 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 will be highest in the full first year of operation when the carbon canisters will likely need 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. Anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$4,987.

Total obligation for landfill gas remediation at the Lane Road site over the anticipated 25-year operational period is \$5,862.

*San Joaquin Former Refuse Disposal Station*

The site, owned by the University of California at Irvine, was leased and operated by the County of Orange as a refuse disposal facility from 1954 to 1961. In 1996 a portion of the site was sold to the Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with the University that was approved by the Board of Supervisors in May, 2005. Pursuant to the Cooperative Agreement, the County is currently constructing a landfill gas collection and control system, including a carbon treatment element. The County anticipates construction of the system will be completed in October, 2009.

Remaining cost to the County for the design and construction of the system is \$293.

Upon completion of the landfill gas system construction, the County will retain 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. Anticipated costs to operate, maintain and monitor the landfill gas collection system remaining anticipated operational period are \$2,071.

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*San Joaquin Former Refuse Disposal Station (Continued)*

The total obligation for landfill gas remediation at the San Joaquin site over the anticipated 15-year operational period is \$2,364.

*La Veta Former Refuse Disposal Station*

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

DTSC has requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County is conducting a series of additional site investigations and assessments. Upon completion of these site assessments and based on the results contained therein, it is possible that DTSC will renew its request for a Voluntary Cleanup Agreement.

The County is currently performing a complete environmental assessment of the sight, under oversight by the DTSC. Remaining cost to the County for performing the site assessment work is \$190.

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

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

*Litigation*

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

*Forster Refuse Disposal Station #17*

The site, located in the City of San Juan Capistrano, 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. The County cannot estimate the costs to re-close the site. The costs, however, could be substantial. The owner has not initiated litigation. It is possible, however, that the County could incur significant costs if the matter results in litigation.

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Other Contingencies and Subsequent Events*

On September 12 and 25 and October 24, 2006, the County Board of Supervisors approved agreements with a number of employee bargaining units addressing the County's Retiree Medical Plan and the method by which current employee and retiree health insurance premiums would be determined. On November 21, 2007, the Retired Employees Association of Orange County, Inc. (REAOC, Plaintiff) served a Complaint for Declaratory and Injunctive Relief (Complaint) with the County seeking declaratory and injunctive relief to prevent the County from implementing certain health benefit program changes on County retirees.

The County and REAOC filed, on November 20, 2008, cross motions for summary judgment. Oral argument on both motions was heard on December 22, 2008 and on June 19, 2009, the Court issued an order granting the Defendant's Motion for Summary Judgment and denying as moot, the Plaintiff's Motion for Summary Adjudication. Costs were awarded for the County in the amount of \$36.

On June 30, 2009 REAOC's attorney's filed their notice of appeal with the Ninth Circuit and their opening brief is due Friday August 28, 2009. The County's brief is due September 28, 2009.

It is difficult to predict the County's potential liability at this time; however, should the Plaintiffs succeed in their overall efforts, this lawsuit could have a significant financial impact on the County. In addition to the accrued liabilities for self-insurance claims incurred but not reported and other litigation and claims described previously, the County is also a defendant in other lawsuits and claims arising from, among other things, claim for reimbursement and tax disputes. Although the aggregate amount asserted in such lawsuits and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or changes in financial position of the funds of the County.

As the owner and/or operator of a number of active and former solid waste disposal sites, OC Waste & Recycling has potential exposure to environmental liability even though these sites have not incurred obligating events like those sites identified in Note 10. Many of the former disposal sites were operated under lease agreements with the property owners. OC Waste & Recycling may be required to perform corrective action at any of its current or former refuse disposal stations and landfills, irrespective of past or current County ownership of the site. OC Waste & Recycling completed preliminary environmental site assessments for the former solid waste disposal sites with their Closed Landfills Environmental Assessment and Response (CLEAR) Project. On the basis of information currently available, OC Waste & Recycling management believes it has sufficient reserves for known and potential remediation costs. At June 30, 2009, amounts designated in restricted net assets totaled approximately \$80.6 million.

