



Financial Statements
June 30, 2023

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 Audit of the Financial Statements

Opinion

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise OC Waste & Recycling's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of OC Waste & Recycling, as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OC Waste & Recycling and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, 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, 2023, the changes in its financial position, or, where applicable, 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, OC Waste & Recycling has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Agreements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to OC Waste & Recycling's net position as of July 1, 2022, to restate beginning net position. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 OC Waste & Recycling's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 basic financial statements. Such information is the responsibility of management and, 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 20, 2023, 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 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Laguna Hills, California
December 20, 2023

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(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, 2023. 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, 2023 is \$56,817, or an increase of 42.5% from the prior fiscal year. The primary factors attributable to the change in net position includes operating income of \$38,982, nonoperating revenues and expenses of \$26,377, transfers in from County funds of \$66, and transfers out to County funds of \$8,608.
- Operating expenses increased by \$27,328, or 20.3%, for the year ended June 30, 2023. The increase is primarily due to the increases in closure and postclosure care cost of \$12,430, salaries and employee benefits of \$7,827, services and supplies by \$5,161 and professional and specialized services by \$1,257.
- Disposal revenue increased by \$12,377, or 6.8%, for the year ended June 30, 2023. The increase is primarily due to the increase in in-county disposal revenue by \$10,659.
- OC Waste & Recycling allocated \$7,467 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, 2023.

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, 2023
(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, 2023, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$852,640.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(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, 2023			
	2023	2022	2023 vs 2022 % change
ASSETS			
Current and other assets	\$ 830,955	\$ 779,042	6.7%
Capital assets	366,683	326,053	12.5%
TOTAL ASSETS	1,197,638	1,105,095	8.4%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	14,675	10,589	38.6%
Deferred outflows of resources related to OPEB	543	326	66.6%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,218	10,915	39.4%
LIABILITIES			
Current and other liabilities	86,507	65,188	32.7%
Noncurrent liabilities	264,350	229,778	15.0%
TOTAL LIABILITIES	350,857	294,966	18.9%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	2,004	19,160	-89.5%
Deferred inflows of resources related to OPEB	449	941	-52.2%
Deferred inflows related to leases	6,906	5,120	34.9%
TOTAL DEFERRED INFLOWS OF RESOURCES	9,359	25,221	-62.9%
NET POSITION			
Net investment in capital assets	357,129	325,843	9.6%
Restricted	32,951	31,272	5.4%
Unrestricted	462,560	438,708	5.4%
TOTAL NET POSITION	\$ 852,640	\$ 795,823	7.1%

OC Waste & Recycling's total assets increased by \$92,543, or 8.4%, from June 30, 2022, primarily due to an increase in deposits in lieu of cash, pooled cash and investments, capital asset acquisitions including the purchase of equipment, and construction in progress for the Frank R. Bowerman Landfill Groundwater Protection and Stockpile Project and Bee Canyon Greenery Extension, Prima Deshecha Flare Replacement and Fee Booth Replacement, and Olinda Alpha Landfill LFG Header Improvements and Valencia Greenery Windrow.

OC Waste & Recycling's total liabilities increased by \$55,891, or 18.9%, from June 30, 2022, primarily due to increases in accrued closure and postclosure care costs, retainage payable, net pension liability, and accounts payable.

OC Waste & Recycling's total deferred outflows of resources increased by \$4,303, or 39.4%, primarily due to the decrease 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

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
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(Dollar Amounts in Thousands)

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".

Total deferred inflows of resources decreased by \$15,862, or 62.9%, primarily due to the changes in the net pension liability calculated as required by GASB Statement No. 68 as well as deferred inflows related to leases are required by GASB Statement No. 87 "Leases".

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

For the year ended June 30, 2023, change in net position is \$56,817, or an increase of 42.5% 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, 2023			
	2023	2022	2023 vs 2022 % change
OPERATING REVENUES			
Disposal fees	\$ 193,741	\$ 181,364	6.8%
Other charges for services	2,522	400	530.5%
Use of property, licenses, permits & franchise fees	4,903	5,009	-2.1%
TOTAL OPERATING REVENUES	201,166	186,773	7.7%
OPERATING EXPENSES			
Salaries and employee benefits	34,211	26,384	29.7%
Services and supplies	43,650	40,322	8.3%
Professional and specialized services	21,965	20,708	6.1%
Other operating expenses	39,906	25,771	54.8%
Depreciation and amortization	22,452	21,671	3.6%
TOTAL OPERATING EXPENSES	162,184	134,856	20.3%
OPERATING INCOME	38,982	51,917	-24.9%
NONOPERATING REVENUES (EXPENSES), NET	26,377	(4,058)	750.0%
INCOME BEFORE TRANSFERS	65,359	47,859	36.6%
Transfers in	66	96	-31.3%
Transfers out to County funds	(8,608)	(8,097)	-6.3%
CHANGE IN NET POSITION	56,817	39,858	42.5%
NET POSITION - BEGINNING OF YEAR, AS RESTATED	795,823	755,965	5.3%
NET POSITION - END OF YEAR	\$ 852,640	\$ 795,823	7.1%

OC WASTE & RECYCLING
 Management’s Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2023
 (Dollar Amounts in Thousands)

