



Financial Statements  
June 30, 2020

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



# OC WASTE & RECYCLING

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## Independent Auditor's Report

To the Board of Supervisors  
County of Orange, California

### Report on the Financial Statements

We have audited the accompanying financial statements of OC Waste & Recycling an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2020, and the related notes to the financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OC Waste & Recycling, as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 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, 2020, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020, on our consideration of OC Waste & Recycling's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the OC Waste & Recycling's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OC Waste & Recycling's internal control over financial reporting and compliance.



Laguna Hills, California  
December 16, 2020

**OC WASTE & RECYCLING**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2020  
(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, 2020. We encourage readers to consider the information presented here in conjunction with the information furnished in OC Waste & Recycling's financial statements.

**FINANCIAL HIGHLIGHTS**

- OC Waste & Recycling's change in net position for the year ended June 30, 2020 is \$52,531, or an increase of 1.8% from the prior fiscal year. The primary factors attributable to the change in net position includes operating income of \$48,912, nonoperating revenues and expenses of \$13,445, transfers in from County funds of \$710, and transfers out to County funds of \$10,536.
- Operating expenses increased by \$1,952, or 1.5%, for the year ended June 30, 2020. The increase is primarily due to the net of the increases in services and supplies by \$5,232, professional and specialized services by \$3,723, pollution remediation expenses by \$1,828 and depreciation expense by \$3,949 and the decreases in salaries and employee benefits by \$731, operating leases by \$65, closure and postclosure care costs by \$6,850 and taxes and other fees by \$5,134.
- Disposal revenue increased by \$7,802, or 4.7%, for the year ended June 30, 2020. The increase is primarily due to the increases in importation disposal revenue by \$11 and in-county disposal revenue by \$7,791.
- OC Waste & Recycling allocated \$9,301 or 50% of the net importation revenue to the County General Fund to be used for implementation of Civic Center Facilities Strategic Plan approved by the County Board of Supervisor for the year ended June 30, 2020.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

The financial statements are divided into two components:

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

**Statement of Fund Net Position**

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

**OC WASTE & RECYCLING**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2020  
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**Statement of Revenues, Expenses and Change in Fund Net Position**

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

**Statement of Cash Flows**

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

**Notes to Financial Statements**

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

**FINANCIAL ANALYSIS**

**Statement of Fund Net Position Summary**

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

At June 30, 2020, total assets plus deferred outflows of resources exceeded total liabilities plus deferred inflows of resources by \$714,450.

**OC WASTE & RECYCLING**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

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

| <b>TABLE 1</b>                                    |                  |                  |                                  |
|---|------------------|------------------|----------------------------------|
| <b>STATEMENT OF FUND NET POSITION</b>             |                  |                  |                                  |
| <b>JUNE 30, 2020</b>                              |                  |                  |                                  |
|   | <b>2020</b>      | <b>2019</b>      | <b>2020 vs 2019<br/>% change</b> |
| <b>ASSETS</b>                                     |                  |                  |                                  |
| Current and other assets                          | \$702,334        | \$632,598        | 11.0%                            |
| Capital assets                                    | 330,058          | 331,440          | -0.4%                            |
| <b>TOTAL ASSETS</b>                               | <b>1,032,392</b> | <b>964,038</b>   | <b>7.1%</b>                      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>             |                  |                  |                                  |
| Deferred outflows of resources related to pension | 9,270            | 14,688           | -36.9%                           |
| Deferred outflows of resources related to OPEB    | 290              | 418              | -30.6%                           |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>       | <b>9,560</b>     | <b>15,106</b>    | <b>-36.7%</b>                    |
| <b>LIABILITIES</b>                                |                  |                  |                                  |
| Current and other liabilities                     | 71,800           | 58,392           | 23.0%                            |
| Noncurrent liabilities                            | 248,707          | 254,394          | -2.2%                            |
| <b>TOTAL LIABILITIES</b>                          | <b>320,507</b>   | <b>312,786</b>   | <b>2.5%</b>                      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>              |                  |                  |                                  |
| Deferred inflows of resources related to pension  | 6,683            | 4,439            | 50.6%                            |
| Deferred inflows of resources related to OPEB     | 312              | 0                | n/a                              |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>        | <b>6,995</b>     | <b>4,439</b>     | <b>57.6%</b>                     |
| <b>NET POSITION</b>                               |                  |                  |                                  |
| Net investment in capital assets                  | 329,947          | 330,190          | -0.1%                            |
| Restricted  | 37,533           | 38,133           | -1.6%                            |
| Unrestricted                                      | 346,970          | 293,596          | 18.2%                            |
| <b>TOTAL NET POSITION</b>                         | <b>\$714,450</b> | <b>\$661,919</b> | <b>7.9%</b>                      |