On October 6, 2009, the Orange County Board of Supervisors (the Board) authorized the borrowing of up to \$22,000 from the OC Waste & Recycling's Post Closure Maintenance Fund (Fund 279) to assist in funding the County's upcoming Information Technology projects including the Assessment Tax System, Property Tax Management System, and Countywide Accounting and Personnel Human Resources / Payroll System. The plan approved by the Board included provisions for the repayment of these funds, including interest, over a five year period, beginning in FY 2010-11 and ending in FY 2014-15. Subsequent to the Board action, it was determined that the funds to be borrowed for these projects will come from OC Waste & Recycling's Environmental Reserve Fund 275 instead of the Landfill Postclosure Maintenance Fund 279. Additional action will be required to authorize this change, which will include a 2<sup>nd</sup> Quarter Budget adjustment.

**OC WASTE & RECYCLING  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008  
(Dollar Amounts in Thousands)**

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

*Commitments Under Operating Leases*

OC Waste & Recycling leases various equipment used at the waste disposal sites on a short-term basis and office space under operating leases, which are primarily on a month-to-month basis. Total future minimum lease payments under non-cancelable lease agreements with terms greater than one year as of June 30, 2009 and 2008 are not significant.

**NOTE 12 – INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2009 and 2008 are as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund	2009	2008
General Fund	Waste Management	\$ 2,219	\$ 1,780
Other Governmental Funds	Waste Management	2	1
Roads	Waste Management	-	1
Flood Control District	Waste Management	1	7
Internal Service Funds	Waste Management	23	58
Total Due to Other Funds:		<u>\$ 2,245</u>	<u>\$ 1,847</u>
Waste Management	General Fund	\$ -	\$ 1
Waste Management	Roads	6	6
Waste Management	Flood Control District	4	46
Waste Management	OC Parks	1	1
Waste Management	Internal Service Funds	14	-
Total Due From Other Funds:		<u>\$ 25</u>	<u>\$ 54</u>

Amounts payable to the General Fund represents net importation revenue to pay bankruptcy related obligations in accordance with the County’s comprehensive recovery plan.

**NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS APPLICABLE TO OC WASTE & RECYCLING**

The following lists recent GASB pronouncements implemented or are effective in FY 2008-09:

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. OC Waste & Recycling has implemented this statement for the fiscal year ending June 30, 2009. For additional information, refer to Note 10 – Pollution Remediation Obligations.

In March 2009, GASB issued Statement No. 55, *“The Hierarchy of General Accepted Accounting Principles for State and Local Governments.”* This statement incorporates the hierarchy of GAAP for state and local governments into the GASB authoritative literature. The goal of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all GAPP for state and local governments so that they derive from a single source. The requirements of this statement are effective upon issuance.

**OC WASTE & RECYCLING**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollar Amounts in Thousands)**

**NOTE 13 – NEW ACCOUNTING PRONOUNCEMENTS APPLICABLE TO OC WASTE & RECYCLING (CONTINUED)**

In March 2009, GASB issued Statement No. 56, “*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*” This statement incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards into the GASB. The objective of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all sources of GAAP so that they derive from a single source. The requirements of this statement are effective upon issuance.

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

In June 2007, GASB issued Statement No. 51, “*Accounting and Reporting for Intangible Assets*”. This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires OC Waste & Recycling to implement this statement in FY 2009-10. OC Waste & Recycling is in the process of assessing the impact of GASB 51 on the financial statements.

In June 2008, GASB issued Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*”. This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the OC Waste & Recycling to implement this statement in the fiscal year ending June 30, 2010. Currently, the County Treasurer’s Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County’s investment pools and the Public Financing Advisory Committee policy prohibits derivative debt instruments.

## **OTHER REPORT**



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Board of Supervisors  
County of Orange, California

We have audited the financial statements of the Orange County Waste and Recycling Enterprise Fund (OCWR), an enterprise fund of the County of Orange, California, as of and for the year ended June 30, 2009, which collectively comprise OCWR's basic financial statements and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects OCWR's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of OCWR's financial statements that is more than inconsequential will not be prevented or detected by OCWR's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by OCWR's internal control.

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

## Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Supervisors, the Audit Oversight Committee and management of OCWR and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California  
December 7, 2009