



Financial Statements
June 30, 2021

OC Waste & Recycling

(An Enterprise Fund of the County of Orange, California)

OC WASTE & RECYCLING

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Independent Auditor's Report

To the 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, 2021, 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 & Recycling, as of June 30, 2021, and the changes in financial position and cash flows thereof 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 1 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, 2021, the changes in its financial position or its cash flows for the year then ended in accordance 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 basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 17, 2021, on our consideration of OC Waste & Recycling'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 solely 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 effectiveness of the OC Waste & Recycling's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OC Waste & Recycling's internal control over financial reporting and compliance.



Laguna Hills, California
December 17, 2021

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021
(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, 2021. 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 for the year ended June 30, 2021 is \$41,515, or a decrease of 21.0% from the prior fiscal year. The primary factors attributable to the change in net position includes operating income of \$45,353, nonoperating revenues and expenses of \$3,671, transfers in from County funds of \$709, and transfers out to County funds of \$8,218.
- Operating expenses increased by \$3,904, or 3.0%, for the year ended June 30, 2021. The increase is primarily due to the net of the increases in services and supplies by \$9,710 and professional and specialized services by \$2,293 and the decreases in closure and postclosure care costs by \$3,899 and taxes and other fees by \$2,808.
- Disposal revenue increased by \$358, or 0.2%, for the year ended June 30, 2021. The increase is primarily due to the decrease in importation disposal revenue by \$4,863 and increase in in-county disposal revenue by \$5,219.
- OC Waste & Recycling allocated \$7,165 or 50% of the net importation revenue to the County General Fund to be used for implementation of Civic Center Facilities Strategic Plan approved by the County Board of Supervisor for the year ended June 30, 2021.

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, 2021
(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, 2021, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$755,965.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021
(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, 2021			
	2021	2020	2021 vs 2020 % change
ASSETS			
Current and other assets	\$ 724,059	\$ 702,334	3.1%
Capital assets	326,868	330,058	-1.0%
TOTAL ASSETS	1,050,927	1,032,392	1.8%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	11,292	9,270	21.8%
Deferred outflows of resources related to OPEB	255	290	-12.1%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,547	9,560	20.8%
LIABILITIES			
Current and other liabilities	51,672	71,800	-28.0%
Noncurrent liabilities	243,264	248,707	-2.2%
TOTAL LIABILITIES	294,936	320,507	-8.0%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	11,173	6,683	67.2%
Deferred inflows of resources related to OPEB	400	312	28.2%
TOTAL DEFERRED INFLOWS OF RESOURCES	11,573	6,995	65.4%
NET POSITION			
Net investment in capital assets	326,644	329,947	-1.0%
Restricted	36,404	37,533	-3.0%
Unrestricted	392,917	346,970	13.2%
TOTAL NET POSITION	\$ 755,965	\$ 714,450	5.8%

OC Waste & Recycling's total assets increased by \$18,535, or 1.80%, from June 30, 2020, primarily due to capital asset acquisitions including the purchase of heavy equipment, construction in progress for the Groundwater Protection and Stockpile Project, Liner Restoration, and South East Perimeter Road Construction at Frank R. Bowerman Landfill, Building and Building Improvements for the Prima Steel Materials Storage Structure at Frank R. Bowerman Landfill, and Infrastructure for the Bee Canyon Greenery at Frank R. Bowerman Landfill and Capistrano Greenery at Prima Deshecha Landfill.

OC Waste & Recycling's total liabilities decreased by \$25,571, or 8.0%, from June 30, 2020, primarily due to decreases in amounts due to other funds, accounts payable, and net pension liability.

OC Waste & Recycling's total deferred outflows of resources increased by \$1,987, or 20.8%, primarily due to the increase in deferred outflows related to pension as a result of an investment gain, which reflects the change in net pension liability measurements as required by GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27," and employer pension contributions made after the measurement date as required by GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68".

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Total deferred inflows of resources increased by \$4,578, or 65.4%, primarily due to the changes in the net pension liability calculated as required by GASB Statement No. 68.

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

For the year ended June 30, 2021, change in net position is \$41,515, or a decrease of 21.0% from the prior year.

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

TABLE 2			
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION			
FOR THE YEAR ENDED JUNE 30, 2021			
	<u>2021</u>	<u>2020</u>	2021 vs 2020 % change
OPERATING REVENUES			
Disposal fees	\$ 175,144	\$ 174,786	0.2%
Other charges for services	166	19	773.7%
Use of property, licenses, permits & franchise fees	4,525	4,685	-3.4%
TOTAL OPERATING REVENUES	<u>179,835</u>	<u>179,490</u>	0.2%
OPERATING EXPENSES			
Salaries and employee benefits	26,845	28,427	-5.6%
Services and supplies	38,471	28,761	33.8%
Professional and specialized services	20,137	17,844	12.9%
Other operating expenses	27,198	33,930	-19.8%
Depreciation and amortization	21,831	21,616	1.0%
TOTAL OPERATING EXPENSES	<u>134,482</u>	<u>130,578</u>	3.0%
OPERATING INCOME	<u>45,353</u>	<u>48,912</u>	-7.3%
NONOPERATING REVENUES (EXPENSES), NET	<u>3,671</u>	<u>13,445</u>	-72.7%
INCOME BEFORE TRANSFERS	49,024	62,357	-21.4%
Transfers in	709	710	-0.1%
Transfers out to County funds	<u>(8,218)</u>	<u>(10,536)</u>	-22.0%
CHANGE IN NET POSITION	41,515	52,531	-21.0%
NET POSITION - BEGINNING OF YEAR	714,450	661,919	7.9%
NET POSITION - END OF YEAR	\$ 755,965	\$ 714,450	5.8%

