



2016 ANNUAL REPORT

OC WASTE & RECYCLING

FINANCIAL STATEMENTS



OC WASTE & RECYCLING

INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL STATEMENT

FOR THE YEAR ENDED JUNE 30, 2016

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Independent Auditor's Report

To the Honorable Board of Supervisors
County of Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of OC Waste & Recycling, an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OC Waste and Recycling, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the financial statements present only OC Waste & Recycling, an enterprise fund of the County, and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2016, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 39 through 45 presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information on pages 1 through 34 in this annual report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express opinion or provide any assurance on it.

A handwritten signature in blue ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Newport Beach, California

December 15, 2016

OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016

(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, 2016. We encourage readers to consider the information presented here in conjunction with the information furnished in OC Waste & Recycling's financial statements.

FINANCIAL HIGHLIGHTS

- OC Waste & Recycling's change in net position is \$34,963, or 6.7%, for the year ended June 30, 2016. The factors attributable to the change in net position includes operating income of \$50,667, nonoperating revenues of \$5,563, and transfers out to County Funds of \$21,267.
- Operating expenses increased by \$27,092, or 39.1%, for the year ended June 30, 2016. The increase is primarily due to the increase in the provision for closure and postclosure care costs by \$24,034.
- Disposal revenue increased by \$7,600, or 5.6%, for the year ended June 30, 2016. The increase is primarily due to the increases in importation disposal revenue by \$2,863 and in-county disposal revenue by \$4,738.
- OC Waste & Recycling contributed \$21,239 of net importation revenue to the County General Fund for repayment of bankruptcy related obligations for the year ended June 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The financial statements are divided into two components:

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

STATEMENT OF FUND NET POSITION

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

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION

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

OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

STATEMENT OF CASH FLOWS

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

NOTES TO FINANCIAL STATEMENTS

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

FINANCIAL ANALYSIS

STATEMENT OF FUND NET POSITION SUMMARY

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

At June 30, 2016, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$556,257.

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

TABLE 1
STATEMENT OF FUND NET POSITION
JUNE 30, 2016

	2016	2015	2016 vs 2015 % change
ASSETS			
Current and other assets	\$ 540,625	\$ 529,208	2.2%
Capital assets	266,242	247,784	7.4%
TOTAL ASSETS	806,867	776,992	3.8%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	12,825	7,974	60.8%
LIABILITIES			
Current and other liabilities	35,905	42,110	-14.7%
Noncurrent liabilities	222,153	216,876	2.4%
TOTAL LIABILITIES	258,058	258,986	-0.4%
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	5,377	4,686	14.7%
NET POSITION			
Net investment in capital assets	266,222	247,784	7.4%
Restricted	43,225	42,494	1.7%
Unrestricted	246,810	231,016	6.8%
TOTAL NET POSITION	\$556,257	\$521,294	6.7%

OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

OC Waste & Recycling's total assets increased by \$29,875, or 3.8%, from June 30, 2015, primarily due to the increases in pooled cash and investments, receivable due from other County funds, and capital assets. Increases in capital assets were due to increases in the infrastructure for the East Flank Landslide Remediation project at Frank R. Bowerman Landfill and the Front Slope Improvement Project Phase I at Olinda Alpha Landfill.

OC Waste & Recycling's total liabilities decreased by \$928, or 0.4%, from June 30, 2015, primarily due to the decreases in accounts payable and payable due to other County funds, net of increases in net pension liability.

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION SUMMARY

For the year ended June 30, 2016, change in net position is \$34,963, or 6.7%.

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

TABLE 2
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015	2016 vs 2015 % change
OPERATING REVENUES			
Disposal fees	\$ 143,080	\$ 135,480	5.6%
Other charges for services	52	196	-73.5%
Use of property, licenses, permits & franchise fees	3,935	3,801	3.5%
TOTAL OPERATING REVENUES	147,067	139,477	5.4%
OPERATING EXPENSES			
Salaries and employee benefits	25,845	25,111	2.9%
Services and supplies	19,938	21,064	-5.3%
Professional and specialized services	17,501	16,014	9.3%
Depreciation and amortization	15,269	14,770	3.4%
Other operating expenses	17,847	(7,651)	333.3%
TOTAL OPERATING EXPENSES	96,400	69,308	39.1%
OPERATING INCOME	50,667	70,169	-27.8%
NONOPERATING REVENUES (EXPENSES), NET	5,563	2,774	100.5%
INCOME BEFORE TRANSFERS	56,230	72,943	-22.9%
Transfers out to County Funds	(21,267)	(19,810)	7.4%
CHANGE IN NET POSITION	34,963	53,133	-34.2%
NET POSITION - BEGINNING OF YEAR	521,294	468,161	11.3%
NET POSITION - END OF YEAR	\$ 556,257	\$ 521,294	6.7%

OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

OPERATING REVENUES

For the year ended June 30, 2016, total operating revenues increased by \$7,590, or 5.4%, due primarily to the increases in importation disposal tonnage and fees of \$2,863 and in-county disposal tonnage and fees of \$4,738.

