

Financial Statements

June 30, 2025

OC Waste & Recycling

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

OC WASTE & RECYCLING

Table of Contents

	<i>Page</i>
Financial Section:	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited).....	4
Financial Statements:	
Statement of Net Position	13
Statement of Revenues, Expenses and Change in Net Position	15
Statement of Cash Flows	16
Notes to Financial Statements	18
Other Reports:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	43



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, 2025, 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, 2025, 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, 2025, 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.

In addition, as discussed in Note 2 to the financial statements, OC Waste & Recycling has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, for the year ended June 30, 2025. Accordingly, an adjustment to net position as of July 1, 2024 has been made 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 18, 2025, 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.



Laguna Hills, California
December 18, 2025

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025
(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, 2025. 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 total net position increased by \$35,556 or 3.8% for the year ended June 30, 2025. This increase consists of operating income of \$82 and nonoperating revenues and expenses of \$47,105, transfers in from County funds of \$15 and transfers out to County funds of \$10,481.
- Operating expenses increased by \$59,621, or 37.1%, for the year ended June 30, 2025. The increase is primarily due to the increases in services and supplies of \$10,624, provision for closure and postclosure care costs by \$30,577 and taxes and other fees/contributions to other agencies by \$8,433.
- Disposal revenue increased by \$7,358, or 3.5%, for the year ended June 30, 2025. The increase is primarily due to the increase in in-county disposal revenue by \$214 and increase in importation disposal revenue of \$7,146.
- OC Waste & Recycling allocated \$9,257 or 50% of the net importation revenue to the County General Fund to be used as approved by the County Board of Supervisor for the year ended June 30, 2025.

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

Statement of 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, 2025
(Dollar Amounts in Thousands)

Statement of Revenues, Expenses and Change in 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 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, 2025, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$978,662.

OC WASTE & RECYCLING
 Management's Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

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

TABLE 1
STATEMENT OF NET POSITION
JUNE 30, 2025

	2025	2024	2025 vs 2024 % change
ASSETS			
Current and other assets	\$896,429	\$872,110	2.8%
Capital assets	471,405	422,729	11.5%
TOTAL ASSETS	1,367,834	1,294,839	5.6%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	8,648	12,108	-28.6%
Deferred outflows of resources related to OPEB	332	298	11.4%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,980	12,406	-27.6%
LIABILITIES			
Current and other liabilities	96,976	92,231	5.1%
Noncurrent liabilities	292,586	263,340	11.1%
TOTAL LIABILITIES	389,562	355,571	9.6%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	2,035	1,624	25.3%
Deferred inflows of resources related to OPEB	601	694	-13.4%
Deferred inflows related to leases	5,954	6,250	-4.7%
TOTAL DEFERRED INFLOWS OF RESOURCES	8,590	8,568	0.3%
NET POSITION			
Net investment in capital assets	461,612	412,166	12.0%
Restricted	44,398	41,497	7.0%
Unrestricted	472,652	489,443	-3.4%
TOTAL NET POSITION	\$978,662	\$943,106	3.8%

OC Waste & Recycling's total assets increased by \$72,995, or 5.6%, from June 30, 2024, primarily due to an increase in current assets pooled cash and investments, interest receivable, capital asset acquisitions including the purchase of equipment, and construction in progress for the Frank R. Bowerman Landfill Groundwater Protection and Stockpile Project and Prima Deshecha Zone 4 Phase A Mass Excavation and Groundwater Protection.

OC Waste & Recycling's total liabilities increased by \$33,991, or 9.6%, from June 30, 2024, primarily due to increases in accrued closure and postclosure care costs.

OC Waste & Recycling's total deferred outflows of resources decreased by \$3,426 or 27.6%, primarily due to the decrease in deferred outflows related to pension.

Total deferred inflows of resources increased by \$22, or 0.3%, primarily due to the increase in deferred inflows related to pension.

OC WASTE & RECYCLING
 Management's Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Statement of Revenues, Expenses and Change in Net Position Summary

For the year ended June 30, 2025, the net position is \$978,662 an increase of 3.8% from the prior year.

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

TABLE 2 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2025			
	2025	2024	2025 vs 2024 % change
OPERATING REVENUES			
Disposal fees	\$ 215,323	\$ 207,965	3.5%
Other charges for services	355	1,821	-80.5%
Use of property, licenses, permits & franchise fees	4,668	4,891	-4.6%
TOTAL OPERATING REVENUES	220,346	214,677	2.6%
OPERATING EXPENSES			
Salaries and employee benefits	39,177	35,534	10.3%
Services and supplies	57,431	46,807	22.7%
Professional and specialized services	28,657	23,658	21.1%
Other operating expenses	70,217	31,227	124.9%
Depreciation and amortization	24,782	23,417	5.8%
TOTAL OPERATING EXPENSES	220,264	160,643	37.1%
OPERATING INCOME	82	54,034	-99.8%
NONOPERATING REVENUES (EXPENSES), NET	47,105	43,429	8.5%
INCOME BEFORE TRANSFERS	47,187	97,463	-51.6%
Capital Contributions	0	8	-100.0%
Transfers in from County funds	15	2,396	-99.4%
Transfers out to County funds	(10,481)	(9,401)	11.5%
CHANGE IN NET POSITION	36,721	90,466	-59.4%
NET POSITION - BEGINNING OF YEAR	943,106	852,640	10.6%
CHANGE IN ACCOUNTING PRINCIPLE	(1,165)	-	0.0%
NET POSITION-BEGINNING OF YEAR, AS RESTATED	941,941	-	0.0%
NET POSITION - END OF YEAR	\$ 978,662	\$ 943,106	3.8%

Effective July 1, 2024, OC Waste & Recycling adopted provisions of GASB Statement No. 101 *Compensated Absences*. As a result of this change in accounting principle, it was not appropriate to restate prior-period information for periods earlier than those presented in the basic financial statements. Therefore, information for the year ended June 30, 2024, was not restated. Refer to Note 2 to the financial statements for further information on the change in accounting principle.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Operating Revenues