OC WASTE & RECYCLING
 Management's Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2021
 (Dollar Amounts in Thousands)

Operating Revenues

For the year ended June 30, 2021, total operating revenues increased by \$345, or 0.2%, due primarily to decreases in importation disposal tonnage and fees of \$4,863 and use of property of \$190 and increases in in-county disposal tonnage and fees of \$5,220 and other charges for services of \$147.

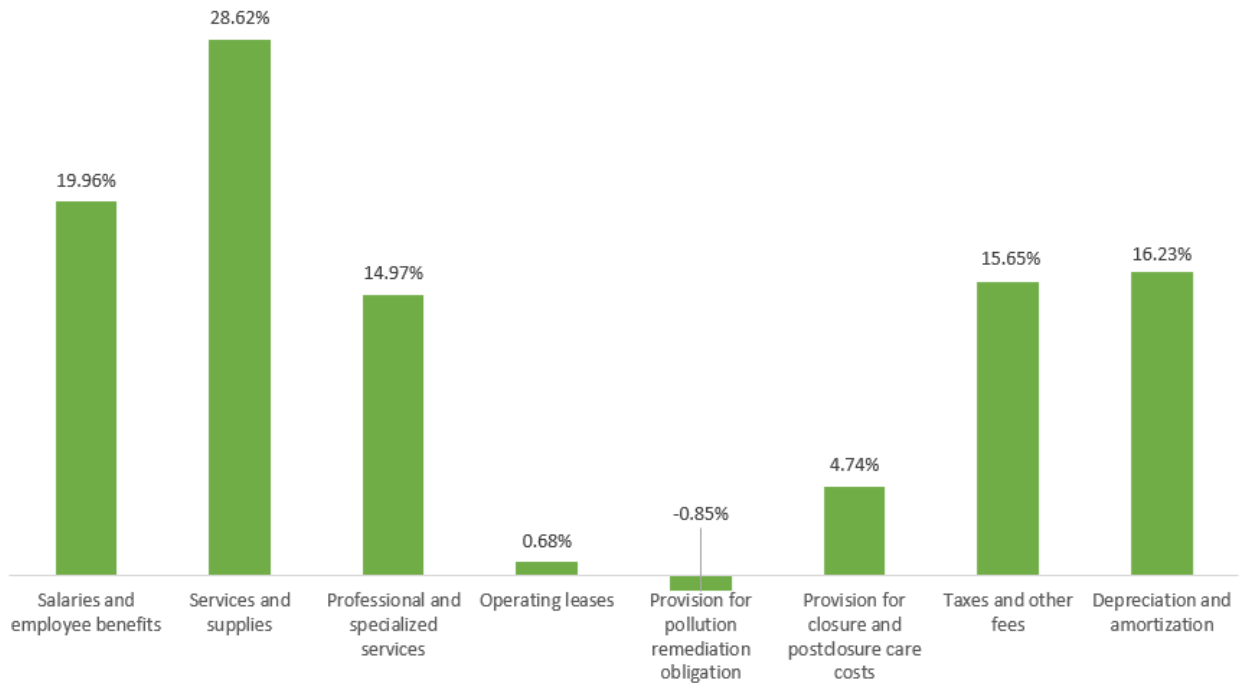
Disposal fees that are charged to users of the waste disposal sites comprise the largest revenue source of OC Waste & Recycling at approximately 97.4%. Other operating revenues include royalties received from the landfill gas rights, rents, and other fees.

Operating Expenses

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, 2021, total operating expenses increased by \$3,904, or 3.0%, due is primarily due to the net of the increases in services and supplies by \$9,710, professional and specialized services by \$2,293, operating leases by \$313, and depreciation expense by \$215 and the decreases in salaries and employee benefits by \$1,582, pollution remediation expense by \$338, closure and postclosure care costs by \$3,899 and taxes and other fees by \$2,808.

Operating Expenses FY 2021



OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Nonoperating Revenues and Expenses

For the year ended June 30, 2021, nonoperating revenues and expenses decreased by \$9,774, or 72.7%, due primarily to a decrease in interest 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, 2021, investment in capital assets (net of accumulated depreciation / amortization) decreased by \$3,190 or 1.0%.

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/AMORTIZATION)			
JUNE 30, 2021			
	2021	2020	2021 vs 2020 % change
CAPITAL ASSETS			
Land (Nondepreciable)	\$ 22,701	\$ 22,701	0.0%
Construction in progress (Nondepreciable)	11,446	7,808	46.6%
Intangible assets in progress (Nondepreciable)	306	306	0.0%
Land Improvements (Depreciable)	584	603	-3.2%
Buildings and structures (Depreciable)	13,930	14,521	-4.1%
Equipment (Depreciable)	43,945	40,513	8.5%
Infrastructure (Depreciable)	232,786	242,293	-3.9%
Software (Amortizable)	1,170	1,313	-10.9%
TOTAL CAPITAL ASSETS	\$ 326,868	\$ 330,058	-1.0%

The major capital asset events during fiscal year (FY) 2020-21 were the completion of the Bee Canyon Greenery at the Frank R. Bowerman Landfill and the Capistrano Greenery at Prima Deshecha Landfill, which are commercial scale composting facilities.