OC Waste & Recycling's total assets increased by \$68,354, or 7.1%, from June 30, 2019, primarily due to the increases in the pooled cash investments, and capital asset acquisitions including the purchase of heavy equipment, construction in progress for Bee Canyon Greenery at Frank R. Bowerman Landfill and Capistrano Greenery at Prima Deshecha Landfill, infrastructure for the Phase VIII B-2 Soil Buttress and Composite Liner at Frank R. Bowerman Landfill, Prima Zone 1 Phase D1 and D2 Mass Excavation at Prima Deshecha Landfill, and Phase II Front Slope Improvement Project at Olinda Landfill and in Buildings and Improvements for Crew Quarters Construction and Storage Facilities at the Frank R. Bowerman Landfill.

OC Waste & Recycling's total liabilities increased by \$7,721, or 2.5%, from June 30, 2019, primarily due to the increases in accrued closure and postclosure care costs and the amount due to the General Fund for 50% of Net Import Revenue and a decrease in the net pension liability.

OC Waste & Recycling's total deferred outflows of resources decreased by \$5,546, or 36.7%, primarily due to the decrease in deferred outflows related to pension as a result of an investment gain, which reflects the

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change in net pension liability measurements as required by GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27," and employer pension contributions made after the measurement date as required by GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68". Total deferred inflows of resources increased \$2,556, or 57.6%, primarily due to the changes in the net pension liability calculated as required by GASB Statement No. 68.

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

For the year ended June 30, 2020, change in net position is \$52,531, or an increase of 1.8% from the prior year.

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

| <b>TABLE 2</b>  |                  |                  |                                  |
|---|------------------|------------------|----------------------------------|
| <b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION</b> |                  |                  |                                  |
| <b>FOR THE YEAR ENDED JUNE 30, 2020</b>                                 |                  |                  |                                  |
|   | <b>2020</b>      | <b>2019</b>      | <b>2020 vs 2019<br/>% change</b> |
| <b>OPERATING REVENUES</b>   |                  |                  |                                  |
| Disposal fees   | \$ 174,786       | \$ 166,984       | 4.7%                             |
| Other charges for services  | 19               | 13               | 46.2%                            |
| Use of property, licenses, permits & franchise fees                     | 4,685            | 4,711            | -0.6%                            |
| <b>TOTAL OPERATING REVENUES</b>   | <b>179,490</b>   | <b>171,708</b>   | <b>4.5%</b>                      |
| <b>OPERATING EXPENSES</b>   |                  |                  |                                  |
| Salaries and employee benefits  | 28,427           | 29,158           | -2.5%                            |
| Services and supplies   | 28,761           | 23,529           | 22.2%                            |
| Professional and specialized services                                   | 17,844           | 14,121           | 26.4%                            |
| Other operating expenses  | 33,930           | 44,151           | -23.2%                           |
| Depreciation and amortization   | 21,616           | 17,667           | 22.4%                            |
| <b>TOTAL OPERATING EXPENSES</b>   | <b>130,578</b>   | <b>128,626</b>   | <b>1.5%</b>                      |
| <b>OPERATING INCOME</b>   | <b>48,912</b>    | <b>43,082</b>    | <b>13.5%</b>                     |
| <b>NONOPERATING REVENUES (EXPENSES), NET</b>                            | <b>13,445</b>    | <b>17,430</b>    | <b>-22.9%</b>                    |
| <b>INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS</b>                | <b>62,357</b>    | <b>60,512</b>    | <b>3.0%</b>                      |
| Transfers in  | 710              | 162              | 338.3%                           |
| Transfers out to County funds   | (10,536)         | (9,084)          | 16.0%                            |
| <b>CHANGE IN NET POSITION</b>   | <b>52,531</b>    | <b>51,590</b>    | <b>1.8%</b>                      |
| <b>NET POSITION - BEGINNING OF YEAR</b>                                 | <b>661,919</b>   | <b>610,329</b>   | <b>8.5%</b>                      |
| <b>NET POSITION - END OF YEAR</b>                                       | <b>\$714,450</b> | <b>\$661,919</b> | <b>7.9%</b>                      |