Operating Revenues

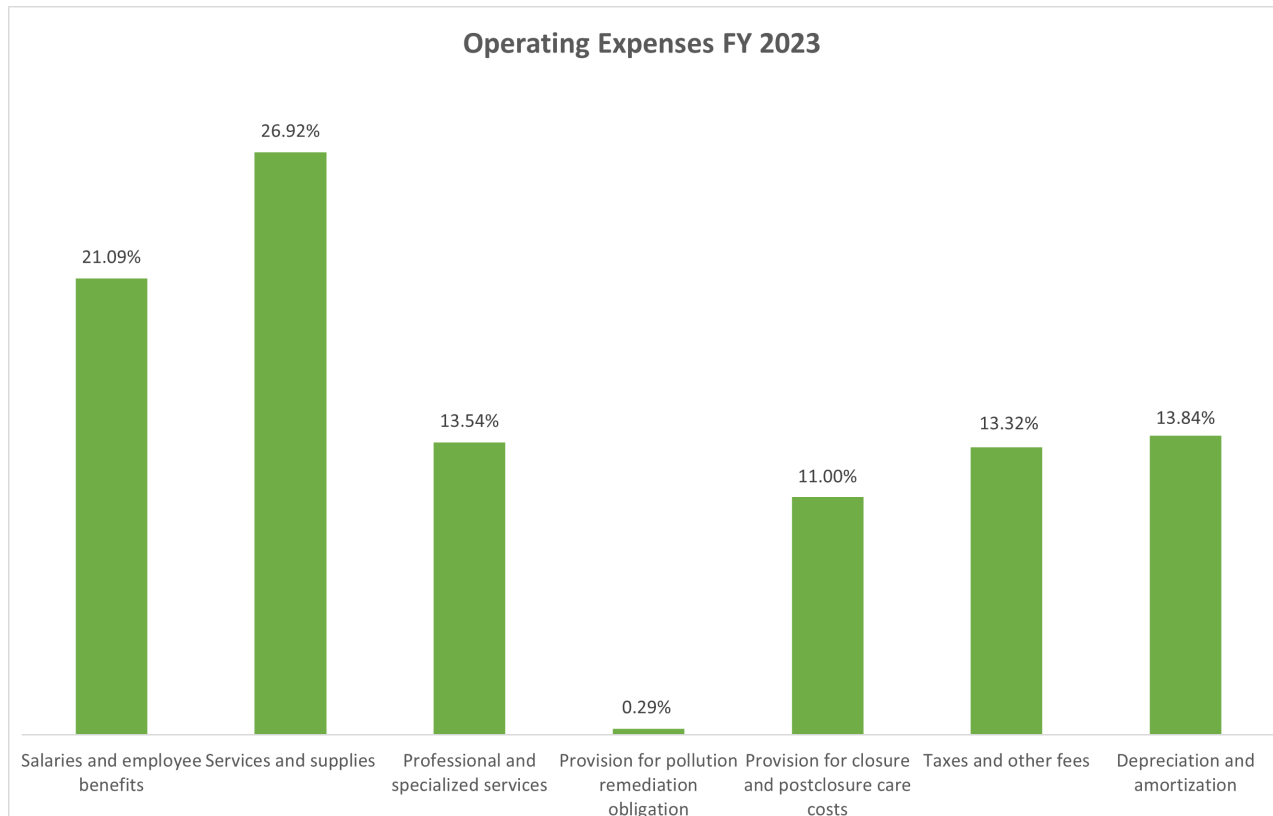
For the year ended June 30, 2023, total operating revenues increased by \$14,393, or 7.7%, due primarily to increases in in-county disposal tonnage and fees of \$10,659, other charges for services of \$2,122, importation disposal tonnage and fees of \$1,718, and licenses, permits, and franchises of \$36, and decrease in use of property of \$142.

Disposal fees that are charged to users of the waste disposal sites comprise the largest revenue source of OC Waste & Recycling at approximately 96.3%. 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, 2023, total operating expenses increased by \$27,328, or 20.3%, due primarily to the net of the increases in closure and postclosure care costs by \$12,430, salaries and employee benefits by \$7,827, services and supplies by \$3,328, professional and specialized services by \$1,257, pollution remediation expense by \$1,126, depreciation and amortization expense by \$781, and taxes and other fees by \$579.



OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
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(Dollar Amounts in Thousands)

Nonoperating Revenues and Expenses

For the year ended June 30, 2023, nonoperating revenues and expenses increased by \$30,435, or 750.0%, due primarily to an increase in investment income.

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, 2023, investment in capital assets (net of accumulated depreciation/amortization) increased by \$40,630 or 12.5%.

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, 2023			
	2023	2022	2023 vs 2022 % change
CAPITAL ASSETS			
Land (Nondepreciable)	\$ 22,701	\$ 22,701	0.0%
Construction in progress (Nondepreciable)	59,082	8,275	614.9%
Intangible assets in progress (Nondepreciable)	0	334	-100.0%
Intangible right-to-use lease equipment (Amortizable)	8	--	--
Intangible right-to-use SBITA asset (Amortizable)	464	--	--
Land Improvements (Depreciable)	544	564	-3.5%
Buildings and structures (Depreciable)	12,719	13,219	-3.8%
Equipment (Depreciable)	50,690	47,716	6.2%
Infrastructure (Depreciable)	219,514	232,194	-5.5%
Software (Amortizable)	961	1,050	-8.5%
TOTAL CAPITAL ASSETS	\$ 366,683	\$ 326,053	12.5%

The were no major capital asset events during fiscal year (FY) 2022-23.

Additional information on capital assets can be found in Note 10, Capital Assets.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(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, 20 closed waste disposal sites, and four household hazardous waste collection centers. The three active landfill sites are in Brea (North Region), Irvine (Central Region) and San Juan Capistrano (South Region). The four household hazardous waste collection centers are in the cities of Anaheim, Huntington Beach, Irvine, and San Juan Capistrano.