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

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

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 active regional landfill operations, 21 closed waste disposal sites, and four household hazardous waste collection centers. The three active landfill sites are located in Brea (North Region), Irvine (Central Region) and San Juan Capistrano (South Region). The four household hazardous waste collection centers are located in the cities of Anaheim, Huntington Beach, Irvine, and San Juan Capistrano.

In-county tonnage received by the system continues to be below the trend projected in the original Gate Fee Model for Waste Disposal Agreements approved on May 27, 2009. In an effort to mitigate the loss of in-county tonnage revenue and projected tonnage loss due to changes in legislation, OC Waste & Recycling obtained approval of Amendment I to the Waste Disposal Agreements from the County Board of Supervisors in 2016, which allowed the continuation of importation tonnage beyond June 30, 2016 and after the County bankruptcy related obligations were satisfied. In November 2018, OC Waste & Recycling successfully executed a new Cooperative Agreement with the City of San Juan Capistrano, which helps in maximizing the total volume capacity at the Prima Deshecha Landfill by allowing revisions to the Solid Waste Facility Permits for Zone 1 and Zone 4. Both the Amendment I to the Waste Disposal Agreements and the new Cooperative Agreement with the City of San Juan Capistrano are critical to ensuring long-term and stable disposal rates and ensuring long-term disposal capacity for Orange County residents and cities.

In May and June 2021, the County Board of Supervisors approved the new Exclusive Franchise Agreements executed and administered by OC Waste & Recycling. This approval will allow discarded materials management services to continue uninterrupted for the franchise areas located in the unincorporated parts of Orange County, and allow OC Waste & Recycling to maintain compliance with state regulations, specifically with the Senate Bill (SB) 1383 to reduce emission of short-lived climate pollutants.

Composting Facilities

In 2016 and 2018, the Legislature passed SB 1383 and Assembly Bill (AB) 1594, which established statewide goals to divert organic waste from disposal and eliminated diversion credits for usage of mulch as an alternative daily cover for landfill operations. In responding to these legislation changes, OC Waste and Recycling has expanded its waste management portfolio with the operation of two new organic waste composting facilities at Central Region and South Region landfills to transform organic waste into compost products for beneficial reuse. A third facility for North Region's Olinda Alpha landfill is in the final stage of design process with a tentative construction start date in June 2022. Collectively, these three facilities will help to support the lack of composting infrastructures within Orange County and allow the County and participating jurisdictions to meet the requirements of SB 1383 and AB 1594. Organic waste processed at these greeneries will divert green waste from the landfills, which will save landfill airspace and extend the County landfill system's disposal capacity.

Several key projects completed during FY 2020-21 or continued to the following year include:

- Completed construction of Bee Canyon Greenery (Central Region) and Capistrano Greenery (South Region) in September 2020 and February 2021, respectively.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

- Frank R. Bowerman Liner Restoration from Silverado Fire damage was completed in September 2021.
- Frank R. Bowerman Southeast Perimeter Road Construction has an estimated completion date of December 2021.
- Valencia Greenery (North Region) construction project has an estimated completion date of August 2022.
- Prima Deshecha Fee Booth Relocation & Entrance Improvement project is in the design work in process with an estimated project completion of November 2022.
- Frank R. Bowerman Groundwater Projection and Stockpile project has an estimated completion of July 2023.

Renewable Energy Facilities and Planning

In FY 2020-2021, over 404,000 MWh of renewable energy was generated, with an approximate equivalent of providing electricity for 59,513 homes in the County. As a result, \$4.03 million in royalty revenue was generated from OC Waste & Recycling's three landfill gas-to-electricity facilities.

In June 2018, the Board of Supervisors selected a firm for energy redevelopment at the closed Coyote Canyon Landfill. OC Waste & Recycling has begun the negotiation process to enter into a long-term agreement where the County delivers landfill gas to a new developer owned and operated renewable energy facility in exchange for royalty payments.

In June 2019, the primary developer withdrew its proposal and OC Waste & Recycling proceeded with the energy redevelopment program by negotiating with the secondary developer.

In May 2021, the second developer executed an option agreement with OC Waste & Recycling in order to evaluate the feasibility of the proposed renewable energy project before deciding to enter into a license agreement

In advance of the termination of the energy contract at Prima Deshecha in October 2022, staff has been actively investigating new opportunities for the beneficial use of landfill gas. Potential strategies include the generation of electricity using newer technologies, creating Renewable Natural Gas and other low carbon fuels, and other approaches that obviate the need for flaring.

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, 601 N. Ross Street, 5th Floor, Santa Ana, CA 92701, or you can access our website at <http://ocelandfills.com>.