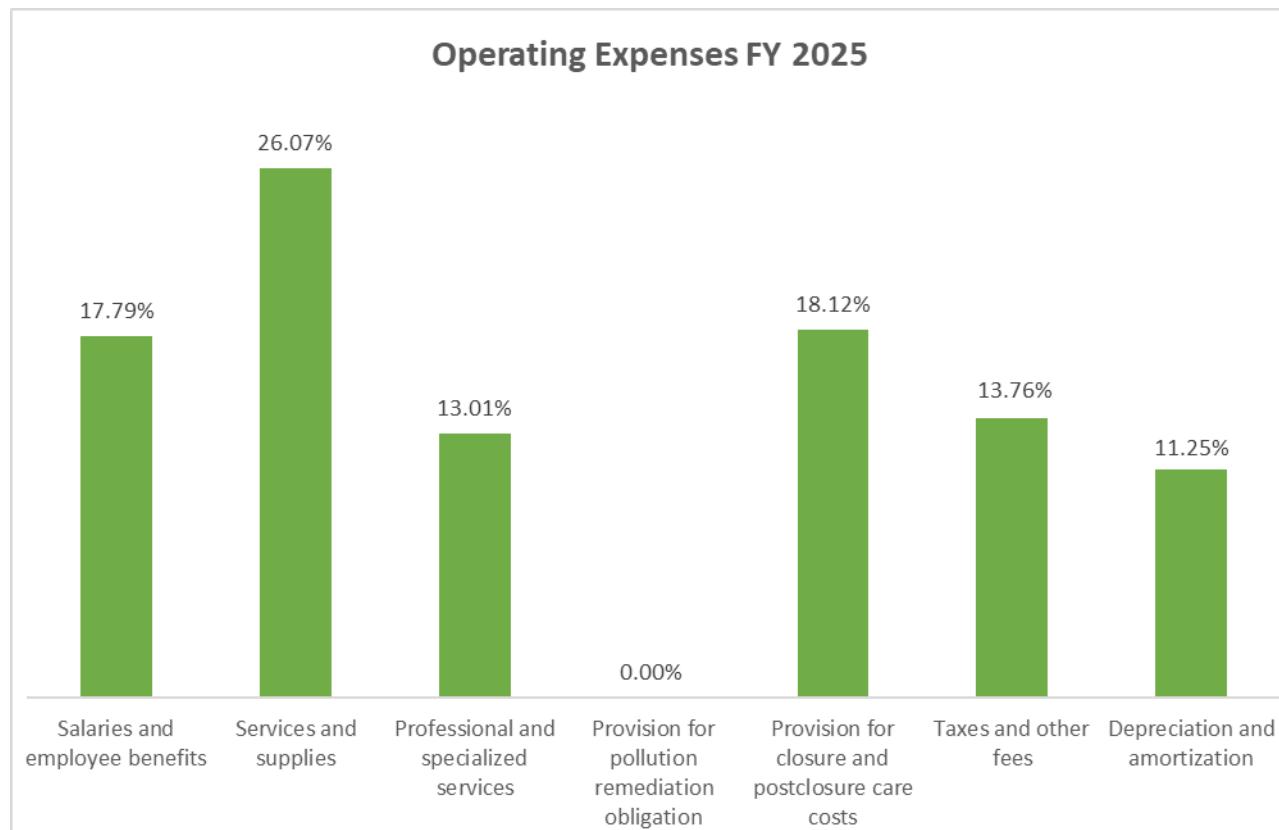
For the year ended June 30, 2025, total operating revenues increased by \$5,669, or 2.6%, due primarily to increases in in-county disposal tonnage and fees of \$214, importation disposal tonnage and fees of \$7,146.

Disposal fees that are charged to users of the waste disposal sites comprise the largest revenue source of OC Waste & Recycling at approximately 97.7%. 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/contributions to other agencies, and depreciation and amortization on capital assets.

For the year ended June 30, 2025, total operating expenses increased by \$59,621 or 37.1%, due primarily to the increases in provision for closure and postclosure care costs by \$30,577, services and supplies by \$10,624 and taxes and other fees/contributions to other agencies by \$8,433.



OC WASTE & RECYCLING
 Management's Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Nonoperating Revenues and Expenses

For the year ended June 30, 2025, nonoperating revenues and expenses increased by \$3,676 or 8.5%, due primarily to an increase in fair value of investments.

CAPITAL ASSETS

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

For the year ended June 30, 2025, investment in capital assets (net of accumulated depreciation/amortization) increased by \$48,676 or 11.5%.

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, 2025

	2025	2024	2025 vs 2024 % change
CAPITAL ASSETS			
Land (Nondepreciable)	\$ 22,701	\$ 22,701	0.0%
Construction in progress (Nondepreciable)	128,731	71,568	79.9%
Intangible assets in progress (Nondepreciable)	-	95	-100.0%
Land Improvements (Depreciable)	503	523	-3.8%
Buildings and structures (Depreciable)	11,756	12,219	-3.8%
Equipment (Depreciable)	67,543	63,184	6.9%
Infrastructure (Depreciable)	239,112	251,529	-4.9%
Right-to-use lease equipment (Amortizable)	43	54	-20.4%
Right-to-use SBITA asset (Amortizable)	464	77	502.6%
Right-to-use lease buildings & improvements (Amortizable)	350	124	182.3%
Software (Amortizable)	202	655	-69.2%
TOTAL CAPITAL ASSETS	\$ 471,405	\$ 422,729	11.5%

The were no major capital asset events during fiscal year (FY) 2024-25.

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, 2025
(Dollar Amounts in Thousands)

REVIEW OF OPERATIONS

Since 2020, OC Waste & Recycling (OCWR) has transitioned to a new business model, emphasizing resource recovery and organics management, with the implementation plan for Organics to Renewable Natural Gas and Energy (ORNGE) pathway in parallel with its traditional disposal operations at the three active landfills. The Department has continued negotiations with participating cities for the new Waste Infrastructure System Enterprise (WISE) Agreement, which will replace the Waste Disposal Agreement (WDA) set to expire on June 30, 2025. The WDA is currently extended to June 30, 2026, to provide additional time for the WISE negotiations. The WISE Agreement will help structure a cooperative and collaborative approach between the County and cities, enabling better responses to current and future legislative demands and improving service to County residents.