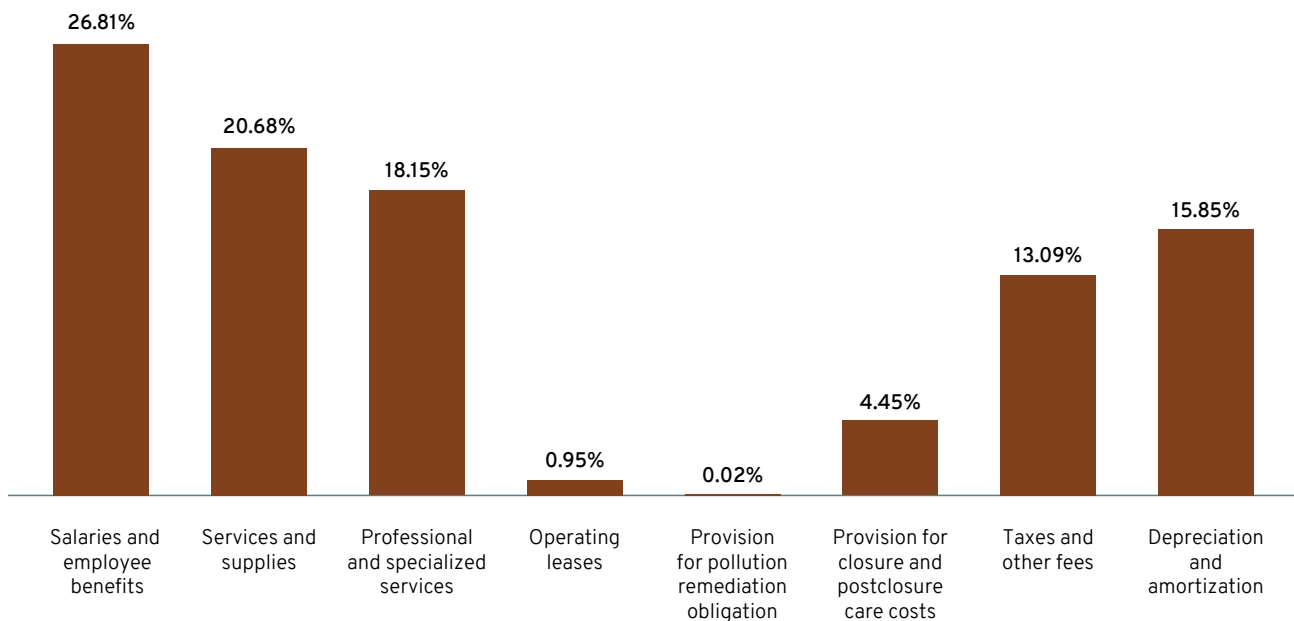
Disposal fees that are charged to users of the waste disposal sites comprise the largest revenue source of OC Waste & Recycling at approximately 97.3%. Other operating revenues include royalties received from the landfill gas rights, rents, and other fees.

OPERATING EXPENSES

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

For the year ended June 30, 2016, total operating expenses increased by \$27,092, or 39.1%, due primarily to the increases in the closure and postclosure care costs and pollution remediation expenses.

OPERATING EXPENSES FY 2016



OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

NONOPERATING REVENUES AND EXPENSES

For the year ended June 30, 2016, nonoperating revenues and expenses increased by \$2,789, or 100.5%, due primarily to increases in fines, forfeitures, and penalties, interest revenue, gain on disposal of capital assets, and miscellaneous revenue.

CAPITAL ASSETS

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

For the year ended June 30, 2016, investment in capital assets (net of accumulated depreciation) increased by \$18,458, or 7.4%. A summary of the key elements that contributed to the changes in OC Waste & Recycling's capital assets is presented in Table 3.

TABLE 3
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)
JUNE 30, 2016

	2016	2015	2016 vs 2015 % change
CAPITAL ASSETS			
Land (Nondepreciable)	\$ 22,164	\$ 22,164	0.0%
Construction in progress (Nondepreciable)	13,237	49,868	-73.5%
Intangible assets in progress (Nondepreciable)	235	67	250.7%
Buildings (Depreciable)	12,951	13,859	-6.6%
Equipment (Depreciable)	21,050	19,064	10.4%
Infrastructure (Depreciable)	196,135	142,233	37.9%
Software (Amortizable)	470	529	-11.2%
TOTAL CAPITAL ASSETS	\$ 266,242	\$ 247,784	7.4%

The major capital asset events during fiscal year (FY) 2015-16 was the capitalization of the \$10,140 for the Phase VIII B-1 Liner at Frank R. Bowerman Landfill and \$1,108 for the Front Slope Improvement Project Phase I at Olinda Alpha Landfill.

OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

For the year ended June 30, 2016, OC Waste & Recycling is committed to capital expenditure of \$1,779 for the Phase VIII B-1 Liner at Frank R. Bowerman Landfill.