OC WASTE & RECYCLING
Statement of Fund Net Position
June 30, 2021
(Dollar Amounts in Thousands)

ASSETS

Current unrestricted assets:	
Pooled cash and investments	\$ 518,786
Imprest cash funds	35
Accounts receivable, net	15,667
Interest receivable	708
Prepaid costs	3,273
Due from other governmental agencies	1,570
Due from other funds of the County	1,108
Total current unrestricted assets	541,147
Current restricted assets:	
Pooled cash and investments - customer deposits	854
Deposits in-lieu of cash	17,753
Total current restricted assets	18,607
Total current assets	559,754
Noncurrent assets:	
Restricted assets:	
Pooled cash and investments - customer deposits	18
Pooled cash and investments - contractor deposits	218
Pooled cash and investments - corrective action	10,435
Pooled cash and investments - Frank R. Bowerman landfill wetland and Agua Chinon Wash habitat mitigation	879
Pooled cash and investments - closure and postclosure care costs	97,755
Total noncurrent restricted assets	109,305
Capital assets:	
Nondepreciable/ nonamortizable	34,453
Depreciable/ amortizable, net	292,415
Capital assets, net	326,868
Advances to other County funds	55,000
Total noncurrent assets	491,173
Total assets	1,050,927
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pension	11,292
Deferred outflows of resources related to OPEB	255
	11,547

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Fund Net Position
June 30, 2021
(Dollar Amounts in Thousands)

LIABILITIES

Current liabilities (payable from unrestricted assets):	
Accounts payable	6,041
Retainage payable	455
Salaries and accrued employee benefits payable	980
Accrued closure and postclosure care costs	3,920
Pollution remediation obligation	610
Unearned revenue	68
Compensated employee absences payable	1,434
Due to other funds of the County	8,823
Due to other governmental agencies	10,498
Total current liabilities (payable from unrestricted assets)	32,829
Current liabilities (payable from restricted assets):	
Deposits from others	18,843
Total current liabilities (payable from restricted assets)	18,843
Total current liabilities	51,672
Noncurrent liabilities:	
Compensated employee absences payable	921
Accrued closure and postclosure care costs	182,914
Pollution remediation obligation	13,058
Net pension liability	43,158
Net OPEB liability	3,213
Total noncurrent liabilities	243,264
Total liabilities	294,936
DEFERRED INFLOW OF RESOURCES	
Deferred inflows of resources related to pension	11,173
Deferred inflows of resources related to OPEB	400
	11,573

NET POSITION

Net investment in capital assets	326,644
Restricted:	
Landfill closure and postclosure	25,053
Landfill corrective action	10,472
Frank R. Bowerman landfill	879
Unrestricted	392,917
Total net position	\$ 755,965

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

OPERATING REVENUES	
Disposal fees	\$ 175,144
Other charges for services	166
Use of property	4,375
Licenses, permits, and franchise fees	150
Total operating revenues	<u>179,835</u>
OPERATING EXPENSES	
Salaries and employee benefits	26,845
Services and supplies	38,471
Professional and specialized services	20,137
Operating leases	920
Provision for pollution remediation obligation	(1,137)
Provision for closure and postclosure care costs	6,373
Taxes and other fees	21,042
Depreciation and amortization	21,831
Total operating expenses	<u>134,482</u>
Operating income	<u>45,353</u>
NONOPERATING REVENUES	
Intergovernmental revenue	305
Fines, forfeitures and penalties	139
Interest income	1,024
Gain on disposal of capital assets, net	253
Other revenues	1,950
Total nonoperating revenues	<u>3,671</u>
Income before transfers	49,024
Transfers in from County funds	709
Transfers out to County funds	<u>(8,218)</u>
Change in net position	41,515
Net position - beginning of year	714,450
Net position - end of year	<u>\$ 755,965</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Cash Flows
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Cash flows from operating activities	
Receipts from customers	\$ 180,482
Payments to suppliers	(69,701)
Payments to employees	(26,742)
Payments to other funds of the County	(10,605)
Landfill site closure and postclosure care costs	(3,920)
Pollution remediation obligation payments	(386)
Taxes and other fees	(21,042)
Other payments	(2,856)
Net cash provided by operating activities	<u>45,230</u>
Cash flows from noncapital and related financing activities	
Transfers out to other funds of the County	(8,218)
Transfers in from other funds of the County	709
Intergovernmental revenues	305
Advances to other funds of the County	(24,948)
Net cash used in noncapital and related financing activities	<u>(32,152)</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(17,510)
Intangible assets obligation	(2)
Proceeds from sale of capital assets	67
Net cash used in capital and related financing activities	<u>(17,445)</u>
Cash flows from investing activities	
Interest on investments	1,722
Net cash provided by investing activities	<u>1,722</u>
Net decrease in cash and cash equivalents	(2,645)
Cash and cash equivalents - beginning of year	631,625
Cash and cash equivalents - end of year	<u>\$ 628,980</u>
Reconciliation of cash and cash equivalents to statement of net position	
Pooled cash and investments - current assets	\$ 518,786
Imprest cash funds	35
Pooled cash and investments - closure and postclosure care costs	97,755
Pooled cash and investments - corrective action	10,435
Pooled cash and investments - Frank R. Bowerman landfill wetland and Agua Chinon Wash habitat mitigation	879
Pooled cash and investments - customer deposits	872
Pooled cash and investments - contractor deposits	218
Total cash and cash equivalents	<u>\$ 628,980</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$	45,353
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		21,831
Fines, forfeitures and penalties		139
Other revenues		1,950
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable		127
Deposits in-lieu of cash		(85)
Prepaid costs		(493)
Due from other funds		(181)
Due from other governmental agencies		512
Deferred outflows of resources related to pension		(2,022)
Deferred outflows of resources related to OPEB		35
Increase (decrease) in:		
Accounts payable		(8,951)
Salaries and accrued employee benefits payable		153
Accrued closure and postclosure care costs		2,453
Pollution remediation obligation		(1,523)
Unearned revenue		4
Compensated employee absences payable		(50)
Due to other funds		(10,424)
Due to other governmental agencies		(2,142)
Deposits from others		93
Net pension liability from pension contribution and expenses		(5,892)
Deferred inflows of resources related to pension		4,490
Net OPEB liability from pension contribution and expenses		(235)
Deferred inflows of resources related to OPEB		88
Net cash provided by operating activities	\$	45,230