In an effort to mitigate the anticipated loss of in-county revenue due to projected tonnage loss from diversion programs implemented in response to State legislations, 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 until June 30, 2025, after the County bankruptcy's related obligations were satisfied in 2017. In November 2018, OC Waste & Recycling successfully executed a new Cooperative Agreement with the City of San Juan Capistrano, which allowed for the maximum waste volume capacity at the Prima Deshecha Landfill. The Cooperative Agreement paved the way for revisions to the Solid Waste Facility Permits and simultaneous operations in 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 maintaining 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 for the County's unincorporated areas executed and administered by OC Waste & Recycling. This approval will allow discarded materials management services to continue uninterrupted for the franchise areas 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 legislative changes, OC Waste and Recycling has expanded its waste management portfolio with the operation of two organic waste composting facilities, one at Central Region and South Region active landfills to transform organic waste into compost products for beneficial reuse. A third facility at North Region's Olinda Alpha landfill was completed with construction and operation is scheduled to start in December 2023. Collectively, these three facilities will 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. Composting processed at these greeneries has diverted green waste from the landfills, conserved airspace and extended the County landfill system's disposal capacity. Benefits will continue to increase as the facilities grow to full operating capacity.

OC Waste & Recycling has pivoted to a new business model emphasized in resource recovery and organics management, with an implementation plan for Organics to Renewable Gas and Energy (ORNGE) and expansion of the existing resource recovery and recycling programs at the three active landfills. The Department has fast tracked the dialogue with participating cities for negotiations of the new Waste Infrastructure System Enhancement Agreement (WISE Agreement) to replace the Waste Disposal Agreements set to expire on June 30, 2025. The WISE Agreement will help to structure a cooperative and

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

collaborative approach and solidify the County and cities' efforts to better respond to current and future legislative demands and to better serve the County residents.

Several key capital projects completed during FY 2022-23 or continued to the following year include:

- Valencia Greenery (North Region) and Bee Canyon Greenery Extension (Central Region) construction projects were completed in November 2023.
- Olinda Alpha Landfill Gas Heater Upgrade Phase I's design work was completed, and construction work is in progress with an estimated completion in December 2023.
- Frank R. Bowerman Groundwater Projection and Stockpile project's construction work is in progress and has an estimated completion of July 2024.
- Prima Deshecha Zone 4 Landfill Excavation project is pending procurement and Board approval for construction contract. This project has an estimated completion date of late 2025.
- Prima Deshecha Fee Booth Reconfiguration and Flare Replacement project has been completed in November 2023 .
- Prime Deshecha Infrastructure Phase 1A project's design was completed, and construction work has started with an estimated completion of early 2024.

Renewable Energy Facilities and Planning

In FY 2022-2023, over 396,659 MWh of renewable energy was generated, with an approximate equivalent of providing electricity for 33,960 homes in the County. As a result, \$4.04 million in royalty revenue was generated from OC Waste & Recycling's landfill gas-to-electricity facilities at Olinda Alpha and Frank R. Bowerman landfills.

In June 2018, the Board of Supervisors selected a developer for energy redevelopment at the closed Coyote Canyon Landfill. OC Waste & Recycling began the negotiation process for a long-term agreement; however, in June 2019, the primary developer withdrew its proposal. Therefore, OC Waste & Recycling proceeded a new negotiation with the secondary developer.

In May 2021, the secondary 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 delivery agreement

Currently, the developer is in its final phase of the option agreement and is awaiting final approval of the Conditional Use Permit from the City of Newport Beach/Planning and Fire Authority before proceeding with the CEQA process.

The 25-year landfill gas lease and operating agreement at the Prima Deshecha Landfill expired in October 2022, and the Sublessee has completed the decommission of its energy generating plant. The Department continues evaluating and actively pursuing new opportunities for landfill gas energy and other potential strategies including the generation of electricity using newer technologies, creating renewable natural gas (RNG) and other low carbon fuels.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

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://oelandfills.com>.

OC WASTE & RECYCLING
Statement of Fund Net Position
June 30, 2023
(Dollar Amounts in Thousands)

ASSETS

Current unrestricted assets:

Pooled cash and investments	\$	627,092
Imprest cash funds		35
Accounts receivable, net		15,984
Interest receivable		4,029
Prepaid costs		55
Due from other governmental agencies		2,255
Due from other funds of the County		51
Leases receivable		2,150
Total current unrestricted assets		651,651

Current restricted assets:

Pooled cash and investments - customer deposits		1,206
Deposits in-lieu of cash		34,368
Total current restricted assets		35,574

Total current assets

687,225

Noncurrent assets:

Restricted assets:

Pooled cash and investments - customer deposits		12
Pooled cash and investments - contractor deposits		218
Pooled cash and investments - corrective action		13,704
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		103,840
Total noncurrent restricted assets		118,653

Capital assets:

Nondepreciable/ nonamortizable		81,783
Depreciable/ amortizable, net		284,900
Capital assets, net		366,683

Advances to other County funds

20,000

Leases receivable

5,077

Total noncurrent assets

510,413

Total assets

1,197,638

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pension		14,675
Deferred outflows of resources related to OPEB		543
Total Deferred Outflows of Resources		15,218

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Fund Net Position
June 30, 2023
(Dollar Amounts in Thousands)

LIABILITIES

Current liabilities (payable from unrestricted assets):	
Accounts payable	\$ 21,216
Retainage payable	2,254
Salaries and accrued employee benefits payable	1,463
Accrued closure and postclosure care costs	3,391
Pollution remediation obligation	612
Unearned revenue	64
Compensated employee absences payable	1,646
Due to other funds of the County	8,809
Due to other governmental agencies	10,948
Lease Liability	11
SBITA liability	289
Total current liabilities (payable from unrestricted assets)	50,703
Current liabilities (payable from restricted assets):	
Deposits from others	35,804
Total current liabilities (payable from restricted assets)	35,804
Total current liabilities	86,507
Noncurrent liabilities:	
Compensated employee absences payable	726
Accrued closure and postclosure care costs	200,414
Pollution remediation obligation	7,543
Net pension liability	52,582
Net OPEB liability	2,867
SBITA liability	218
Total noncurrent liabilities	264,350
Total liabilities	350,857
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources related to pension	2,004
Deferred inflow of resources related to OPEB	449
Deferred inflow of resources related to leases	6,906
Total Deferred Inflows of Resources	9,359
NET POSITION	
Net investment in capital assets	357,129
Restricted:	
Landfill closure and postclosure	18,401
Landfill corrective action	13,671
Frank R. Bowerman landfill	879
Unrestricted	462,560
Total net position	\$ 852,640