Disposal Operation

OCWR 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 legislation, OCWR obtained approval of Amendment I to the WDA from the County Board of Supervisors in 2016, which allowed the continuation of importation tonnage until June 30, 2025. In November 2018, OCWR 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 the new Zone 4. Construction of Zone 4 at the Prima Deshecha Landfill is currently underway, with an expected completion date in early 2026. This will enable the continued expansion of maximum waste volume capacity at the landfill. Both Amendment I to the WDA 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 OCWR. This approval will allow discarded materials management services to continue uninterrupted for the franchise areas and allow OCWR to maintain compliance with state regulations, specifically with the Senate Bill (SB) 1383 to reduce emissions of short-lived climate pollutants.

In September 2024, OCWR successfully executed a new Cooperative Agreement with the City of Brea, which allows the County to continue its path forward with Olinda Alpha Landfill operations until its closure, while also allowing for the continuation and expansion of organics and material recovery operations at Olinda Alpha in future years. This new Cooperative Agreement will also serve as a model for future cooperative agreements with other host cities.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

In May 2025, Amendment No. 2 was approved by the Board of Supervisors to extend the current WDA term one year from June 30, 2025, to June 30, 2026. The approval of Amendment No. 2 provided additional time to thoroughly discuss the needs of the jurisdictions and the ability to reach a mutually beneficial agreement that continues the partnership between the OCWR, Orange County Cities, Facility Operators, and Special Districts, bringing stable disposal rates and ensuring a stable waste disposal system, which meets OCWR's operational and financial requirements.

Organics Operation

In 2016 and 2018, the Legislature passed Senate Bill (SB) 1383 and Assembly Bill (AB) 1594, which established statewide goals to divert organic waste from disposal and eliminated diversion credits for the usage of processed green material as an alternative daily cover for landfill operations. In response to these legislative changes, OCWR has expanded its waste management portfolio with the operation of three organic waste composting facilities, each co-located at the active landfills to transform organic waste into compost products for beneficial reuse. Collectively, these three facilities will address the lack of composting infrastructure within Orange County and enable 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.

Material Recovery Operation

In 2020, OCWR launched a resource recovery and recycling pilot program at its three active landfills. The department has expanded this existing program into material recovery operations by landfill region, which were officially kicked off in FY 2024-25 and will continue growing in the next few years in terms of staffing and capacity to manage the County's need to increase diversion rate as mandated by SB 1383. This will result in saving invaluable landfill airspace by recovering all recyclable materials from the waste stream. The operations are planned in three phases, with Phase I starting in 2024 to recover materials by using manual labor. OCWR has projected the recovery of up to 10,000 tons of metal and 100,000 mattress units during Phase I. Phase II is scheduled to commence in FY 2026-27 with the implementation of automated systems for material recovery. Phase III will commence in FY 2029-30 with the building of new infrastructure for the Material Recovery Facility (MRF), utilizing modern technologies such as robotics, T-Tech automated systems, infrared, and eddy current braking systems to enhance productivity and quality control. Material recovery rates are projected to increase significantly, correlated with the corresponding increase in dedicated resources and adequate staffing.

Major Capital Projects

Several key capital projects completed during FY 2024-25 or continued to the following year include:

- North Region's Covered Aerated Static Pile (CASP) project's design work was completed, pending construction work.
- Frank R. Bowerman Groundwater Projection and Stockpile project's construction work was substantially completed for acceptance of waste in April 2024. The remaining construction work to stabilize the surrounding hillside was scheduled to be completed in July 2025.

OC WASTE & RECYCLING
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

- Frank R. Bowerman Sewer Line & Water Treatment System project's Liquids Treatment Facility design has been completed. The Sewer Line design has been completed and permitted, except for the crossing of the bridge over the 241 Toll Road. CalTrans is still reviewing the bridge crossing design. Construction has been put on hold pending the bridge crossing design being finalized and the completion of the Electrical Infrastructure Expansion project, which will provide permanent power to the Liquid's Treatment Facility. The construction is currently scheduled to be completed in July 2027.

Prima Deshecha Zone 4 Landfill Excavation project's design work was completed, and construction work is in progress with an estimated completion in early 2026.

Renewable Energy Facilities and Planning

In FY 2024-2025, Orange County Waste & Recycling (OCWR) generated more than 353,548 MWh of renewable energy, enough to power approximately 30,269 homes in the County. This output resulted in \$3.86 million in royalty revenue from the landfill gas-to-electricity facilities at the Olinda Alpha and Frank R. Bowerman landfills.

Building on its landfill gas-to-energy initiatives, OCWR has also pursued renewable energy development at the closed Coyote Canyon Landfill. In June 2018, the Board of Supervisors selected a developer for the energy redevelopment project at the closed Coyote Canyon Landfill. OCWR initiated negotiations for a long-term agreement; however, in June 2019, the primary developer withdrew its proposal. OCWR then began negotiations with the secondary developer. In May 2021, the secondary developer executed an option agreement with OCWR to evaluate the feasibility of the proposed renewable energy project before committing to a delivery agreement. CEQA review, led by the City of Newport Beach, has been completed.

OCWR has also advanced to Phase Two of the ORNGE pathway, which includes plans to develop two Renewable Natural Gas (RNG) facilities at the Frank R. Bowerman Landfill and the closed Coyote Canyon Landfill. These facilities will convert landfill gas into renewable natural gas for injection into Southern California Gas (SoCal Gas) pipelines, supporting renewable energy goals and aiding in emissions reduction and management. In June 2023, the Board of Supervisors approved the construction of a new RNG facility at the Frank R. Bowerman Landfill, with Montauk Renewables as the developer. The facility will convert landfill gas into renewable natural gas, which will be injected directly into the SoCal Gas pipeline for distribution to customers in the County of Orange.