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**Operating Revenues**

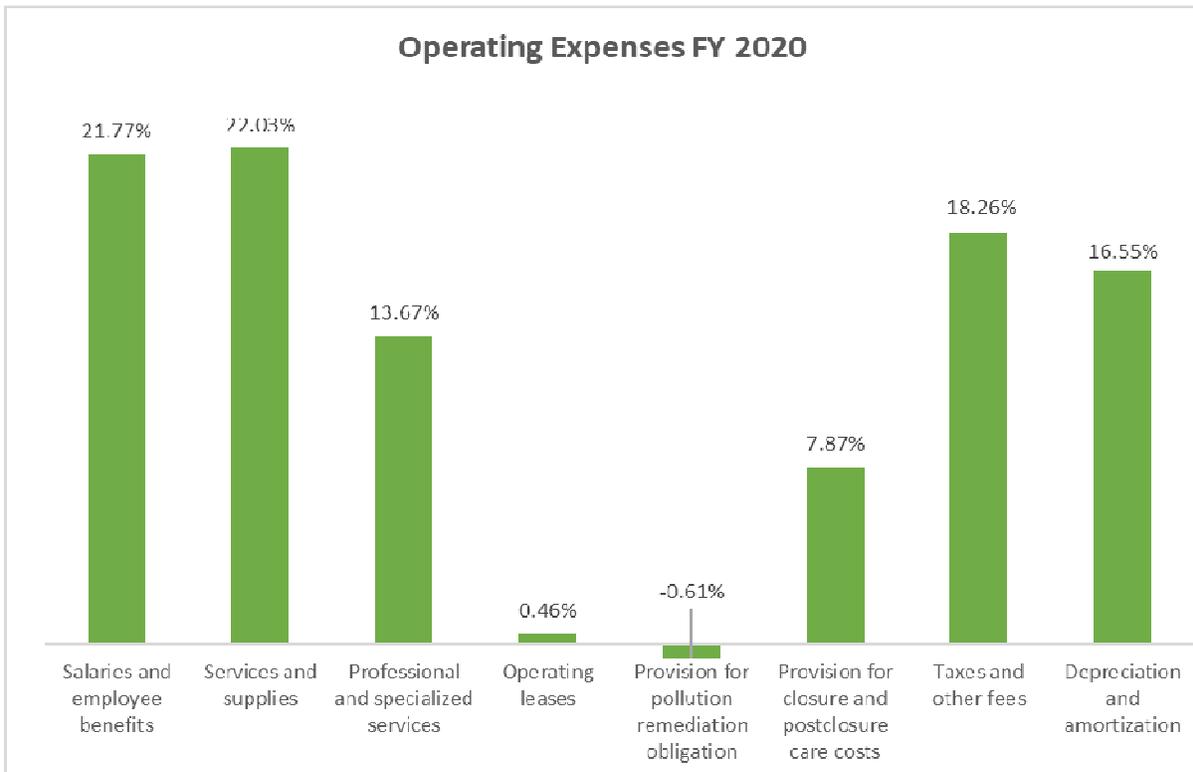
For the year ended June 30, 2020, total operating revenues increased by \$7,782, or 4.5%, due primarily to the increases in importation disposal tonnage and fees of \$11 and in-county disposal tonnage and fees of \$7,791 and a decrease in the use of property \$21.

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

**Operating Expenses**

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

For the year ended June 30, 2020, total operating expenses increased by \$1,952, or 1.5%, due primarily to the net of the increases in services and supplies by \$5,232, professional and specialized services by \$3,723, pollution remediation expenses \$1,828 and depreciation expense \$3,949 and the decreases in salaries and employee benefits by \$731, operating leases by \$65, provision for closure and postclosure care costs by \$6,850, and taxes and other fees by \$5,134.



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**Nonoperating Revenues and Expenses**

For the year ended June 30, 2020, nonoperating revenues and expenses decreased by \$3,985, or 22.9%, due primarily to a decrease in interest revenue and a loss on the disposal of capital assets.