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

REVIEW OF OPERATIONS

DISPOSAL FACILITIES

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

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

Several key projects completed during FY 2015-16 or continue to the following year includes:

- The Front Slope Improvement Project Phase I at the Olinda Alpha Landfill, a project to place regulatory mandated final cover on the landfill in order to best manage and utilize available onsite native materials and enhance visual aesthetics was completed. Consuming approved cover material also facilitates operational needs by providing access to much needed airspace otherwise occupied by the cover material. The project also included expanding a water supply system and replacing a water storage tank.
- Completion of the East Flank Excavation & Drainage Improvements Project at the Frank R. Bowerman Landfill, the second phase of remedial work for a massive landslide that occurred in the early 2000's. This phase removed the landslide debris from within the landslide area, stockpiled the excavated material at locations for Frank R. Bowerman's future operational use, and improved the long term stability of the excavated slopes, such as drainage channels, horizontal drains, and erosion control measures. It also enabled the construction of a soil buttress at the toe of the landslide to improve slope stability and to install landfill liner in the future Phase VIII B-1 area. Construction of the first phase of the soil buttress and liner in Phase VIII B-1 started in January 2016 and is scheduled for completion in October 2016.
- Continuation of the La Pata Gap Closure Project within the boundaries of the Prima Deshecha Landfill. OC Waste & Recycling continues to provide support to the County for this project to connect the La Pata Road between San Juan Capistrano and San Clemente, through this landfill while closing a portion of the landfill known as WMU-2. In addition, the installation of 75 acres of coastal sage scrub, 19 acres of native grassland, and planting of 240 live oak trees in Segunda Deshecha Canada was completed as pre-mitigation for future development of Zone 4 landfill operations.

OC WASTE & RECYCLING

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE YEAR ENDED JUNE 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

RENEWABLE ENERGY FACILITIES

In FY 2015-16 over 306,000 MWh of renewable energy was generated, with an approximate equivalent of providing electricity for 35,900 homes in the County. As a result, \$3.3 million in royalty revenue was generated from OC Waste & Recycling's renewable energy facilities.

OC Waste & Recycling is currently developing a Renewable Technologies Strategic Plan. The plan is to provide strategic guidance for managing OC Waste & Recycling's existing portfolio of landfill gas-to-energy projects, implement new projects to produce renewable energy, fuel and products, and identify other activities that will help meet waste management mandates and initiatives. Mandates and initiatives include reducing greenhouse gas emissions, increased diversion of organic waste from the landfills, diversifying sources of revenue and lowering waste disposal cost of service to Orange County residents. The Strategic Plan study is scheduled for completion in December 2016.

REQUEST FOR INFORMATION

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

OC WASTE & RECYCLING

STATEMENT OF FUND NET POSITION

JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

ASSETS:

Current unrestricted assets:

Pooled cash and investments (Note 3)	\$ 398,008
Imprest cash funds (Note 3)	35
Accounts receivable, net of allowances of \$1 (Note 4)	10,474
Interest receivable	806
Prepaid costs (Note 5)	2,037
Due from other governmental agencies	2,897
Due from other funds of the County (Note 8)	3,388
Total current unrestricted assets	417,645

Current restricted assets:

Pooled cash and investments - customer deposits (Note 3)	547
Deposits in-lieu of cash (Note 6)	16,571
Deposits with others	100
Total current restricted assets	17,218

Total current assets	434,863
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Noncurrent assets:

Restricted assets:

Pooled cash and investments - customer deposits (Note 3)	21
Pooled cash and investments - contractor deposits (Note 3)	128
Pooled cash and investments - corrective action (Note 3)	8,215
Pooled cash and investments - Prima Deshecha/La Pata closure (Note 3)	104
Pooled cash and investments - Frank R. Bowerman landfill and agua (Note 3)	879
Pooled cash and investments - closure and postclosure care costs (Notes 3 and 13)	90,848
Total noncurrent restricted assets	100,195

Capital assets: (Note 9)

Nondepreciable/Nonamortizable	35,636
Depreciable/Amortizable, net	230,606
Capital assets, net	266,242

Advances to other funds (Notes 7 and 8)	5,567
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Total noncurrent assets	372,004
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Total assets	806,867
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pension (Note 10)	12,825
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See accompanying notes to financial statements.