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, 2023
(Dollar Amounts in Thousands)

OPERATING REVENUES	
Disposal fees	\$ 193,741
Other charges for services	2,522
Use of property	4,585
Licenses, permits, and franchise fees	318
Total operating revenues	<u>201,166</u>
OPERATING EXPENSES	
Salaries and employee benefits	34,211
Services and supplies	43,650
Professional and specialized services	21,965
Provision for pollution remediation obligation	476
Provision for closure and postclosure care costs	17,820
Taxes and other fees	21,610
Depreciation and amortization	22,452
Total operating expenses	<u>162,184</u>
Operating income	<u>38,982</u>
NONOPERATING REVENUES (EXPENSES)	
Intergovernmental revenue	3,746
Fines, forfeitures and penalties	13
Interest income	28,334
Net decrease in the fair value of investments	(7,581)
Interest expense	(4)
Gain on disposal of capital assets, net	486
Other revenues	1,383
Total nonoperating revenues (expenses)	<u>26,377</u>
Income before transfers	65,359
Transfers in from County funds	66
Transfers out to County funds	<u>(8,608)</u>
Change in net position	56,817
Net position - beginning of year, as restated	795,823
Net position - end of year	<u>\$ 852,640</u>

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Cash Flows
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Cash flows from operating activities	
Receipts from customers	\$ 195,976
Payments to suppliers	(62,884)
Payments to employees	(33,966)
Receipts to other funds of the County	384
Landfill site closure and postclosure care costs	(3,391)
Pollution remediation obligation payments	(4,947)
Taxes and other fees	(21,610)
Other receipts	8,016
Net cash provided by operating activities	<u>77,578</u>
Cash flows from noncapital and related financing activities	
Transfers out to other funds of the County	(8,608)
Transfers in from other funds of the County	66
Intergovernmental revenues	3,746
Repayment of advances received from other funds of the County	20,000
Net cash provided by noncapital and related financing activities	<u>15,204</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(53,615)
Principal paid on leases	(17)
Interest paid on leases	(1)
Principal paid on SBITA	(304)
Interest paid on SBITA	(3)
Receipts for leases receivables	215
Interest on leases receivables	166
Proceeds from sale of capital assets	625
Net cash used in capital and related financing activities	<u>(52,934)</u>
Cash flows from investing activities	
Interest on investments	24,934
Net change in the fair value of investments	7,581
Net cash provided by investing activities	<u>17,353</u>
Net increase in cash and cash equivalents	57,201
Cash and cash equivalents - beginning of year	689,785
Cash and cash equivalents - end of year	<u>\$ 746,986</u>
Reconciliation of cash and cash equivalents to statement of net position	
Pooled cash and investments - current assets	\$ 627,092
Imprest cash funds	35
Pooled cash and investments - closure and postclosure care costs	103,840
Pooled cash and investments - corrective action	13,704
Pooled cash and investments - Frank R. Bowerman landfill wetland and Agua Chinon Wash habitat mitigation	879
Pooled cash and investments - customer deposits	1,218
Pooled cash and investments - contractor deposits	218
Total cash and cash equivalents	<u>\$ 746,986</u>

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

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

Operating income	\$	38,982
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		22,452
Recognition of lease income		(381)
Fines, forfeitures and penalties		13
Other revenues		1,383
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables, Net		(6,389)
Deposits in-lieu of cash		(8,045)
Prepaid costs		3,479
Due from other funds		117
Due from other governmental agencies		(474)
Deferred outflows of resources related to pension		(4,086)
Deferred outflows of resources related to OPEB		(217)
Increase (decrease) in:		
Accounts payable		2,120
Salaries and accrued employee benefits payable		254
Accrued closure and postclosure care costs		14,429
Pollution remediation obligation		(4,471)
Compensated employee absences payable		(9)
Due to other funds		267
Due to other governmental agencies		611
Deposits from others		8,313
Net pension liability from pension contribution and expenses		24,700
Deferred inflow of resources related to pension		(17,156)
Net OPEB liability from pension contribution and expenses		392
Deferred inflow of resources related to OPEB		(492)
Deferred inflows of resources related to leases		1,786
Net cash provided by operating activities	\$	77,578

Noncash Investing, Capital, and Financing Activities

Gain on disposition of capital assets, net	\$	486
Acquisition of capital assets with accounts payable		6,864
Acquisition of capital assets with retainage		2,172
Lease Liability for acquisition of least assets		27
SBITA Liability for acquisition of lease assets		403

See accompanying notes to financial statements

OC WASTE & RECYCLING
Notes to Financial Statements
For the Year Ended June 30, 2023
(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 88% 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 12% 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, 2022
(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 2022-23:

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, and all reporting periods thereafter. This statement was implemented without an impact to OC Waste & Recycling.

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 implemented this Statement in FY 2022-23. This statement was implemented without an impact to OC Waste & Recycling.

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 (SBITAs). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. This statement was implemented in FY 2022-23. Refer to Note 2 Change in Accounting Principle and Note 19 Subscription-Based Information Technology Arrangements for additional information.