**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, 2020, investment in capital assets (net of accumulated depreciation / amortization) decreased by \$1,382, or 0.4%.

A summary of the key elements that contributed to the changes in OC Waste & Recycling's capital assets is presented in **Table 3**.

| <b>TABLE 3</b>   |                  |                  |                                  |
|--|------------------|------------------|----------------------------------|
| <b>CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION/AMORTIZATION)</b> |                  |                  |                                  |
| <b>JUNE 30, 2020</b>   |                  |                  |                                  |
|  | <b>2020</b>      | <b>2019</b>      | <b>2020 vs 2019<br/>% change</b> |
| <b>CAPITAL ASSETS</b>  |                  |                  |                                  |
| Land (Nondepreciable)  | \$22,701         | \$22,701         | 0.0%                             |
| Construction in progress (Nondepreciable)                            | 7,808            | 3,548            | 120.1%                           |
| Intangible assets in progress (Nondepreciable)                       | 306              | 291              | 5.2%                             |
| Land Improvements (Depreciable)                                      | 603              | 0                | n/a                              |
| Buildings (Depreciable)  | 14,521           | 13,485           | 7.7%                             |
| Equipment (Depreciable)  | 40,513           | 34,850           | 16.2%                            |
| Infrastructure (Depreciable)   | 242,293          | 255,100          | -5.0%                            |
| Software (Amortizable)   | 1,313            | 1,465            | -10.4%                           |
| <b>TOTAL CAPITAL ASSETS</b>  | <b>\$330,058</b> | <b>\$331,440</b> | <b>-0.4%</b>                     |

The major capital asset events during fiscal year (FY) 2019-20 were the completion of the Prima View Shed Phase IV at the Prima Deshecha Landfill and the Crew Quarter and Storage Facility Construction at the Frank R. Bowerman Landfill.

For the year ended June 30, 2020, OC Waste & Recycling is committed to capital expenditure of \$4,767 for the Bee Canyon Greenery at Frank R. Bowerman Landfill and \$4,073 for the Capistrano Greenery at Prima Deshecha Landfill.

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

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Management's Discussion and Analysis (Unaudited)  
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**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, 21 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.

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

**Composting Facilities**

OC Waste and Recycling is working on expanding its waste management portfolio with the operation of new organic waste composting facilities. In 2016 and 2018, the Legislature passed SB 1383 and AB 1594 which established statewide goals to divert organic waste from disposal and eliminated diversion credits for usage of mulch as an alternative daily cover for landfill operations. Starting in the Fall of 2020, OC Waste and Recycling will commence composting operations at the Frank R. Bowerman and Prima Deshecha Landfills by receiving organic waste to transform it into a compost product that will be beneficially reused. A third facility is currently in design at the Olinda Alpha Landfill with a tentative start date of January 2022. Collectively, these facilities will help support the lack of infrastructure within Orange County and allow the County and participating jurisdictions to meet the requirements of SB 1383 and AB 1594. Organic waste processed at the greeneries will divert greenwaste from the landfills and will also save airspace within the landfills for further extending the disposal capacity of the County landfill system.

Several key projects completed during FY 2019-20 or continue to the following year includes:

- The FRB Crew Quarter Trailer and Storage Facility Construction project at the Frank R. Bowerman Landfill replaced aging modular facilities with the construction of a new modular building used for crew quarters and construction of a concrete pad and utilities to be used as a foundation of a management office trailer, a pre-engineered storage facility, a parking lot and other site improvements. This project was completed in FY 2019-20.
- The Prima Viewshed Phase IV project at the Prima Deshecha Landfill provided viewshed enhancement to cover and disguise landfill operations to improve the visual aesthetics with the surrounding communities of San Clemente and San Juan Capistrano. This project was completed in FY 2019-20.

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- Onsite greeneries at the County landfill regions have been developed in accordance with the OC Waste and Recycling's organics initiative for the development and implementation of the department's organic material management plan in response to recent legislation. The construction of commercial scale composting facilities – the Bee Canyon Greenery (FRB) and the Capistrano Greenery (Prima) are expected to be completed in the Fall of 2020, the Valencia Greenery (Olinda) is expected to be constructed in FY 2021-22.