OC WASTE & RECYCLING

STATEMENT OF FUND NET POSITION (CONTINUED)

JUNE 30, 2016

(DOLLAR AMOUNTS IN THOUSANDS)

LIABILITIES

Current liabilities (payable from unrestricted assets):

Accounts payable	\$ 6,457
Retainage payable	744
Salaries and accrued employee benefits payable	1,383
Accrued closure and postclosure care costs (Notes 12 and 13)	2,659
Pollution remediation obligation (Notes 12 and 14)	449
Unearned revenue	120
Compensated employee absences payable (Note 12)	1,417
Capital asset obligation (Note 12)	7
Due to other funds of the County (Note 8)	2,335
Due to other governmental agencies	3,068
Total current liabilities (payable from unrestricted assets)	18,639

Current liabilities (payable from restricted assets):

Deposits from others	17,266
Total current liabilities (payable from restricted assets)	17,266

Total current liabilities	35,905
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Noncurrent liabilities:

Compensated employee absences payable	1,334
Capital asset obligation	13
Accrued closure and postclosure care costs (Notes 13)	158,016
Pollution remediation obligation (Notes 14)	10,741
Net pension liability (Note 10)	52,049
Total noncurrent liabilities	222,153

Total liabilities	258,058
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DEFERRED INFLOW OF RESOURCES

Deferred inflows of resources related to pension (Note 10)	5,377
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NET POSITION

Net investment in capital assets	266,222
Restricted:	
Prima Deshecha/La Pata closure	104
Landfill closure and postclosure	33,997
Landfill corrective action	8,245
Frank R. Bowerman landfill and agua	879
Unrestricted (Note 15)	246,810
Total net position	\$ 556,257

See accompanying notes to financial statements.

OC WASTE & RECYCLING

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN FUND NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

OPERATING REVENUES

Disposal fees (Notes 1 and 2)	\$ 143,080
Other charges for services	52
Use of property	3,859
Licenses, permits, and franchise fees	76
Total operating revenues	147,067

OPERATING EXPENSES

Salaries and employee benefits	25,845
Services and supplies	19,938
Professional and specialized services	17,501
Operating leases	918
Provision for pollution remediation obligation (Note 14)	18
Provision for closure and postclosure care costs (Note 13)	4,288
Taxes and other fees	12,623
Depreciation and amortization	15,269
Total operating expenses	96,400

Operating income	50,667
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NONOPERATING REVENUES (EXPENSES)

Intergovernmental revenue	18
Fines, forfeitures and penalties	63
Interest income	4,333
Gain on disposal of capital assets, net	226
Other revenues	923
Total nonoperating revenues	5,563

Income before transfers	56,230
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Transfers out to County Funds (Note 1)	(21,267)
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Change in net position	34,963
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Net position - beginning of year	521,294
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Net position - end of year	\$ 556,257
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See accompanying notes to financial statements.

OC WASTE & RECYCLING

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 145,784
Payments to suppliers	(38,477)
Payments to employees	(25,620)
Payments to other funds of the County	(5,545)
Landfill site closure and postclosure care costs	(2,659)
Pollution remediation obligation payments	(567)
Taxes and other fees	(12,623)
Other receipts	1,798
Net cash provided by operating activities	62,091

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Transfers out to other funds of the County	(21,267)
Intergovernmental revenues	18
Advances to other funds of the County	(3,216)
Net cash used in noncapital and related financing activities	(24,465)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(37,584)
Capital Assets Obligation	20
Proceeds from sale of capital assets	406
Net cash used in capital and related financing activities	(37,158)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	4,219
Net cash provided by investing activities	4,219

Net increase in cash and cash equivalents 4,687

Cash and cash equivalents - beginning of year 494,098

Cash and cash equivalents - end of year 498,785

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION

Pooled cash and investments - current assets	398,008
Imprest cash funds	35
Pooled cash and investments - closure and postclosure care costs	90,848
Pooled cash and investments - corrective action	8,215
Pooled cash and investments - Prima Deshecha/La Pata closure	104
Pooled cash and investments - Frank R. Bowerman landfill and agua	879
Pooled cash and investments - customer deposits	568
Pooled cash and investments - contractor deposits	128
Total cash and cash equivalents	\$ 498,785

See accompanying notes to financial statements.

OC WASTE & RECYCLING

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

RECONCILIATION OF OPERATING INCOME TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 50,667
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	15,269
Fines, forfeitures and penalties	63
Other revenues	923
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(949)
Deposits in-lieu of cash	45
Prepaid costs	186
Due from other funds	(2,328)
Due from other governmental agencies	(355)
Deferred outflows and deferred inflows of resources related to pension	(4,161)
Increase (decrease) in:	
Accounts payable	27
Retainage payable	(1,151)
Salaries and accrued employee benefits payable	210
Accrued closure and postclosure care costs	1,630
Pollution remediation obligation	(548)
Unearned revenue	27
Compensated employee absences payable	15
Due to other funds	(3,218)
Due to other governmental agencies	86
Deposits from others	(24)
Net pension liability from pension contribution and expenses	5,677
Net cash provided by operating activities	<u>\$62,091</u>

See accompanying notes to financial statements.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 – IMPORTATION REVENUE TRANSFER FOR COUNTY BANKRUPTCY RECOVERY

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

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

IMPACT OF COUNTY BANKRUPTCY ON OC WASTE & RECYCLING

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

The County requested proposals for waste-importation contracts and, in January 1996, entered into contracts of various durations, which renewed on April 2016 and will terminate on June 30, 2025. These contracts are estimated to generate revenue sufficient to support the Plan's estimated \$15 million of net importation revenue per year for 20 years to be contributed to the County General Fund to pay bankruptcy related obligations. During the year ended June 30, 2016, OC Waste & Recycling collected imported waste disposal fees of \$43,034. Net import revenues totaling \$21,239 was distributed to the County during the year ended June 30, 2016 and is included as Transfers out to County Funds in the accompanying financial statements.