Noncash Investing, Capital, and Financing Activities

Gain on disposition of capital assets, net	\$	253
Acquisition of capital assets with accounts payable		672
Acquisition of capital assets with retainage		224

See accompanying notes to financial statements.

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OC WASTE & RECYCLING
Notes to Financial Statements
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

OC Waste & Recycling is operated as a department of the County of Orange, California (County) and is accounted for as an enterprise fund in the basic financial statements of the County. The financial statements presented herein represent the financial position, 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).

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 89% of all solid waste delivered to County landfills and obligate the cities and haulers to deliver all controllable waste to landfills operated by OC Waste & Recycling. The 11% 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 and economic resources 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. 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncement - Change in Accounting Principles

The following lists recent GASB Pronouncements that have been implemented in FY 2020-21:

In January 2017, GASB issued Statement No. 84, “*Fiduciary Activities.*” This statement establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement also describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement did not have an impact on OC Waste and Recycling’s financial statements.

In August 2018, GASB issued Statement No. 90, “*Majority Equity Interests.*” This statement improves the consistency and comparability of a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The statement requires that a component unit in which a government has a 100% equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired 100% equity interest in the component unit. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement did not have an impact on OC Waste and Recycling’s financial statements.

The following summarizes recent GASB Pronouncements that will be implemented in future financial statements, as amended by GASB Statement No. 95. 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 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 inflow of resources. The requirements of this statement are effective for reporting periods beginning after June 15, 2021, which requires OC Waste & Recycling to implement this Statement in FY 2021-22.

In May 2019, GASB issued Statement No. 91, “*Conduit Debt Obligations.*” This statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers’ conduit debt obligations and a description of each type of commitment. The requirements of this statement are effective for reporting periods beginning after December 15, 2021, which requires OC Waste & Recycling to implement this Statement in FY 2022-23.

In January 2020, GASB issued Statement No. 92, “*Omnibus 2020.*” This statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

GASB Statements. The requirements of this statement are effective for reporting periods after June 15, 2021, which requires OC Waste & Recycling to implement the Statement in FY 2021-22.

In March 2020, GASB issued Statement No. 93, “*Replacement of Interbank Offered Rates.*” This statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate due to global reference rate reform. The requirements of this Statement, are effective for reporting periods beginning after June 15, 2021, which requires OC Waste & Recycling to implement this Statement in FY 2021-22.

In March 2020, GASB issued Statement No. 94, “*Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*” This statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. It also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. OC Waste & Recycling will implement this Statement in FY 2022-23.

In May 2020, GASB issued Statement No. 96, “*Subscription-Based Information Technology Arrangements.*” This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. OC Waste & Recycling will implement this Statement in FY 2022-23.

In June 2020, GASB Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*” The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board, and (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans by clarifying the financial burden criteria in Statement No.84. It also extends the accounting and financial reporting requirements related to the Pension Plans, to Section 457 plans that meet the definition of a pension plan. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021 and all reporting periods thereafter, which requires OC Waste & Recycling to implement this Statement in FY 2021-22.

In October 2021, GASB issued Statement No. 98, “*The Annual Comprehensive Financial Report.*” This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The requirements of this Statement are effective for fiscal years beginning after December 15, 2021. OC Waste & Recycling will implement this Statement in FY 2021-22.

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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

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 acquisition 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 commercially acquired intangible software, \$150 for all other intangible assets, \$150 for infrastructure, \$150 for land improvements, 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 85 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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

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 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, 2021, was \$336.

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.

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, 2021, OC Waste & Recycling reported a restricted net position of

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

\$36,404 for landfill closure and postclosure, landfill corrective action, 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 reports 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.

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 from 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.