**Renewable Energy Facilities and Planning**

In FY 2019-2020, over 418,000 MWh of renewable energy was generated, with an approximate equivalent of providing electricity for 61,465 homes in the County. As a result, \$4.18 million in royalty revenue was generated from OC Waste & Recycling's three (3) landfill gas-to-electricity facilities.

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

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

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

**OTHER POTENTIALLY SIGNIFICANT MATTERS**

OC Waste & Recycling's management has determined that the following is a significant matter that has a potential impact on OC Waste & Recycling's financial position or changes in financial position:

**Frank R. Bowerman Landfill**

In October 2020, OC Waste & Recycling experienced extensive fire damage at the Frank R. Bowerman landfill as a result of a wildfire known as the Silverado Fire. The financial impact has not been determined but is expected to be significant and will result in a repair costs of over \$20,000 in FY 2020-21. Additional information can be found in Note 18, Subsequent Events – Frank R. Bowerman Landfill.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of OC Waste & Recycling's finances. For questions or comments concerning any of the information provided in this report or requests for additional financial information should be addressed to OC Waste & Recycling Headquarters, 601 N. Ross Street, 5<sup>th</sup> Floor, Santa Ana, CA 92701, or you can access our website at <http://oelandfills.com>.

**OC WASTE & RECYCLING**  
Statement of Fund Net Position  
June 30, 2020  
(Dollar Amounts in Thousands)

**ASSETS**

|  |                  |
|--|------------------|
| Current unrestricted assets:   |                  |
| Pooled cash and investments (Note 3)   | \$ 524,049       |
| Imprest cash funds (Note 3)  | 35               |
| Accounts receivable, net (Note 4)  | 15,794           |
| Interest receivable  | 1,406            |
| Prepaid costs (Note 5)   | 2,780            |
| Due from other governmental agencies   | 2,082            |
| Due from other funds of the County (Note 8)  | <u>927</u>       |
| Total current unrestricted assets  | <u>547,073</u>   |
| Current restricted assets:   |                  |
| Pooled cash and investments - customer deposits (Note 3)   | 852              |
| Deposits in-lieu of cash (Note 6)  | <u>17,668</u>    |
| Total current restricted assets  | <u>18,520</u>    |
| Total current assets   | <u>565,593</u>   |
| Noncurrent assets:   |                  |
| Restricted assets:   |                  |
| Pooled cash and investments - customer deposits (Note 3)   | 18               |
| Pooled cash and investments - contractor deposits (Note 3)   | 213              |
| Pooled cash and investments - corrective action (Note 3)   | 8,716            |
| Pooled cash and investments - Prima Deshecha/La Pata closure (Note 3)  | 104              |
| Pooled cash and investments - Frank R. Bowerman landfill wetland and<br>Agua Chinon Wash habitat mitigation (Note 3) | 879              |
| Pooled cash and investments - closure and postclosure care costs (Notes 3 and 13)                                    | <u>96,759</u>    |
| Total noncurrent restricted assets   | <u>106,689</u>   |
| Capital assets: (Note 9)   |                  |
| Nondepreciable/Nonamortizable  | 30,815           |
| Depreciable/Amortizable, net   | <u>299,243</u>   |
| Capital assets, net  | <u>330,058</u>   |
| Advances to other funds (Notes 7 and 8)  | <u>30,052</u>    |
| Total noncurrent assets  | <u>466,799</u>   |
| Total assets   | <u>1,032,392</u> |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                  |
| Deferred outflows of resources related to pension (Note 10)  | 9,270            |
| Deferred outflows of resources related to OPEB   | <u>290</u>       |
|  | <u>\$ 9,560</u>  |

See accompanying notes to financial statements.

**OC WASTE & RECYCLING**  
Statement of Fund Net Position  
June 30, 2020  
(Dollar Amounts in Thousands)

**LIABILITIES**

|  |               |
|--|---------------|
| Current liabilities (payable from unrestricted assets):      |               |
| Accounts payable   | \$ 14,272     |
| Retainage payable  | 230           |
| Salaries and accrued employee benefits payable               | 827           |
| Accrued closure and postclosure care costs (Notes 12 and 13) | 3,680         |
| Pollution remediation obligation (Notes 12 and 14)           | 698           |
| Unearned revenue   | 64            |
| Compensated employee absences payable (Note 12)              | 1,392         |
| Due to other funds of the County (Note 8)                    | 19,247        |
| Due to other governmental agencies                           | <u>12,640</u> |
| Total current liabilities (payable from unrestricted assets) | <u>53,050</u> |