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

DESCRIPTION OF REPORTING ENTITY

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

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.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

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

The County has waste disposal agreements with thirty-two (32) cities, four (4) Sanitary Districts, one (1) Joint Powers Authority and five (5) Facility Operators through June 30, 2025. The waste disposal agreements cover approximately 94% of all solid waste generated in the County and obligate the cities and haulers to deliver all controllable waste to landfills operated by OC Waste & Recycling. The 6% balance of in-county waste is delivered by self-haulers.

BASIS OF PRESENTATION – FUND ACCOUNTING

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

BASIS OF ACCOUNTING

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

NEW ACCOUNTING PRONOUNCEMENT - CHANGE IN ACCOUNTING PRINCIPLE

At July 1, 2015, OC Waste & Recycling implemented the following new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB):

In February 2015, GASB issued Statement No. 72, *“Fair Value Measurement and Application.”* This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015. OC Waste & Recycling implemented this statement in FY 2015-16. Refer to Note 3, Cash and Investments, for additional information.

In June 2015, GASB issued Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015. OC Waste & Recycling implemented this statement in FY 2015-16. This statement does not have an impact on OC Waste & Recycling’s financial statements.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

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

In June 2015, GASB issued Statement No. 76, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”* The objective of this statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two (2) categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015. OC Waste & Recycling implemented this statement in FY 2015-16.

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

In June 2015, GASB issued Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement establishes new accounting and financial reporting requirements for OPEB plans and replaces Statements No. 43, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,”* as amended, and Statement No. 57, *“OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.”* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *“Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,”* as amended, Statement No. 43, and Statement No. 50, *“Pension Disclosures.”* The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016, which requires OC Waste & Recycling to implement this statement in FY 2016-17.

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

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

In August 2015, GASB issued Statement No. 77, “*Tax Abatement Disclosures*.” This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements: 1) Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients; 2) The gross dollar amount of taxes abated during the period; 3) Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2015, which requires OC Waste & Recycling to implement this statement in FY 2016-17.

In December 2015, GASB issued Statement No. 78, “*Pensions Provided through Certain Multiple- Employer Defined Benefit Pension Plans*.” This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this statement are effective for reporting periods beginning after December 15, 2015, which requires OC Waste & Recycling to implement this statement in FY 2016-17.

In December 2015, GASB issued Statement No. 79, “*Certain External Investment Pools and Pool Participants*.” This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015. This requires OC Waste & Recycling to implement this statement in FY 2016-17.

In January 2016, GASB issued Statement No. 80, “*Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*.” This statement amends the blending requirements established in paragraph 53 of Statement No. 14, “The Financial Reporting Entity,” as amended. This statement amends the blending requirements for the financial statement presentation of component units of all state and local government. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, which requires OC Waste & Recycling to implement this statement in FY 2016-17.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

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

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

In March 2016, GASB issued Statement No. 82, *“Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73.”* This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this statement are effective for reporting periods beginning after June 15, 2016, which requires OC Waste & Recycling to implement this statement in FY 2016-17.

OPERATING/NONOPERATING REVENUES AND EXPENSES

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

CASH AND CASH EQUIVALENTS

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

POOLED CASH AND INVESTMENTS

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

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

CAPITAL ASSETS

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

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

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

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

LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

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

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, 2016, was \$294.

COMPENSATED ABSENCES

Compensated employee absences (vacation, compensatory time off, performance incentive plan (PIP) time off, annual leave and sick leave) are accrued as an expense and liability when incurred.

NET POSITION

Net position is displayed in three distinct categories:

Net investment in capital assets represents the value of land, buildings, infrastructure, and equipment, net of depreciation, less debt related to the acquisition of those assets that is representative of the OC Waste & Recycling's equity in capital assets.

Restricted represents the value of the restricted assets on hand and pooled cash and investments of closure and postclosure care costs and other restrictions required in excess of the related and recognized liabilities. It is expected that future liabilities will be recognized to match the restricted assets on hand.

These monies are restricted by Federal and State legislation, and third parties for specific use within their categories. As of June 30, 2016, OC Waste & Recycling reported a restricted net position of \$43,225 for landfill closure and postclosure, landfill corrective action, Prima Deshecha/La Pata closure, and Frank R. Bowerman (FRB) landfill & agua.

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

USE OF ESTIMATES

The preparation of financial statements in conformity with 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.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

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

USE OF RESTRICTED FUNDS

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

NOTE 3 – CASH AND INVESTMENTS

OC Waste & Recycling follows the County's policy guidelines for pooling its cash and investments with the County Treasurer. The County Treasurer abides by the Investment Policy Statement (IPS) in investing the Pool's monies.