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 April 2022, GASB issued Statement No. 99, “*Omnibus 2022*”. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of other GASB statements, and (2) adding accounting and financial reporting guidance for financial guarantees. Portions of this Statement are effective upon issuance and were implemented in FY 2021-22 without an impact to OC Waste & Recycling. Certain requirement related to the leases, PPPs, and SBITAs, are effective for reporting periods beginning after June 15, 2022, which requires OC Waste & Recycling to implement them in FY 2022-23. The requirements related to the financial guarantees and the classification and reporting of certain derivatives are effective for periods beginning after June 13, 2023, which requires OC Waste & Recycling to implement them in FY 2023-24.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

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

In June 2022, GASB issued Statement No. 100, “Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62. This Statement improves accounting and financial reporting requirements for accounting changes and errors corrections to provide more understandable, reliable, relevant, consistent, and comparable information. It also requires the display of note disclosures of the accounting change and error corrections. The requirements of this statement are effective for reporting periods after June 15, 2023, which requires OC Waste & Recycling to implement the Statement in FY 2023-24.

In June 2022, GASB issued Statement No. 101, “Compensated Absences” in which the primary objective is to update the recognition and measurement guidance for compensated absences. This is achieved by a unified model and amends certain previously required disclosures. The requirements of this statement are effective for reporting periods after December 15, 2023, which requires OC Waste & Recycling to implement the Statement in FY 2023-24.

Operating/Nonoperating Revenues and Expenses

OC Waste & Recycling distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services from the OC Waste & Recycling’s landfill operations. The principal operating revenue of OC Waste & Recycling is disposal fees charged to users of the waste disposal sites. Operating expenses include salaries and employee benefits, cost of services and supplies, taxes and fees, closure and postclosure care costs, pollution remediation obligations, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments, which are readily convertible to cash or mature within three (3) months of their original purchase. Pooled cash and investments are considered cash and cash equivalents.

Pooled Cash and Investments

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

Capital Assets

Property, plant and equipment purchased or constructed by OC Waste & Recycling are capitalized at cost, while contributed assets are recorded at 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

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

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 77 years
Drainage channels	9 to 32 years
Facility improvements	10 to 61 year
Habitat	20 to 55 years
Landfill gas/environmental	3 to 80 years
Roads	7 to 49 years
Closure/other earthwork	15 to 80 years

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

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

Leases

GASB 87 defines a lease as a contract that transfers the right to use another entity’s asset for a specific period of time in an exchange or exchange-like transaction. OC Waste & Recycling has entered into a lease agreement for office equipment. Under this contract, OC Waste & Recycling recognizes a lease liability and a lease asset (intangible right-to-use asset) at the commencement of the lease term, and the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset is measured at the amount of the initial measurements of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

Likewise, OC Waste & Recycling leases its real property, wherein a lease receivable and a deferred inflow of resources are recognized at the commencement of the lease term. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the least term that relate to future periods.

An amendment to a lease contract is considered a lease modification, unless the lessee’s right to use the underlying asset decreases, in which case it is considered a partial or full lease termination. A lease termination is accounted for by reducing the lease receivable and deferred inflow of resources by the lessor, with any difference being recognized as a gain or loss.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

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

The future lease payments are discounted using the interest rate implicit in the lease contract. If the interest rate is not available, OC Waste & Recycling uses its incremental borrowing rate determined by the County Executive Office/Public Finance. The lease term is determined by the sum of the non-cancelable periods, plus renewal options when they are reasonably certain of being exercised or early termination options when they are reasonably certain of not being exercised.

Subscription-Based IT Arrangements (SBITA)

GASB Statement No. 96 defines a SBITA as a contract that transfers the right to use another entity's subscription asset for a specific period of time in an exchange or exchange-like transaction. OC Waste & Recycling has entered into various SBITA agreements, primarily for Software as a Service (SaaS), Platform as a Service (PaaS), and Infrastructure as a Service (IaaS). Under these contracts, the County recognizes a SBITA liability and a SBITA asset (intangible right-to-use SBITA asset) at the commencement of the SBITA term. The SBITA liability is measured at the present value of payments expected to be made during the SBITA term (less any SBITA incentives). The SBITA asset is measured at the amount of the initial measurement of the SBITA liability, plus any payments made to the vendor at or before the commencement of the SBITA term and any capitalizable initial implementation costs.

An amendment to a SBITA contract is considered a SBITA modification, unless OC Waste & Recycling's right to use the underlying asset decreases, in which case it is considered a partial or full SBITA termination. A SBITA termination is accounted for by reducing the carrying values of the SBITA liability and SBITA asset by OC Waste & Recycling, with any difference being recognized as a gain or loss.

The future SBITA payments are discounted using the interest rate implicit in the SBITA contract. If the interest rate is not available, OC Waste & Recycling uses its incremental borrowing rate determined by the County Executive Office/Public Finance. The SBITA term is determined by the sum of the non-cancelable periods, plus renewal options when they are reasonably certain of being exercised or early termination options when they are reasonably certain of not being exercised.

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 &

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

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

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, 2023, was \$441.

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, 2023, OC Waste & Recycling reported a restricted net position of \$32,951 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 assets) 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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

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

resources (acquisition of net assets) 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.

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 – Change in Accounting Principle

OC Waste & Recycling implemented GASB Statement No. 96 in the current financial statements, which resulted in the restatement of the Statement of Net Position.

Net Position at June 30, 2022	\$	795,823
Capital Assets, Intangible-Right-to-Use SBITA under GASB Statement 96		408
SBITA Liability under GASB Statement 96		(408)
Net Position at June 30, 2022, as restated		\$ 795,823

Refer to Note 19 Subscription-Based IT Arrangements (SBITA) for additional information.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

Note 3 – 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, 2023, OC Waste & Recycling collected imported waste disposal fees of \$48,890. The County’s share of Net Import Revenues totaling \$7,467 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 \$7,467 was distributed to the cities. It is included with the Taxes and other fees in the accompanying financial statements.