At the Prima Deshecha Landfill, the 25-year landfill gas lease and operating agreement expired in October 2022, and the sublessee has completed decommissioning its energy-generating plant. OCWR continues to evaluate and actively pursue new opportunities for landfill-gas-to energy, including the generation of electricity using advanced technologies, the production of renewable natural gas, and other low-carbon fuel strategies.

OC WASTE & RECYCLING
Statement of Net Position
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

ASSETS

Current unrestricted assets:

Pooled cash and investments	\$ 685,251
Imprest cash funds	35
Accounts receivable, net	12,218
Interest receivable	12,789
Prepaid costs	4
Due from other governmental agencies	2,798
Due from other funds of the County	174
Leases receivable	237
Total current unrestricted assets	<u>713,506</u>

Current restricted assets:

Pooled cash and investments - customer deposits	1,361
Deposits in-lieu of cash	<u>38,356</u>
Total current restricted assets	<u>39,717</u>
Total current assets	<u>753,223</u>

Noncurrent assets:

Restricted assets:

Pooled cash and investments - customer deposits	12
Pooled cash and investments - contractor deposits	237
Pooled cash and investments - corrective action	14,842
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	<u>121,017</u>
Total noncurrent restricted assets	<u>136,987</u>

Capital assets:

Nondepreciable/ nonamortizable	151,432
Depreciable/ amortizable, net	<u>319,973</u>
Capital assets, net	<u>471,405</u>
Leases receivable	6,219
Total noncurrent assets	<u>614,611</u>
Total assets	<u>1,367,834</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pension	8,648
Deferred outflows of resources related to OPEB	332
Total deferred outflows of resources	<u>8,980</u>

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Net Position
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

LIABILITIES

Current liabilities (payable from unrestricted assets):

Accounts payable	\$ 19,033
Retainage payable	3,216
Salaries and accrued employee benefits payable	1,905
Accrued closure and postclosure care costs	4,334
Pollution remediation obligation	416
Unearned revenue	177
Compensated employee absences payable	3,077
Due to other funds of the County	11,483
Due to other governmental agencies	12,860
Lease liability	296
SBITA liability	213
Total current liabilities (payable from unrestricted assets)	<u>57,010</u>

Current liabilities (payable from restricted assets):

Deposits from others	39,966
Total current liabilities (payable from restricted assets)	<u>39,966</u>
Total current liabilities	<u>96,976</u>

Noncurrent liabilities:

Compensated employee absences payable	1,369
Accrued closure and postclosure care costs	240,196
Pollution remediation obligation	6,858
Net pension liability	41,614
Net OPEB liability	2,242
Lease liability	82
SBITA Liability	225
Total noncurrent liabilities	<u>292,586</u>
Total liabilities	<u>389,562</u>

DEFERRED INFLOW OF RESOURCES

Deferred inflow of resources related to pension	2,035
Deferred inflow of resources related to OPEB	601
Deferred inflow of resources related to leases	5,954
Total deferred inflows of resources	<u>8,590</u>

NET POSITION

Net investment in capital assets	461,612
Restricted:	
Landfill closure and postclosure	28,368
Landfill corrective action	15,151
Frank R. Bowerman landfill	879
Unrestricted	472,652
Total net position	<u>\$ 978,662</u>

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

OPERATING REVENUES

Disposal fees	\$ 215,323
Other charges for services	355
Use of property	4,343
Licenses, permits, and franchise fees	325
Total operating revenues	<u>220,346</u>

OPERATING EXPENSES

Salaries and employee benefits	39,177
Services and supplies	57,431
Professional and specialized services	28,657
Provision for pollution remediation obligation	(10)
Provision for closure and postclosure care costs	39,912
Taxes and other fees	30,315
Depreciation and amortization	24,782
Total operating expenses	<u>220,264</u>

Operating income	82
------------------	----

NONOPERATING REVENUES (EXPENSES)

Intergovernmental revenue	289
Fines, forfeitures and penalties	10
Interest income	36,632
Net increase in the fair value of investments	10,236
Interest expense	(107)
Loss on disposal of capital assets, net	(21)
Other revenues	66
Total nonoperating revenues (expenses)	<u>47,105</u>

Income before transfers	47,187
--------------------------------	--------

Transfers in from County funds	15
Transfers out to County funds	<u>(10,481)</u>

Change in net position	36,721
------------------------	--------

Net position - beginning of year	943,106
Change in accounting principle	(1,165)
Net position - beginning of year, as restated	941,941
Net position - end of year	<u>\$ 978,662</u>

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Cash Flows
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Cash flows from operating activities

Receipts from customers	\$ 222,839
Payments to suppliers	(91,435)
Payments to employees	(38,125)
Payments from other funds of the County	22,331
Landfill site closure and postclosure care costs	(4,334)
Pollution remediation obligation payments	(366)
Taxes and other fees	(30,315)
Other payments	(3,161)
Net cash provided by operating activities	<u><u>77,434</u></u>

Cash flows from noncapital and related financing activities

Transfers out to other funds of the County	(10,481)
Transfers in from other funds of the County	15
Intergovernmental revenues	288
Net cash provided by noncapital and related financing activities	<u><u>(10,178)</u></u>

Cash flows from capital and related financing activities

Acquisition of capital assets	(66,938)
Principal paid on leases	(261)
Interest paid on leases	(105)
Principal paid on SBITA	(336)
Interest paid on SBITA	(2)
Receipts for leases receivables	296
Interest on leases receivables	272
Net cash used in capital and related financing activities	<u><u>(67,074)</u></u>

Cash flows from investing activities

Interest on investments	33,215
Net change in the fair value of investments	10,236
Net cash provided by investing activities	<u><u>43,451</u></u>
Net increase in cash and cash equivalents	43,633
Cash and cash equivalents - beginning of year	780,001
Cash and cash equivalents - end of year	<u><u>\$ 823,634</u></u>