POOLED CASH AND INVESTMENTS

As discussed in Note 2, the Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2016, the Pool contains investments with an average maturity of 397 days. Interest is apportioned to individual funds based on the average daily balances on deposit with the Treasurer.

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

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2016, were as follows:

Cash and investments pooled by the County Treasurer	\$	498,750
Imprest cash funds		35
Total cash and investments	\$	498,785

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

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

INTEREST RATE RISK

The IPS serves as the formal policy for the Treasurer's office and provides specific guidelines and limitations to mitigate interest rate risk. The IPS is reviewed and approved by the Board of Supervisors (Board) annually, and any amendments to the IPS must first be reviewed and approved by the Treasury Oversight Committee and then by the Board. The IPS is therefore considered formally adopted. The IPS was last adopted on December 15, 2015.

Interest rate risk refers to the risk that changes in interest rates will adversely affect the fair value of an investment. The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the IPS.

As of June 30, 2016, the major classes of OC Waste & Recycling's deposits and investments consisted of the following:

	Fair Value	Weighted Average Maturity (Years)
County Investment Pool	\$ 498,750	1.087

CUSTODIAL CREDIT RISK

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

CREDIT RISK

The IPS sets forth the minimum acceptable credit ratings for investments from any two (2) of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's) or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A". As of June 30, 2016, the County's investments were in compliance with the IPS limits.

Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 4 to the County's Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller's website at <http://www.ac.ocgov.com>.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable accounts as of June 30, 2016, were as follows:

Imported waste disposal fees	\$	2,053
County of Orange (In-county) waste disposal fees		7,536
Miscellaneous		886
Allowance for estimated uncollectible receivables		(1)
Total accounts receivable	\$	10,474

NOTE 5 – PREPAID COSTS

OC Waste & Recycling prepaid \$4,073 for FY 2016-17, for pension obligations to the Orange County Employees Retirement System (OCERS) in January 2016. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$236, based on the discount rate of 5.48%. The prepaid cost is recognized in the fiscal year during which services are provided. Due to the difference in the County's fiscal year end date and the net pension liability measurement date, half of the prepaid pension contribution is recognized as deferred outflows of resources, and the other half will remain as a prepaid costs. Prepaid costs, net of amortization reported in the accompanying Statement of Fund Net Position, is \$2,037 for 2016.

For additional details on prepaid costs, refer to the County's CAFR at the Auditor-Controller's website at <http://www.ac.ocgov.com>.

NOTE 6 – DEPOSITS IN-LIEU OF CASH

OC Waste & Recycling requires security deposits from landfill deferred payment program users. These security deposits are comprised primarily of certificates of deposit and security bonds, which are held by OC Waste & Recycling. The balance for deposits in-lieu of cash as of June 30, 2016, was \$16,571.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 7 – ADVANCE TO GENERAL FUND AND SHERIFF-CORONER 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, including the Sheriff-Coroner Department's Musick Jail Capital Project.

Repayment of the amount to be borrowed includes interest. The actual amount repaid from the County General Fund in FY 2015-16 was \$783. The outstanding balance as of June 30, 2016, was \$1,567 from the County General Fund and \$4,000 from the Sheriff-Coroner for a total of \$5,567.

On June 23, 2015, by Resolution 15-064, the Board authorized the borrowing up to \$180,000 for FY 2015-16.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2016, was as follows:

Due From/To Other Funds of the County:

Receivable Fund	Payable Fund	
Waste Management	General	\$ 3,024
Waste Management	Roads	48
Waste Management	Flood Control District	316
Total Due from Other Funds:		3,388

Waste Management	General	1,567
Waste Management	Sheriff-Coroner	4,000
Total Advances to Other Funds:		5,567

General	Waste Management	1,884
Roads	Waste Management	421
Flood Control District	Waste Management	2
Other Governmental Funds	Waste Management	10
Internal Service Funds	Waste Management	18
Total Due to Other Funds:		\$ 2,335

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

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

NOTE 9 – CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2016, were as follows:

	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Capital Assets, Not Depreciated/Amortized				
Land	\$ 22,164	\$ -	\$ -	\$ 22,164
Construction in progress	49,868	25,219	(61,850)	13,237
Intangible assets in progress	67	168	-	235
Total Capital Assets, Not Depreciated/Amortized	72,099	25,387	(61,850)	35,636
Capital Assets, Depreciable/Amortizable				
Buildings and improvements	24,409	-	-	24,409
Equipment	66,308	7,016	(3,791)	69,533
Infrastructure	312,899	63,321	-	376,220
Software	592	34	-	626
Total Capital Assets, Depreciable/Amortizable	404,208	70,371	(3,791)	470,788
Less Accumulated Depreciation/Amortization				
Buildings and improvements	(10,550)	(908)	-	(11,458)
Equipment	(47,244)	(4,850)	3,611	(48,483)
Infrastructure	(170,666)	(9,419)	-	(180,085)
Software	(63)	(92)	-	(155)
Total Accumulated Depreciation/Amortization	(228,523)	(15,269)	3,611	(240,181)
Total Capital Assets, Depreciable/Amortizable, Net	175,685	55,101	(180)	230,606
Total Capital Assets, Net	\$ 247,784	\$ 80,488	\$ (62,030)	\$ 266,242