Other Postemployment Benefits (OPEB)

OC Waste & Recycling recognizes a net OPEB liability to reflect its portion in the County's proportionate share of the excess of the total OPEB liability over the fiduciary net position of the County's Retiree Medical Plan.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 1 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County's Retiree Medical Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Retiree Medical Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 – Importation Revenue Transfer for Bankruptcy Recovery and Importation Revenue Sharing

In late 1995, the County proposed to import out-of-county waste as a new source of revenue for the repayment of County obligations from the bankruptcy in 1994. Pursuant to the proposal, the County obtained legislation exempting OC Waste & Recycling from certain provisions of the California Environmental Quality Act (CEQA), 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 in April 2016 and will terminate on June 30, 2025. These contracts generated revenue of approximately \$13 million of net importation revenue per year for 20 years to support the County General Fund to pay bankruptcy related obligations in accordance with the County's Plan of Adjustment. After the obligations were paid in full in 2017, the importation revenue has been shared between OC Waste & Recycling, the County General Fund and the participating cities in accordance with the Amendment I of the Waste Disposal Agreements approved by the Board of Supervisors in 2016.

During the year ended June 30, 2021, OC Waste & Recycling collected imported waste disposal fees of \$47,515. The County's share of Net Import Revenues totaling \$7,165 was distributed to the County General fund. It is included in the Transfers out to County funds in the accompanying financial statements. The participating cities' share of Net Import Revenues totaling \$7,165 was distributed to the cities. It is included with the Taxes and other fees in the accompanying financial statements.

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 1, the County 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, 2021, the Pool contains investments with an average maturity of 400 days. Interest is apportioned to individual funds based on the average daily balances on deposit with the County Treasurer. The Pool is not registered with the Securities and Exchange Commission (SEC) and is not rated.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 3 – Cash and Investments (Continued)

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2021, were as follows:

Cash and investments pooled by the County Treasurer	\$	628,945
Imprest cash funds		<u>35</u>
Total cash and investments	\$	<u>628,980</u>

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 4.7% of the Pool. Investments in the investment pool are not subject within the level hierarchy. OC Waste & Recycling records its portion of the Pool on an amortized cost basis which approximates fair value.

Interest Rate Risk

The IPS serves as the formal policy for the County 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 in effect for FY 20/21 was last adopted on November 17, 2020.

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, 2021, the major classes of OC Waste & Recycling’s deposits and investments consisted of the following:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
County Investment Pool	\$ 628,945	1.10

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 3 – Cash and Investments (Continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, OC Waste and Recycling 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 County 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, 2021, 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 4 to the County’s Comprehensive Annual Financial Report. The report is available by accessing the Auditor-Controller’s website at <http://www.ac.ocgov.com>.

Note 4 – Accounts Receivable

Accounts receivable as of June 30, 2021, were as follows:

Imported waste disposal fees	\$	4,831
County of Orange (in-county) waste disposal fees		9,681
Miscellaneous		1,156
Allowance for estimated uncollectible receivables		<u>(1)</u>
Total accounts receivable, net		<u>\$ 15,667</u>

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 5 – Prepaid Costs

OC Waste & Recycling prepaid \$6,120 for FY 2021-22, for pension obligations to OCERS in January 2021. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$355, based on the discount rate of 5.48%. 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 pension plan measurement date, half of the prepaid pension contribution is recognized as deferred outflows of resources, and the other half will remain as prepaid costs. Prepaid costs for pension obligation and software licenses, net of amortization reported in the accompanying Statement of Fund Net Position, is \$3,273 for 2021.

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, 2021, was \$17,753.

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.

On June 2, 2020, by Resolution 20-062, the Board authorized the borrowing up to \$114,200 for FY 2020-21. Repayment of the amount to be borrowed includes interest. The actual amount repaid in FY 2020-21 from the Sheriff-Coroner was \$11,000 and OC Community Resources was \$4,052. The outstanding balance as of June 30, 2021, was \$50,000 from the Sheriff-Coroner and \$5,000 from the Probation Department for a total of \$55,000.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 8 – Interfund and Transfers

The composition of interfund balances as of June 30, 2021, was as follows:

Receivable Fund	Payable Funds		
Waste Management	General	\$	274
Waste Management	Roads		3
Waste Management	Animal Shelter Construction		634
Waste Management	Flood Control District		196
Waste Management	Parks		1
Total Due from Other Funds of the County:			<u><u>1,108</u></u>
Waste Management	Sheriff-Coroner		50,000
Waste Management	Probation		5,000
Total Advances to Other Funds:			<u><u>55,000</u></u>
General	Waste Management		8,771
Other Governmental Funds	Waste Management		7
Internal Service Funds	Waste Management		45
Total Due to Other Funds of the County:		\$	<u><u>8,823</u></u>

The Total Due from Other Funds consisted of the amount receivable from General Fund agencies of \$274 primarily for FEMA and American Rescue Plan Act claims. It also included a loan repayment for Animal Shelter Construction projects of \$634. The amount due from the Flood Control District for \$196, Roads Fund for \$3, and OC Parks for \$1 are for disposal charges for landfill usage. Amounts payable by OC Waste & Recycling to General Fund agencies of \$8,823 included net importation revenue in the amount of \$7,405 to pay obligations in accordance with the renewed waste-importation contracts. The advances represented interfund loans made to the Sheriff-Coroner Department and Probation from OC Waste & Recycling for various county projects. Refer to Note 7, Advances to Other County Agencies for County Projects, for additional information.

Total transfer from the Sheriff-Coroner to repay interest for borrowings to fund various county projects was \$22. Total transfer from the OC Community Resources to repay interest for borrowings to fund Animal Care projects was \$687.