**Reconciliation of cash and cash equivalents to
statement of net position**

Pooled cash and investments - current assets	\$ 685,251
Imprest cash funds	35
Pooled cash and investments - closure and postclosure care costs	121,017
Pooled cash and investments - corrective action	14,842
Pooled cash and investments - Frank R. Bowerman landfill wetland and Agua Chinon Wash habitat mitigation	879
Pooled cash and investments - customer deposits	1,373
Pooled cash and investments - contractor deposits	237
Total cash and cash equivalents	<u><u>\$ 823,634</u></u>

See accompanying notes to financial statements

OC WASTE & RECYCLING
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

Operating income	\$ 82
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	24,782
Recognition of lease income	(568)
Fines, forfeitures and penalties	10
Other revenues	67
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables, Net	3,833
Deposits in-lieu of cash	(1,110)
Prepaid expenses	51
Due from other funds of the County	20,451
Due from other governmental agencies	(494)
Deferred outflows of resources related to pension	3,460
Deferred outflows of resources related to OPEB	(34)
Increase (decrease) in:	
Accounts payable	(6,762)
Salaries and accrued employee benefits payable	324
Accrued closure and postclosure care costs	35,578
Pollution remediation obligation	(376)
Unearned Revenue	(246)
Compensated employee absences payable	728
Due to other funds of the County	1,880
Due to other governmental agencies	1,415
Deposits from others	1,128
Net pension liability from pension contribution and expenses	(6,791)
Deferred inflow of resources related to pension	411
Net OPEB liability	4
Deferred inflow of resources related to OPEB	(93)
Deferred inflows of resources related to leases	(296)
Net cash provided by operating activities	<hr/> <hr/> \$ 77,434

Noncash Investing, Capital, and Financing Activities

Loss on disposition of capital assets, net	\$ (21)
Acquisition of capital assets with accounts payable	6,133
Acquisition of capital assets with retainage	2,844
Lease liability for acquisition of lease assets	536
SBITA liability for acquisition of lease assets	682

See accompanying notes to financial statements

OC WASTE & RECYCLING
Notes to Financial Statements
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

Description of Reporting Entity

OC Waste & Recycling is a department of the County of Orange, California (County) and is reported 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, 2026. The waste disposal agreements cover approximately 86% 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 14% 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, 2025
(Dollar Amounts in Thousands)

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

New Accounting Pronouncement

The following lists recent GASB Pronouncements that have been implemented in FY 2024-25:

In June 2022, GASB issues 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. OC Waste & Recycling implemented this Statement in FY 2024-25. The effect of the implementation of this standard on beginning net position is disclosed in Note 2, Change in Accounting Principle.

In December 2023, GASB issued Statement No. 102, “*Certain Risk Disclosures*.” This Statement improves the reporting requirements of disclosing a substantial risk based on the concentration or constraint of the events. The requirements of this statement are effective for reporting periods beginning after June 15, 2024. OC Waste & Recycling implemented this requirement in FY 2024-25 without any material impact on the financial statements.

The following summarizes recent GASB Pronouncement that will be implemented in future financial statements. OC Waste & Recycling has not determined the effects of these Statements.

In April 2024, GASB issued Statement No. 103, “*Financial Reporting Model Improvements*.” The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government’s accountability. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, which requires OC Waste & Recycling to implement the Statement in FY 2025-26.

In September 2024, GASB issues Statement No. 104, “*Disclosures of Certain Capital Assets*.” This Statement requires certain types of capital assets to be disclosed separately by major class in the capital assets note disclosures. It also requires additional disclosures for capital assets held for sale. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, which requires OC Waste & Recycling to implement the Statement in FY 2025-26.

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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

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, \$150 for intangible assets except \$5 for commercially acquired software, \$150 for infrastructure, \$150 for land improvements, and \$0 for land.

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of buildings and improvements, equipment, intangible assets, and infrastructure are as follows:

Buildings and Improvements	10 to 50 years (or the remaining estimated useful life of the landfill)
Equipment	2 to 20 years
Intangible assets (software)	3 to 15 years
Infrastructure:	
Cell development	15 to 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 Net Position.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

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. Under these contracts, 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 lease 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.

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. 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 Information Technology 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. Under these contracts, OC Waste & Recycling 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

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/Budget & Finance Office. 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 & 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, 2025, was \$537.

Compensated Absences

Compensated employee absences (vacation, compensatory time off, performance incentive plan 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

These monies are restricted by Federal and State legislation, and third parties for specific use within their categories. As of June 30, 2025, OC Waste & Recycling reported a restricted net position of \$44,398 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 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 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 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

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

The OC Waste & Recycling implemented GASB Statement No. 101, "Compensated Absences" in the current financial statements, which resulted in the restatement of the beginning Net Position:

Net position at June 30, 2024, as Previously Reported	\$ 943,106
Change in accounting principle	<u>(1,165)</u>
Net position at June 30, 2024, as Restated	<u>\$ 941,941</u>

Refer to Note 1 New Accounting Pronouncements for additional information on GASB Statement No. 101.

Note 3 – Importation Revenue Transfer for Bankruptcy Recovery and Importation Revenue Sharing

In late 1995, the County proposed importing out-of-county waste as a new source of revenue to repay the County's obligations stemming from the 1994 bankruptcy. Pursuant to the proposal, the County obtained legislation exempting OC Waste & Recycling (OCWR) 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.

In 2016, the County Board of Supervisors approved Amendment Number I to the Waste Disposal Agreement (WDA), which allowed the continuation of importation tonnage beyond June 30, 2016, and the five-year extension of the WDA term to June 30, 2025, in an effort to mitigate the anticipated loss of in-county revenue from diversion programs implemented in response to State legislation. After the County's bankruptcy obligations were paid in full in 2017, the importation revenue is used to offset operating expenditures, stabilize rates, and replenish OCWR reserves. The remaining importation revenue is then equitably shared between the County and all participating cities.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 3 – Importation Revenue Transfer for Bankruptcy Recovery and Importation Revenue Sharing (Continued)

During the year ended June 30, 2025, OC Waste & Recycling collected imported waste disposal fees of \$59,876. The County's share of Net Import Revenues totaling \$9,257 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 \$9,257 was distributed to the cities. It is included with the Taxes and other fees in the accompanying financial statements.