Note 4 – 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, 2023, the Pool contains investments with an average maturity of 225 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.

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2023, were as follows:

Cash and investments pooled by the County Treasurer	\$ 746,951
Imprest cash funds	<u>35</u>
Total cash and investments	<u>\$ 746,986</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 &

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

Note 4 – Cash and Investments (Continued)

Recycling’s share is 5.5% 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 22/23 was last adopted on December 20, 2022.

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, 2023, 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	\$ 746,951	0.62

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, 2023, 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

Note 4 – Cash and Investments (Continued)

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 Annual Comprehensive Financial Report. The report is available by accessing the Auditor-Controller’s website at <http://www.ac.ocgov.com>.

Note 5 – Accounts Receivable

Accounts receivable as of June 30, 2023, were as follows:

Imported waste disposal fees	\$ 1,734
County of Orange (in-county) waste disposal fees	9,463
Miscellaneous	4,788
Allowance for estimated uncollectible receivables	<u>(1)</u>
Total accounts receivable, net	<u>\$ 15,984</u>

Note 6 – Prepaid Costs

Prepaid costs for software licenses, net of amortization reported in the accompanying Statement of Fund Net Position, is \$55 for 2023.

Note 7 – 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, 2023, was \$34,368.

Note 8 – 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 28, 2022, by Resolution 22-086, the Board authorized the borrowing up to \$163,000 for FY 2022-23. Repayment of the amount to be borrowed includes interest. The actual amount repaid in FY 2022-23 from the Sheriff-Coroner was \$20,000. The outstanding balance as of June 30, 2023, was \$20,000 from the Sheriff-Coroner for a total of \$20,000.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2022
(Dollar Amounts in Thousands)

Note 9 – Interfund and Transfers

The composition of interfund balances as of June 30, 2023, was as follows:

Receivable Fund	Payable Funds		
Waste Management	General	\$	10
Waste Management	Roads		4
Waste Management	Flood Control District		37
Total Due from Other Funds of the County:			<u>51</u>
Waste Management	Sheriff-Coroner		20,000
Total Advances to Other Funds:			<u>20,000</u>
General	Waste Management		8,747
Other Governmental Funds	Waste Management		11
Internal Service Funds	Waste Management		51
Total Due to Other Funds of the County:		\$	<u><u>8,809</u></u>

The Total Due from Other Funds consisted of the amount receivable from General Fund agencies of \$51 for Employee Benefits claims in the amount of \$10. It also included amounts due from the Flood Control District for \$37 and Roads Fund for \$4. Amounts payable by OC Waste & Recycling to General Fund agencies of \$8,747 included mainly the net importation revenue in the amount of \$7,668 to pay obligations in accordance with the renewed waste-importation contracts. \$11 and \$51 were the shared costs that OCWR was obligated to pay to OC Information Technology, Fleet Services, and Public Works for using their services. The advances represented interfund loans made to the Sheriff-Coroner Department from OC Waste & Recycling for various county projects. Refer to Note 8, Advances to Other County Agencies for County Projects, for additional information.

The total transfers from the Sheriff-Coroner to repay interest for borrowings to fund various county projects was \$66.

Total Transfers out to of \$8,608 are composed primarily of Importation Revenue disbursements to the County General Fund. For additional details on the Importation Revenue Sharing, refer to Note 3.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 10 – Capital Assets

Capital asset activities for the year ended June 30, 2023 were as follows:

	Balance at July 1, 2022, as restated	Additions	Deductions	Balance at June 30, 2023
Capital Assets, Not Depreciated/Amortized				
Land	\$ 22,701	\$ --	\$ --	\$ 22,701
Construction in progress	8,275	51,142	(335)	\$ 59,082
Intangible Assets in progress	334	--	(334)	\$ --
Total Capital Assets, Not Depreciated/Amortized	<u>31,310</u>	<u>51,142</u>	<u>(669)</u>	<u>81,783</u>
Capital Assets, Depreciable/Amortizable				
Land Improvements	611	--	--	611
Building and improvements	30,044	--	--	30,044
Equipment	101,698	11,344	(4,846)	108,196
Right-to-Use Lease Equipment	--	28	--	28
Right-to-use SBITA	408	446	--	854
Infrastructure	489,452	127	--	489,579
Software	2,104	396	--	2,500
Total Capital Assets, Depreciable/Amortizable	<u>624,317</u>	<u>12,341</u>	<u>(4,846)</u>	<u>631,812</u>
Less Accumulated Depreciation/Amortization				
Land Improvements	(47)	(20)	--	(67)
Buildings and improvements	(16,825)	(500)	--	(17,325)
Equipment	(53,982)	(8,230)	4,706	(57,506)
Right-to-Use Lease Equipment	--	(20)	--	(20)
Right-to-use SBITA	--	(390)	--	(390)
Infrastructure	(257,258)	(12,807)	--	(270,065)
Software	(1,054)	(485)	--	(1,539)
Total Accumulated Depreciation/Amortization	<u>(329,166)</u>	<u>(22,452)</u>	<u>4,706</u>	<u>(346,912)</u>
Total Capital Assets, Depreciable/Amortizable, (Net)	<u>295,151</u>	<u>(10,111)</u>	<u>(140)</u>	<u>284,900</u>
Total Capital Assets, Net	<u>\$ 326,461</u>	<u>\$ 41,031</u>	<u>\$ (809)</u>	<u>\$ 366,683</u>

Total depreciation and amortization expense for the year ended June 30, 2023, was \$22,452.