Total Transfers out to of \$8,218 are composed primarily of Importation Revenue disbursements to the County General Fund. For additional details on the Importation Revenue Sharing, refer to Note 2.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 9 – Capital Assets

Capital asset activities for the year ended June 30, 2021 were as follows:

	Balance at July 1, 2020	Additions	Deductions	Balance at June 30, 2021
Capital Assets, Not Depreciated/Amortized				
Land	\$ 22,701	\$ --	\$ --	\$ 22,701
Construction in progress	7,808	10,957	(7,319)	11,446
Intangible Assets in progress	306	--	--	306
Total Capital Assets, Not Depreciated/Amortized	<u>30,815</u>	<u>10,957</u>	<u>(7,319)</u>	<u>34,453</u>
Capital Assets, Depreciable/Amortizable				
Land Improvements	611	--	--	611
Building and improvements	29,640	404	--	30,044
Equipment	87,596	9,099	(1,118)	95,577
Infrastructure	472,259	8,163	(3,920)	476,502
Software	1,942	65	--	2,007
Total Capital Assets, Depreciable/Amortizable	<u>592,048</u>	<u>17,731</u>	<u>(5,038)</u>	<u>604,741</u>
Less Accumulated Depreciation/Amortization				
Land Improvements	(8)	(19)	--	(27)
Buildings and improvements	(15,119)	(995)	--	(16,114)
Equipment	(47,083)	(6,609)	2,060	(51,632)
Infrastructure	(229,966)	(14,000)	250	(243,716)
Software	(629)	(208)	--	(837)
Total Accumulated Depreciation/Amortization	<u>(292,805)</u>	<u>(21,831)</u>	<u>2,310</u>	<u>(312,326)</u>
Total Capital Assets, Depreciable/Amortizable, (Net)	<u>299,243</u>	<u>(4,100)</u>	<u>(2,728)</u>	<u>292,415</u>
Total Capital Assets, Net	<u>\$ 330,058</u>	<u>\$ 6,857</u>	<u>\$ (10,047)</u>	<u>\$ 326,868</u>

Total depreciation and amortization expense for the year ended June 30, 2021, was \$21,831.

Construction in Progress

Construction in progress consists of projects for construction of greenery facility, drainage systems, water irrigation, collection systems, landfill gas systems, monitoring systems, landfill grading, re-vegetation, geosynthetic composite liner system, road improvement for landfill operation, and protective cover soil. The projects at June 30, 2021, were as follows:

Landfills

Frank R. Bowerman (FRB)

FRB Phase VIII - A Groundwater Protection & Stockpile Project	\$ 2,077
Bee Canyon Greenery	3,415
FRB VIII B - South East Perimeter Road Construction	2,171
FRB - Liner Restoration	3,170
Other	<u>613</u>

Total construction in progress

\$ 11,446

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 9 – Capital Assets (Continued)

Capital Asset Impairment

In late October 2020, OC Waste & Recycling experienced extensive fire damage at the Frank R. Bowerman landfill (FRB) in Irvine due to the Silverado Fire. Due to this event, the landfill's liner was damaged. The damage is estimated to be at \$3,670 net of accumulated depreciation and to date, the insurance recovery is \$3,828. This resulted in a gain of \$158.

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.

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, 2021, employer's contributions as a percentage of covered payrolls was 39.41% for General Members. OC Waste & Recycling's total contribution to OCERS for the year ended June 30, 2021 was \$5,548.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 10 – Defined Benefit Pension Plan (Continued)

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 covered payroll participating in OCERS was \$19,136 for the year ended June 30, 2021.

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

The County reported a liability of \$3,547,851 for its proportionate share of the net pension liability (NPL), of which OC Waste & Recycling’s allocated share of the County’s NPL totaled \$43,160. The County’s NPL was measured as of December 31, 2020, and the total pension liability was determined by an actuarial valuation from OCERS. OC Waste & Recycling’s allocated share of the County’s NPL is based on an average percentage of actual employer contributions.

OC Waste & Recycling recognized pension expense of \$2,246 for the year ended June 30, 2021, 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, 2021, was \$11,292 and \$11,167, 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 10 – Defined Benefit Pension Plan (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	\$ -	\$ 8,115
Difference Between Expected and Actual Experience	1,091	1,728
Changes of Assumptions	3,865	1,285
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	243	39
County contributions subsequent to the measurement date	3,033	-
County Prepaid Pension Contribution	3,060	-
Total	<u>\$ 11,292</u>	<u>\$ 11,167</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:

Year ending June 30:	
2022	(1,903)
2023	84
2024	(3,409)
2025	(1,141)
2026	401
Thereafter	-

Contributions subsequent to the measurement date of \$3,033 will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

For additional details on the defined benefits pension plan, actuarial assumptions, funded status of the plan and required supplemental information, refer to the County’s Comprehensive Annual Financial Report 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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 11 – Postemployment Health Care Benefits (Continued)

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.

Contributions: As an enterprise fund of the County, OC Waste & Recycling is currently setting aside an actuarially determined contribution of 3.4% of its payroll for the Retiree Medical Plan. OC Waste & Recycling’s contribution was \$651 for the year ended June 30, 2021, which is 100% of the annual required contribution.