Total depreciation and amortization expense for the year ended June 30, 2016 was \$15,269.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 9 – CAPITAL ASSETS (CONTINUED)

CONSTRUCTION IN PROGRESS

Construction in progress consists of projects for drainage systems, water irrigation and collection systems, gas collection systems, monitoring systems, truck scales automatic systems, landfill grading and re-vegetation. The projects at June 30, 2016, were as follows:

Landfills

Frank R. Bowerman (FRB)

FRB Phase VIII B-1 Liner	\$	10,152
FRB Phase VIII B-2 Soil Buttress and Liner		805

Olinda Alpha (OAL)

OAL Front Slope Improvement Project - Phase 2		1,108
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San Juan Capistrano (Prima)

Prima Zn 1 Phase D1 Mass Excavation		788
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Other		384
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Total construction in progress	\$	13,237
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CONSTRUCTION CONTRACTS

OC Waste & Recycling entered into various major construction contracts to facilitate its landfill operations. At June 30, 2016, OC Waste & Recycling is committed to open construction contracts for the following project:

Description	Remaining Commitments
FRB Phase VIII B-1 Liner	\$ 1,779

NOTE 10 – DEFINED BENEFIT PENSION PLAN

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

OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each employee receives a defined-benefit pension at retirement; that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement. The OCERS Board of Retirement (OCERS Board) does not set the benefit amounts. OCERS administers benefits that are set by the Board through the collective bargaining process with County employees in accordance with the Retirement Law.

Contributions: In accordance with various Board resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. Employer contributions are based on what is needed to properly fund the system. The Retirement Law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For the year ended June 30, 2016, employer's contributions as a percentage of covered payrolls was 37.38% for General Members. OCWR's total contribution to OCERS for the year ended June 30, 2016, was \$4,227.

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

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

OC Waste & Recycling's total payroll expense was \$16,005 and the covered employees payroll participating in OCERS was \$15,995 for the year ended June 30, 2016.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 10 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

NET PENSION LIABILITY, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSION:

The County reported a liability of \$4,394,812 for its proportionate share of the net pension liability (NPL) at June 30, 2016. OC Waste & Recycling's allocated share of the County's NPL is \$52,049, which is based on its percentage of covered payroll.

OC Waste & Recycling recognized pension expense of \$691 for the year ended June 30, 2016, which represents the change in the NPL during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits. The total deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2016, was \$12,825 and \$5,377, respectively. Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to NPL to be recognized in future periods in a systematic and rational manner

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Investment		
Earnings on Pension Plan Investments	\$ 7,207	\$ -
Differences Between Expected and Actual Experience	-	3,549
Changes of Assumptions	1,125	1,827
Changes in Proportion and Differences Between Employer		
Contributions and Proportionate Share of Contributions	66	1
County contributions subsequent to the measurement date	2,390	-
County Prepaid Pension Contribution	2,037	-
Total	\$ 12,825	\$ 5,377

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

Year ending June 30:

2017	\$ 989
2018	989
2019	989
2020	488
2021	(409)
2022	(18)
Thereafter	-

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

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 11 – POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan: OC Waste & Recycling is a participant in the County of Orange's Third Amended Retiree Medical Plan (Retiree Medical Plan). The Retiree Medical Plan is a single employer defined benefit Other Post-Employment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the Board. The Board is also the authority for amending the Retiree Medical Plan. Eligible retired County employees receive a monthly grant (Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums.

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

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

Funding Policy: As an enterprise fund of the County, OC Waste & Recycling is currently setting aside an actuarially determined contribution of 4% of its payroll for the Retiree Medical Plan. OC Waste & Recycling's contribution was \$640 for the year ended June 30, 2016, which is 100% of the annual required contribution.

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

NOTE 12 - LONG-TERM OBLIGATIONS

Long-term liability activities for the year ended June 30, 2016, were as follows:

Long-Term Liabilities	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 2,736	\$ 2,324	\$ (2,309)	\$ 2,751	\$ 1,417
Capital asset obligation	-	20	-	20	7
Closure and postclosure care costs	159,045	4,288	(2,658)	160,675	2,659
Pollution remediation obligation	11,738	18	(566)	11,190	449
Total long-term liabilities	\$ 173,519	\$ 6,650	\$ (5,533)	\$ 174,636	\$ 4,532

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 13 - ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS

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

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

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

The total landfill closure and postclosure care liability at June 30, 2016, was \$160,675. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (30.38% for FRB, 78.70% for Olinda Alpha and 20.16% 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 \$179,764 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2015 dollars (using the 2015 inflation factor of 1.010). OC Waste & Recycling has enough landfill capacity to operate the system for a minimum of 25 years. However, OC Waste & Recycling intends to operate the landfills well beyond this period as a result of approved and planned expansions.