Construction in Progress

Construction in progress consists of projects for construction of groundwater protection, greenery facility, flare replacement, fee booths replacement, and protective cover soil. The projects on June 30, 2023, were as follows:

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 10 – Capital Assets (Continued)

Landfills

FRB Phase VIII – A1 Groundwater Protection & Stockpile Project	\$ 23,393
Olinda LFG Header Improvements	1,599
Organics Phase IA-Olinda Valencia Greenery	6,971
Prima Deshecha Flare Replacement	5,921
Prima Fee Booth Replacement	17,142
Organics Phase IB-FRB Bee Canyon Greenery Extension	2,830
Other	1,226
Total construction in progress	\$ 59,082

Construction and Equipment Contracts

OC Waste & Recycling entered into various major construction and equipment contracts to facilitate its landfill operations. At June 30, 2023, OC Waste & Recycling is committed to open construction and equipment contracts for the following projects:

<u>Description</u>	<u>Remaining Commitments</u>
FRB Phase VIII – Groundwater Protection & Stockpile Project	\$ 35,135
Prima Fee Booth Replacement	4,007
FRB Sewer Line and Water Treatment System	8,422
Various Heavy Equipment Purchases for Olinda Alpha/North Regional Landfill	2,807
Various Heavy Equipment Purchases for Prima/South Regional Landfill	2,122
Total	\$ 52,493

Note 11 – 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 11 – Defined Benefit Pension Plan (Continued)

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, 2023, employer's contributions as a percentage of covered payrolls was 43.66% for General Members. OC Waste & Recycling's total contribution to OCERS for the year ended June 30, 2023 was \$7,342.

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 \$21,965 for the year ended June 30, 2023.

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

The County reported a liability of \$4,469,948 for its proportionate share of the net pension liability (NPL), of which OC Waste & Recycling's allocated share of the County's NPL totaled \$52,562. The County's NPL was measured as of December 31, 2022 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 a pension expense of \$5,917 for the year ended June 30, 2023, 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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 11 – Defined Benefit Pension Plan (Continued)

deferred outflows of resources and deferred inflow of resources related to pensions at June 30, 2023, was \$14,671 and \$2,004, 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.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	\$ 8,458	\$ -
Difference Between Expected and Actual Experience	872	1,098
Changes of Assumptions	1,121	849
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	184	57
County contributions subsequent to the measurement date	4,036	-
Total	\$ 14,671	\$ 2,004

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

Year ending June 30:	
2024	\$ (635)
2025	1,212
2026	2,691
2027	5,338
2028	25
Total	8,631

Contributions subsequent to the measurement date of \$4,036 will be recognized as a reduction of the net pension liability in the year ending June 30, 2024.

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

Note 12 – 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 12 – Postemployment Health Care Benefits (Continued)

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

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

As of June 16, 2023, the Grant will be frozen for existing employees, and they will not accrue additional services hours towards eligibility for the Grant. All employees with one or more years of credited service as of June 15, 2023, shall be eligible for the frozen Grant. The annual Cost of Living Adjustments (COLA) and age adjustment (+/- 7.5%) will be eliminated. New employees as of June 16, 2023, will not be eligible for the Grant.

Contributions: As an enterprise fund of the County, OC Waste & Recycling is currently setting aside an actuarially determined contribution of 3.3% of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$725 for the year ended June 30, 2023, which is 100% of the annual required contribution.

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

The County reported a liability of \$271,417 for its proportionate share of the collective net OPEB liability at June 30, 2023. OC Waste & Recycling's allocated share of the County's net OPEB liability is \$2,867, which is based on its percentage of actual employer contributions.

OC Waste & Recycling recognized OPEB expense of \$124 for the year ended June 30, 2023, 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 inflow of resources related to OPEB at June 30, 2023, was \$543 and \$449, respectively. Deferred outflows of resources and deferred inflow of resources represent the unamortized portion of changes to net OPEB liability 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, 2023
(Dollar Amounts in Thousands)

Note 12 – Postemployment Health Care Benefits (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on OPEB plan investments	\$ 222	\$ -
Contributions and proportionate share of contributions	27	35
County contributions subsequent to measurement date	237	-
Difference between expected and actual experience	-	331
Changes of assumptions	57	83
Total	\$ 543	\$ 449

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

Year ending June 30:	
2024	\$ (78)
2025	(38)
2026	(10)
2027	58
2028	(53)
Thereafter	(22)

Contributions subsequent to the measurement date of \$237 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024.

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

Note 13 – Long-Term Obligations

Long-term liability activities for the year ended June 30, 2023, were as follows:

Long-Term Liabilities	Balance at July 1, 2022, as restated	Additions	Reductions	Balance June 30, 2023	Due Within One Year
Compensated absences	\$ 2,381	2,702	(2,711)	\$ 2,372	\$ 1,646
Closure and postclosure care costs	189,376	17,820	(3,391)	203,805	3,391
Pollution remediation obligation	12,626	-	(4,471)	8,155	612
SBITA Liability	408	403	(304)	507	289
Lease Liability	-	28	(17)	11	11
Total long-term liabilities	\$ 204,791	\$ 20,953	\$ (10,894)	\$ 214,850	\$ 5,949

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 13 – Long-Term Obligations (Continued)

For additional details on the Closure and postclosure care costs and Pollution remediation obligation, refer to Note 14 and Note 15, respectively.

Note 14 – 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, 2023, was \$203,805. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (39.81% for FRB, 92.14% for Olinda Alpha and 24.36% 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 \$191,666 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2022 dollars (using the 2022 inflation factor of 1.070). 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

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 14 – Accrued Closure and Postclosure Care Costs (Continued)

maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2023, a total of \$103,840 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 15, Pollution Remediation Obligations and Note 16, Contingencies for additional discussion.

Note 15 – 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 2022-23, the combined pollution remediation obligation as of June 30, 2023 is \$8,155.

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, 2023
(Dollar Amounts in Thousands)

Note 15 – 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 cost to operate and maintain the landfill gas collection system at the site for the next fiscal year of operation is \$7. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$25.