Note 4 – Cash and Investments

The 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.

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2025, were as follows:

Cash and pooled cash investments:		
Cash on hand	\$	35
Pooled cash and investments, restricted		138,348
Pooled cash and investments		<u>685,251</u>
Total cash and investments	\$	<u>823,634</u>

Cash

Cash represents the amount held by the Treasurer account, which was established upon the authorization of the Board shortly following the County bankruptcy.

Pooled Cash and Investments

The Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the Treasurer. The 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. For the credit ratings of the Pool investments, refer to the County's Annual Comprehensive Financial Report (ACFR). The ACFR is available by accessing the Auditor-Controller's website at <https://ocauditor.gov>.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 5 – Accounts Receivable

Accounts receivable as of June 30, 2025, were as follows:

Imported waste disposal fees	\$ 2,180
County of Orange (in-county) waste disposal fees	8,829
Miscellaneous	1,210
Allowance for estimated uncollectible receivables	(1)
Total accounts receivable, net	<u>\$ 12,218</u>

Note 6 – Prepaid Costs

Prepaid costs for software licenses, net of amortization reported in the accompanying Statement of Net Position, is \$4 for June 30, 2025.

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, 2025, was \$38,356.

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.

During FY 2024-25, there were no advances made to other County agencies. As of June 30, 2025, the outstanding balance of advances to other County agencies was \$0.

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 9 – Interfund and Transfers

The composition of interfund balances as of June 30, 2025, was as follows:

Receivable Fund	Payable Funds	
OCWR	Flood Control District	\$ 147
OCWR	General	22
OCWR	Roads	5
Total Due from Other Funds of the County:		\$ 174
General	OCWR	\$ 11,170
Internal Service Funds	OCWR	269
Other Governmental Funds	OCWR	44
Total Due to Other Funds of the County:		\$ 11,483

The total Due from Other Funds consisted of the amount receivable from General Fund agencies of \$22 for Sheriff and IT Services. It also included amounts due from the Flood Control District for \$147 and Roads Fund for \$5. Amounts payable by OC Waste & Recycling to General Fund agencies of \$11,170 included mainly the net importation revenue in the amount of \$9,507 to pay obligations in accordance with the waste-importation contracts. The \$44 and \$269 were the shared costs that OCWR was obligated to pay to Public Works and OC Information Technology for using their services, respectively.

Total Transfers out of \$10,481 are composed primarily of Importation Revenue disbursements to the County General Fund. For additional details refer to Note 3 Importation Revenue Transfer for Bankruptcy Recovery and Importation Revenue Sharing.

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 10 – Capital Assets

Capital asset activities for the year ended June 30, 2025, were as follows:

	Balance July 1, 2024	Additions	Deductions	Balance at June 30, 2025
<i>Capital Assets, Not Depreciated/Amortized</i>				
Land	\$ 22,701	\$ --	\$ --	\$ 22,701
Construction in progress	71,568	57,163	--	128,731
Intangible Assets in progress	95	--	(95)	--
Total Capital Assets, Not Depreciated/Amortized	<u>94,364</u>	<u>57,163</u>	<u>(95)</u>	<u>151,432</u>
<i>Capital Assets, Depreciable/Amortizable</i>				
Land Improvements	611	--	--	611
Building and improvements	30,044	--	--	30,044
Equipment	125,304	15,563	(6,136)	134,731
Right-to-Use Lease Equipment	90	--	(28)	62
Right-to-use SBITA	685	682	--	1,367
Right-to-use Lease B&I	143	536	--	679
Infrastructure	533,049	--	--	533,049
Software	2,249	203	(1,117)	1,335
Total Capital Assets, Depreciable/Amortizable	<u>692,175</u>	<u>16,984</u>	<u>(7,281)</u>	<u>701,878</u>
<i>Less Accumulated Depreciation/Amortization</i>				
Land Improvements	(88)	(20)	--	(108)
Buildings and improvements	(17,825)	(463)	--	(18,288)
Equipment	(62,120)	(11,087)	6,019	(67,188)
Right-to-Use Lease Equipment	(36)	(11)	28	(19)
Right-to-use SBITA	(608)	(295)	--	(903)
Right-to-use Lease B&I	(19)	(310)	--	(329)
Infrastructure	(281,520)	(12,417)	--	(293,937)
Software	(1,594)	(179)	640	(1,133)
Total Accumulated Depreciation/Amortization	<u>(363,810)</u>	<u>(24,782)</u>	<u>6,687</u>	<u>(381,905)</u>
Total Capital Assets, Depreciable/Amortizable, (Net)	<u>328,365</u>	<u>(7,798)</u>	<u>(594)</u>	<u>319,973</u>
Total Capital Assets, Net	<u><u>\$ 422,729</u></u>	<u><u>\$ 49,365</u></u>	<u><u>\$ (689)</u></u>	<u><u>\$ 471,405</u></u>

Total depreciation and amortization expense for the year ended June 30, 2025, was \$24,782.

Construction in Progress

Construction in progress consists of projects for construction of mass excavation for groundwater protection. The projects on June 30, 2025, were as follows:

Landfills

Prima Deshecha ZN4 Phase A Mass Excavation/ GW Protection	\$ 68,205
FRB Phase VIII – A1 Groundwater Protection & Stockpile Project	58,634
Other	1,892
Total construction in progress	\$ 128,731

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 10 – Capital Assets (Continued)

Construction and Equipment Contracts

OC Waste & Recycling entered into various major construction and equipment contracts to facilitate its landfill operations. At June 30, 2025, OC Waste & Recycling is committed to open construction and equipment contracts for the following projects:

Description	Remaining Commitments
Prima ZN4 Phase A Mass Excavation/GW Protection	\$ 29,695
FRB Phase VIII – Groundwater Protection & Stockpile Project	1,683
FRB Sewer Line and Water Treatment System	8,019
Total	\$ 39,397

Note 11 – Defined Benefit Pension Plan

Plan Description

All full-time employees of the OC Waste & Recycling participate in the County's cost-sharing multiple-employer defined benefit pension plans administered by OCERS.