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

The County reported a liability of \$305,411 for its proportionate share of the collective net OPEB liability at June 30, 2021. OC Waste & Recycling’s allocated share of the County’s net OPEB liability is \$3,213, which is based on its percentage of actual employer contributions.

OC Waste & Recycling recognized OPEB expense of \$289 for the year ended June 30, 2021, which represents the change in the net OPEB liability 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 OPEB at June 30, 2021, was \$256 and \$400, respectively. Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net OPEB liability to be recognized in future periods in a systematic and rational manner.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on OPEB plan investments	\$ -	\$ 171
Contributions and proportionate share of contributions	42	75
County contributions subsequent to measurement date	214	-
Difference between expected and actual experience	-	123
Changes of assumptions	-	31
Total	\$ 256	\$ 400

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 11 – Postemployment Health Care Benefits (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as follows:

Year ending June 30:	
2022	(81)
2023	(48)
2024	(99)
2025	(58)
2026	(29)
Thereafter	(43)

Contributions subsequent to the measurement date of \$214 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022.

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

Note 12 – Long-Term Obligations

Long-term liability activities for the year ended June 30, 2021, were as follows:

Long-Term Liabilities	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year
Compensated absences	\$ 2,405	\$ 2,456	\$ (2,506)	\$ 2,355	\$ 1,434
Intangible asset obligation	2	-	(2)	-	-
Closure and postclosure care costs	184,381	6,373	(3,920)	186,834	3,920
Pollution remediation obligation	15,191	-	(1,523)	13,668	610
Total long-term liabilities	\$ 201,979	\$ 8,829	\$ (7,951)	\$ 202,857	\$ 5,964

For additional details on the Closure and postclosure care costs and Pollution remediation obligation, refer to Note 13 and Note 14, respectively.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

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 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, 2021, was \$186,834. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (38.61% for FRB, 87.23% for Olinda Alpha and 22.83% 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 \$180,896 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2020 dollars (using the 2020 inflation factor of 1.012). OC Waste & Recycling has enough landfill capacity to operate the system for a minimum of 25 years. However, OC Waste & Recycling estimates that it intends to operate the landfills well beyond this period as a result of approved and planned expansions.

In compliance with Title 27 – *Environmental Protection of California Code of Regulations*, OC Waste & Recycling makes cash contributions as required to its escrow funds to provide financial assurance for estimated future landfill closure costs based on 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

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

As of June 30, 2021, a total of \$97,755 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Fund Net Position as Restricted Pooled Cash and 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. After deducting the pollution remediation expenses incurred during fiscal year 2020-21, the combined pollution remediation obligation as of June 30, 2021 is \$13,668.

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 the Resource and Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation, and Liability Act 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (Continued)

Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, the length of time waste has been buried and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years from beginning of the obligation date. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$27.

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 was 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.

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 from beginning of the obligation date, 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 fiscal year of operation is \$273. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$816.

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 UC Irvine that was approved by the Board in May 2008. Pursuant to the Cooperative Agreement, the County constructed a landfill gas collection and control system, including a carbon treatment element.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (Continued)

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years from beginning of the obligation date. The cost to operate and maintain the landfill gas collection system at the site for the next fiscal year of operation is \$114. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$238.

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 anticipated to be released within five (5) years from the approval of the project grading permits 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 as of June 30, 2021.

The remaining balance for landfill gas remediation at the Forster site is \$7,500 as of June 30, 2021. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

Yorba Refuse Disposal Station

The site, located in Orange, California (Orange), 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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 14 – Pollution Remediation Obligations (Continued)

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 provides a remedy for 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 from beginning of the obligation date, 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 needed 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 fiscal year of operation will be \$219. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$5,087 as of June 30, 2021.

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, 2021, 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 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, 2021, amounts classified in unrestricted net position totaled \$392,917.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2021
(Dollar Amounts in Thousands)

Note 16 – Major Customers

Disposal fees from five (5) major customers accounted for revenues of approximately \$38,715, \$32,923, \$21,889, \$18,741, and \$18,403 during the year ended June 30, 2021. These customers represent 24.72%, 21.02%, 13.98%, 11.97%, and 11.75% of total disposal fee revenue, respectively.

Note 17 – Leases to Others

OC Waste & Recycling leases property to others under operating leases for commercial operations. Future minimum rentals to be received under these non-cancellable operating leases as of June 30, 2021 are as follows:

Fiscal Year Ending June 30	
2022	\$ 4,027
2023	2,316
2024	2,769
2025	3,854
2026	4,063
	17,029
2027-2031	20,417
2032-2036	20,337
	40,754
Total future minimum rentals	\$ 57,783

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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 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 OC Waste & Recycling, an enterprise fund of the County of Orange, California (County) as of and for the year then ended June 30, 2021, and the related notes to the financial statements and have issued our report thereon dated December 17, 2021. Our report includes an emphasis of matter paragraph stating that the financial statements of OC Waste & Recycling do not purport to, and do not, present fairly the financial position of the County as of June 30, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OC Waste & Recycling's internal control over financial reporting (internal control) as a basis for designing 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 OC Waste & Recycling's internal control. Accordingly, we do not express an opinion on the effectiveness of OC Waste & Recycling's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California
December 17, 2021