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 \$303. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$606.

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)
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Note 15 – 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 \$116. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$231.

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, 2023.

The remaining balance for landfill gas remediation at the Forster site is \$3,000 as of June 30, 2023. 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 action, including

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
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Note 15 – Pollution Remediation Obligations (Continued)

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 \$186. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$4,293 as of June 30, 2023.

Note 16 – 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 15. 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, 2023, amounts classified in unrestricted net position totaled \$462,560.

Note 17 – Major Customers

Disposal fees from five (5) major customers accounted for revenues of approximately \$38,287, \$35,790, \$24,758, \$18,894, and \$17,388 during the year ended June 30, 2023. These customers represent 22.48%, 21.01%, 14.53%, 11.09%, and 10.21% of total disposal fee revenue, respectively.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 18 – Leases

Lessee

OC Waste & Recycling is currently engaged in a noncancelable lease as a lessee for the intangible right-to-use lease equipment. The lease terms include the noncancelable period per the contract plus/minus any extension options or termination options OC Waste & Recycling is reasonably certain to exercise. As of June 30, 2023, the right-to-use asset balance is \$28.

In FY 2022-23, the discount rate applied to new or modified leases is 4%. OC Waste & Recycling recognized \$17 and \$1 in principal and interest payments. The lease liability at June 30, 2023 is \$11.

	Balance at July 1, 2022	Increases	Decreases	Balance at June 30, 2023
Right-to-use Assets				
Lease Equipment	\$ -	\$ 28	\$ -	\$ 28
Total Right-to-Use Assets	\$ -	\$ 28	\$ -	\$ 28
Less Amortization				
Lease Equipment	\$ -	\$ (20)	\$ -	\$ (20)
Total Amortization	\$ -	\$ (20)	\$ -	\$ (20)
Total Lease Assets, net of amortization				\$ 8

The future principal and interest payments as of June 30, 2023 are as follows:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 11	\$ -
Total	\$ 11	\$ -

Lessor

OC Waste & Recycling leases its real properties to others under commercial operations. The terms of these noncancelable leases include the noncancelable period per the contract plus/minus any extension options or termination options the County is reasonably certain to exercise.

In FY 2022-23, the discount rate applied to new or modified leases is 4%. OC Waste & Recycling recognized additional leases receivable and deferred inflow related to leases of \$2,133. In addition, the agency recognized revenue related to receipts of leases receivables and lease interest of \$60 and \$166, respectively. As of June 30, 2023, the balance of the leases receivable is \$7,227, and the balance of deferred inflow related to leases is \$6,906.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 18 – Leases (Continued)

The balances of the leases receivable related to leases for OC Waste and Recycling as of June 30, 2023, is as follows:

	Balance at July 1, 2022	Increases	Decreases	Balance at June 30, 2023
Leases Receivable:				
Land	\$ 5,287	\$ 2,133	\$ (193)	\$ 7,227
Total Leases Receivable	\$ 5,287	\$ 2,133	\$ (193)	\$ 7,227

The following schedule presents by fiscal year the future minimum principal and interest revenue to be received for OC Waste & Recycling:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 209	\$ 259
2025	232	251
2026	256	241
2027	267	231
2028	125	224
2029 - 2033	901	1,032
2034 - 2038	1,479	820
2039 - 2043	2,240	485
2044 - 2048	1,518	95
Total	<u>\$ 7,227</u>	<u>\$ 3,638</u>

Note 19 – Subscription-Based Information Technology Arrangements (SBITA)

OC Waste & Recycling entered into noncancelable SBITAs with various vendors for the intangible right-to-use SBITA assets. The SBITA term includes the noncancelable period per the contract plus/minus any extension options or termination options OC Waste & Recycling is reasonably certain to exercise. OC Waste & Recycling recognized in FY 2022-23 an initial right-to-use SBITA asset balance of \$408, increases of \$446 due to new SBITAs, and amortization of \$390 for a right-to-use asset balance of \$464, net of amortization at June 30, 2023.

In FY 2022-23, the discount rate applied to SBITAs is 4%. Using this discount rate, OC Waste & Recycling recognized in FY 2022-23 an initial SBITA liability of \$408, increases of \$403 due to new SBITAs, principal SBITA payments of \$304, and interest SBITA payments of \$3. The principal SBITA payments reduced the SBITA liability to \$507 at June 30, 2023.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(Dollar Amounts in Thousands)

Note 19 – Subscription-Based Information Technology Arrangements (SBITA) (Continued)

	Balance at July 1, 2022 as restated	Increases	Decreases	Balance at June 30, 2023
Right-to-use SBITA Assets	\$ 408	\$ 446	\$ -	\$ 854
Total Right-to-Use SBITA Assets	\$ 408	\$ 446	\$ -	\$ 854
Less Amortization	\$ -	\$ (390)	\$ -	\$ (390)
Total Amortization	\$ -	\$ (390)	\$ -	\$ (390)
Total Leased Assets, net of amortization				<u>\$ 464</u>

The future principal and interest payments as of June 30, 2023 are as follows:

Fiscal Year Ended June 30	Principal	Interest
2024	\$ 289	\$ 17
2025	218	5
2026	-	-
2027	-	-
2028	-	-
Total	<u>\$ 507</u>	<u>\$ 22</u>



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 ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OC Waste & Recycling’s basic financial statements and have issued our report thereon dated December 20, 2023. Our report included an emphasis of matter paragraph describing OC Waste & Recycling’s adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Agreements*, for the year ended June 30, 2023. Our report also included an emphasis of matter paragraph stating 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, 2023.

Report on 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 or significant deficiencies may exist that have not been identified.

Report on 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Laguna Hills, California
December 20, 2023