OCERS provides for retirement, death, disability, and cost-of-living benefits, and is subject to the provisions of the County Employee Retirement Law of 1937, California Government Code Section 31451 et. seq. (the Retirement Law). OCERS is an independent, defined-benefit retirement plan in which employees of the County participate. 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. The OCERS Board supervises the investment of OCERS assets and distribution of benefits to retired employees. The OCERS Board also determines the annual contributions required of the County and other participating local governmental entities to fund OCERS.

The Retirement Law requires an actuarial valuation to be performed at least once every three years. OCERS' practice has been to conduct an actuarial valuation annually as of December 31, which is the end of the OCERS fiscal year.

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 an annual annuity equal to a retirement benefit formula of 2.7% of the member's "final compensation" for each year of service rendered at age 55.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 11 – Defined Benefit Pension Plan (Continued)

In collective bargaining agreements with General members, the employee associations agreed to pay the increased retirement costs related to the difference between the prior retirement benefit formulas and the new 2.7% at age 55 formula, as well as the annual amortization of the unfunded liability created by the retroactive application of the increased benefit. Due to the passage of the Public Employees' Pension Reform Act (PEPRA) of 2013, most new employees (non-safety) hired on or after January 1, 2013, receive an annual annuity equal to a retirement benefit formula of 1.62% of the member's "final compensation" for each year of service rendered at age 65. The 1.62% at age 65 retirement formula includes a voluntary defined contribution component with an employer match.

Contributions

In accordance with various Board resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. In the 1997 Ventura decision of the California Supreme Court, the Court stated that for the purpose of calculating pension benefits, "final compensation" can mean not only base salaries, but also other components. The County 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.

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, 2025, employer's contributions as a percentage of covered payroll was 38.44% for General Members. The OC Waste & Recycling's total contribution to OCERS for the year ended June 30, 2025, was \$8,615.

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

The County reported a liability of \$3,396,575 for its proportionate share of the net pension liability (NPL), of which OC Waste & Recycling's allocated share of the County's NPL totaled \$41,614. The County's NPL was measured as of December 31, 2024, and the total pension liability was determined by an actuarial valuation from OCERS as of December 31, 2023. 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 \$4,417 for the year ended June 30, 2025, which represents the change in the NPL during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits. The total deferred outflows of resources and deferred inflow of resources related to pensions at June 30, 2025, was \$8,648 and \$2,035, respectively. Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to NPL to be recognized in future periods in a systematic and rational manner.

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 11 – Defined Benefit Pension Plan (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	\$ -	\$ 770
Difference between expected and actual experience	2,547	741
Changes of assumptions	1,336	413
Changes in proportion and differences between employer contributions and proportionate share of contributions	107	111
County contributions subsequent to the measurement date	<u>4,658</u>	<u>-</u>
Total	<u>\$ 8,648</u>	<u>\$ 2,035</u>

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:	
2026	\$ 908
2027	3,591
2028	(1,789)
2029	(810)
2030	55
Thereafter	<u>-</u>
Total	<u>\$ 1,955</u>

Contributions subsequent to the measurement date of \$4,658 will be recognized as a reduction of the net pension liability in the year ending June 30, 2026.

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 <https://ocauditor.gov>.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 12 – Postemployment Health Care Benefits

Plan Description

The OC Waste & Recycling is a participant in the County's Retiree Medical Plan. The Retiree Medical Plan is a cost-sharing multiple-employer defined benefit Other Postemployment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. Eligible retired County employees receive a monthly grant (Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums.

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

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

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

Contributions

As an enterprise fund of the County, OC Waste & Recycling was required to contribute 1.0% of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$239 for the year ended June 30, 2025, which was 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 \$210,213 for its proportionate share of the collective net OPEB liability at June 30, 2025. OC Waste & Recycling's allocated share of the County's net OPEB liability is \$2,242, which is based on its percentage of actual employer contributions.

OC Waste & Recycling recognized OPEB expense of \$101 for the year ended June 30, 2025, 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.

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 12 – Postemployment Health Care Benefits (Continued)

The total deferred outflows of resources and deferred inflow of resources related to OPEB at June 30, 2025, was \$332 and \$601, 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.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on OPEB plan investments	\$ -	\$ 36
Changes in proportion and differences between employer contributions and proportionate share of contributions	88	22
County contributions subsequent to measurement date	129	-
Difference between expected and actual experience	-	498
Changes of assumptions	<u>115</u>	<u>45</u>
Total	<u>\$ 332</u>	<u>\$ 601</u>

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:	
2026	\$ (111)
2027	(40)
2028	(157)
2029	(83)
2030	(17)
Thereafter	<u>10</u>
Total	<u>\$ (398)</u>

Contributions subsequent to the measurement date of \$129 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2026.

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 <https://ocauditor.gov>

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 13 – Long-Term Obligations

Long-term liability activities for the year ended June 30, 2025, were as follows:

Long-Term Liabilities	Balance at July 1, 2024, as restated	Additions	Reductions	Balance June 30, 2025	Due Within One Year
Compensated absences	\$ 2,553	\$ 4,708	\$ (2,815)	\$ 4,446	\$ 3,077
Closure and postclosure care costs	208,953	39,911	(4,334)	244,530	4,334
Pollution remediation obligation	7,650	-	(376)	7,274	416
SBITA Liability	92	682	(336)	438	213
Lease Liability	147	536	(305)	378	296
Total long-term liabilities	<u>\$ 219,395</u>	<u>\$ 45,837</u>	<u>\$ (8,166)</u>	<u>\$ 257,066</u>	<u>\$ 8,336</u>

For additional details on the closure and postclosure care costs and pollution remediation obligation, refer to Note 14 Accrued Closure and Postclosure Care Costs and Note 15 Pollution Remediation Obligations, 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, 2025, was \$244,530. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (42.18% for FRB, 97.38% for Olinda Alpha and 25.70% 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 \$184,594 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2025 dollars (using the 2024 inflation factor of 1.024). 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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