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

As of June 30, 2016, a total of \$90,848 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Fund Position as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs.

NOTE 13 - ACCRUED CLOSURE AND POSTCLOSURE CARE COSTS (CONTINUED)

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

NOTE 14 - POLLUTION REMEDIATION OBLIGATIONS

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," requires government agencies to identify and disclose current and potential pollution remediation obligations. Five (5) closed sites were identified and the remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The combined pollution remediation obligation ending balance for the year ended June 30, 2016, after deducting actual pollution remediation expenses incurred during fiscal year 2016 is \$11,190.

CANNERY FORMER REFUSE DISPOSAL STATION

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

The City, County and School District entered into a Settlement Agreement in 2007 whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas.

Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, the length the wastes have been buried and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$44.

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

LANE ROAD FORMER REFUSE DISPOSAL STATION

The site located in the City of Irvine and owned by NGP Realty Sub, L.P. and others, was leased and operated by the County as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owner requiring them to remedy the landfill gas exceedances, and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with the County Executive Office (CEO) Risk Management. The County entered into a Settlement Agreement with the property owner in 2005. Per terms of that Settlement Agreement, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and constructed an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site.

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either no longer be required or will be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the first full year of operation when the carbon canisters needed more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and due to anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is \$310. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$2,694.

SAN JOAQUIN FORMER REFUSE DISPOSAL STATION

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

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is \$135. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$952.

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

LA VETA FORMER REFUSE DISPOSAL STATION

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

DTSC requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County conducted a series of additional site investigations and assessments. Based on the findings of the site investigations, YMCA is performing required methane monitoring. The County reimburses the YMCA for the costs associated with the monitoring efforts, and are accrued as estimable at June 30, 2016.

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

The County will continue to attempt to work with the property owner to ensure that the property is maintained and monitored in a manner that is consistent with the former use of the property as a municipal solid waste disposal facility.

FORSTER FORMER REFUSE DISPOSAL STATION

The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County from 1958 to 1976. The current owner, Advanced Group 99-SJ, is proposing a change in land use for the property and has notified the County of its position that the County is responsible for re-closure of the site to meet current commercial and redevelopment requirements. The County disputes responsibility for site development related costs. In early 2010, the City of 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 the City approval of the proposed development plan, Advanced Group 99-SJ and the County entered into negotiations to resolve issues related to environmental responsibility at the site. These negotiations resulted in a settlement agreement and release of claims, brought about by a threat of litigation over the CEQA approvals. The settlement and release will permit the development of the site, with monies paid by the County for environmental controls to be installed at the site, an operation and maintenance fund and for environmental insurance, subject to conditions such as obtaining grading permits for the site for its actual development. In exchange, indemnification and environmental releases were provided by the developer to the County.

The obligation by the County for environmental infrastructure and controls at the site as agreed upon in the Settlement Agreement is \$7,500. The entire sum is expected to be released within a five (5) year period, but is dependent upon actions by the owner and regulatory approvals for the project. The County will continue to incur additional costs for work related to the County's current obligation to monitor the groundwater underlying the site. This responsibility will be transferred to the

OC WASTE & RECYCLING

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016
(DOLLAR AMOUNTS IN THOUSANDS)

NOTE 14 – POLLUTION REMEDIATION OBLIGATIONS (CONTINUED)

site owner upon completion of one of the settlement agreement milestones, but due to the uncertainty of specific timing, the County is unable to fully estimate the remaining ground water obligations.

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

NOTE 15 – COMMITMENTS AND CONTINGENCIES

COMMITMENTS UNDER OPERATING LEASES

OC Waste & Recycling leases various equipment used at the waste disposal sites on a short-term basis and office space under operating leases, which are primarily on a month-to-month basis. Total future minimum lease payments under non-cancelable lease agreements with terms greater than one (1) year as of June 30, 2016, are not significant.

CONTINGENCIES

As the owner and/or operator of a number of active and former solid waste disposal sites, OC Waste & Recycling has potential exposure to environmental liability even though these sites have not incurred obligating events like those sites identified in Note 14. Many of the former disposal sites were operated under lease agreements with the property owners. OC Waste & Recycling may be required to perform corrective action at any of its current or former refuse disposal stations and landfills, irrespective of past or current County ownership of the site. OC Waste & Recycling completed preliminary environmental site assessments for the former solid waste disposal sites with their Closed Landfills Environmental Assessment and Response (CLEAR) Project. On the basis of information currently available, management believes it has sufficient reserves for known and potential remediation costs. At June 30, 2016, amounts classified in unrestricted net position totaled \$246,810.

NOTE 16 – MAJOR CUSTOMERS

Disposal fees from three (3) major customers accounted for revenues of approximately \$24,304, \$18,184, and \$16,437 during the year ended June 30, 2016.

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