In compliance with Title 27 – Environmental Protection of California Code of Regulations, OC Waste & Recycling makes cash contributions as required to its escrow funds to provide financial assurance for estimated future landfill closure costs based on GASB Statement No. 18 formula which is adjusted annually by the Cal Recycle-provided CPI factor. In addition, in compliance with regulations, OC Waste & Recycling has executed pledge-of-revenue agreements to provide financial assurance for estimated future landfill postclosure maintenance costs. The agreements state that OC Waste & Recycling pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within 60 days if OC Waste & Recycling ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OC Waste & Recycling has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on state provided inflation factors. The state mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2025, a total of \$121,017 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of 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, 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 2024-25, the combined pollution remediation obligation as of June 30, 2025, is \$7,274.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 15 – Pollution Remediation Obligations (Continued)

Cannery Former Refuse Disposal Station

A park owned by the City of Huntington Beach (Huntington Beach), California and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property.

The Local Enforcement Agency (LEA) issued a Notice and Order to Huntington Beach, requiring Huntington Beach to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, Huntington Beach and the Huntington Beach City School District (Huntington Beach School District) issued the Notices of Intent to Sue under 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.

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 \$27. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$13.

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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 15 – Pollution Remediation Obligations (Continued)

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years 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 \$202. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$589.

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.

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 \$0. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$0.

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.

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

Note 15 – Pollution Remediation Obligations (Continued)

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, 2025.

The remaining balance for landfill gas remediation at the Forster site is \$3,000 as of June 30, 2025. 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 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 \$3,672 as of June 30, 2025.

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

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 Pollution Remediation Obligations. 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, 2025, amounts classified in unrestricted net position totaled \$472,652.

Note 17 – Major Customers

Disposal fees from four (4) major customers accounted for revenues of approximately \$43,295, \$35,435, \$32,828, and \$22,666 during the year ended June 30, 2025. These customers represent 23.53%, 19.26%, 17.84%, and 12.32% of total disposal fee revenue, respectively.

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 and structures. 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, 2025, the right-to-use asset balance is \$741.

In FY 2024-25, the discount rate applied to new or modified leases is 5%. OC Waste & Recycling recognized \$304 and \$26 in principal and interest payments. The lease liability at June 30, 2025 is \$378.

	Balance at July 1, 2024	Increases	Decreases	Balance at June 30, 2025
Right-to-use Assets				
Lease Equipment and Structures	\$ 233	\$ 536	\$ (28)	\$ 741
Total Right-to-Use Assets	233	536	(28)	741
Less Amortization				
Lease Equipment and Structures	(55)	(321)	28	(348)
Total Amortization	(55)	(321)	28	(348)
Total Lease Assets, net of amortization	<u>\$ 178</u>	<u>\$ 215</u>	<u>\$ -</u>	<u>\$ 393</u>

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 18 – Leases (Continued)

The future principal and interest payments as of June 30, 2025 are as follows:

Fiscal Year Ended June 30	Principal	Interest
2026	\$ 296	\$ 11
2027	34	3
2028	35	2
2029	13	-
Total	<u>\$ 378</u>	<u>\$ 16</u>

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 2024-25, the discount rate applied to new or modified leases is 4%. In addition, OC Waste & Recycling recognized revenue related to receipts of lease receivables and lease interest of \$213 and \$272, respectively. As of June 30, 2025, the balance of the lease receivable is \$6,456, and the balance of deferred inflow related to leases is \$5,954.

The balances of the lease receivable related to leases for OC Waste and Recycling as of June 30, 2025, is as follows:

Lease Receivable:	Balance at		Balance at	
	July 1, 2024	Increase	Decrease	June 30, 2025
Land	\$ 6,668	\$ -	\$ (212)	\$ 6,456
Total Lease Receivable	<u>\$ 6,668</u>	<u>\$ -</u>	<u>\$ (212)</u>	<u>\$ 6,456</u>

OC WASTE & RECYCLING
 Notes to Financial Statements (Continued)
 For the Year Ended June 30, 2025
 (Dollar Amounts in Thousands)

Note 18 – Leases (Continued)

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

Fiscal Year End June 30	Principal	Interest
2026	\$ 237	\$ 263
2027	247	253
2028	104	246
2029	121	242
2030	139	237
2031 - 2035	1,007	1,076
2036 - 2040	1,676	805
2041 - 2045	2,270	381
2046 - 2050	655	20
Total	\$ 6,456	\$ 3,523

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. As of June 30, 2025, the right-to-use SBITA asset is \$1,367.

In FY 2024-25, the discount rate applied to new or modified SBITAs is 5%. OC Waste & Recycling recognized \$336 and \$2 in principal and interest payments. The SBITA liability at June 30, 2025, is \$438.

	Balance at	Balance at		
	July 1, 2024	Increases	Decreases	June 30, 2025
Right-to-use SBITA Assets	\$ 685	\$ 682	\$ -	\$ 1,367
Total Right-to-Use SBITA Assets	685	682	-	1,367
Less Amortization	(608)	(295)	-	(903)
Total Amortization	(608)	(295)	-	(903)
Total Leased Assets, net of amortization	\$ 77	\$ 387	\$ -	\$ 464

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

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

The future principal and interest payments as of June 30, 2025 are as follows:

Fiscal Year Ended June 30	Principal	Interest
2026	\$ 213	\$ 21
2027	211	11
2028	14	1
2029	-	-
2030	-	-
Total	<u>\$ 438</u>	<u>\$ 33</u>

OC WASTE & RECYCLING
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2025
(Dollar Amounts in Thousands)

This page left intentionally blank.



**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 (*Government Auditing Standards*), 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, 2025, 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 18, 2025. Our report 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, 2025. Our report also included an emphasis of matter describing OC Waste & Recycling's restatement of beginning net position due to the implementation of the provisions of the Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*.

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

A handwritten signature in black ink that reads "Eric Baily, LLP". The signature is fluid and cursive, with "Eric" and "Baily" connected, and "LLP" written in a smaller, separate section.

Rancho Cucamonga, California

December 18, 2025