|  |               |
|--|---------------|
| Current liabilities (payable from restricted assets):      |               |
| Deposits from others                                       | <u>18,750</u> |
| Total current liabilities (payable from restricted assets) | <u>18,750</u> |

|                           |               |
|---------------------------|---------------|
| Total current liabilities | <u>71,800</u> |
|---------------------------|---------------|

|  |                |
|--|----------------|
| Noncurrent liabilities:                              |                |
| Compensated employee absences payable                | 1,013          |
| Intangible asset obligation (Note 12)                | 2              |
| Accrued closure and postclosure care costs (Note 13) | 180,701        |
| Pollution remediation obligation (Note 14)           | 14,493         |
| Net pension liability (Note 10)                      | 49,050         |
| Net OPEB liability                                   | <u>3,448</u>   |
| Total noncurrent liabilities                         | <u>248,707</u> |

|                   |                |
|-------------------|----------------|
| Total liabilities | <u>320,507</u> |
|-------------------|----------------|

**DEFERRED INFLOW OF RESOURCES**

|  |              |
|--|--------------|
| Deferred inflows of resources related to pension (Note 10) | 6,683        |
| Deferred inflows of resources related to OPEB              | <u>312</u>   |
|  | <u>6,995</u> |

**NET POSITION**

|                                  |                |
|----------------------------------|----------------|
| Net investment in capital assets | 329,947        |
| Restricted:                      |                |
| Prima Deshecha/La Pata closure   | 104            |
| Landfill closure and postclosure | 27,730         |
| Landfill corrective action       | 8,820          |
| Frank R. Bowerman landfill       | 879            |
| Unrestricted (Note 15)           | <u>346,970</u> |

|                    |                   |
|--------------------|-------------------|
| Total net position | <u>\$ 714,450</u> |
|--------------------|-------------------|

See accompanying notes to financial statements.

**OC WASTE & RECYCLING**  
Statement of Revenues, Expenses, and Changes in Fund Net Position  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

|  |                   |
|--|-------------------|
| <b>OPERATING REVENUES</b>                                  |                   |
| Disposal fees (Notes 1 and 2)                              | \$ 174,786        |
| Other charges for services                                 | 19                |
| Use of property  | 4,565             |
| Licenses, permits, and franchise fees                      | <u>120</u>        |
| Total operating revenues                                   | <u>179,490</u>    |
| <b>OPERATING EXPENSES</b>                                  |                   |
| Salaries and employee benefits                             | 28,427            |
| Services and supplies                                      | 28,761            |
| Professional and specialized services                      | 17,844            |
| Operating leases   | 607               |
| Provision for pollution remediation obligation (Note 14)   | (799)             |
| Provision for closure and postclosure care costs (Note 13) | 10,272            |
| Taxes and other fees                                       | 23,850            |
| Depreciation and amortization                              | <u>21,616</u>     |
| Total operating expenses                                   | <u>130,578</u>    |
| Operating income   | <u>48,912</u>     |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                    |                   |
| Intergovernmental revenue                                  | 3                 |
| Fines, forfeitures and penalties                           | 52                |
| Interest income  | 13,894            |
| Loss on disposal of capital assets, net                    | (518)             |
| Other revenues   | <u>14</u>         |
| Total nonoperating revenues                                | <u>13,445</u>     |
| <b>Income before capital contributions and transfers</b>   | 62,357            |
| Transfer in from County funds                              | 710               |
| Transfers out to County funds (Note 1)                     | <u>(10,536)</u>   |
| Change in net position                                     | 52,531            |
| Net position - beginning of year                           | <u>661,919</u>    |
| Net position - end of year                                 | <u>\$ 714,450</u> |

See accompanying notes to financial statements.

**OC WASTE & RECYCLING**  
Statement of Cash Flows  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

|   |                   |
|---|-------------------|
| <b>Cash flows from operating activities</b>   |                   |
| Receipts from customers   | \$ 178,974        |
| Payments to suppliers   | (45,427)          |
| Payments to employees   | (28,110)          |
| Receipts from other funds of the County   | 10,819            |
| Cash paid for interfund charges   | (446)             |
| Landfill site closure and postclosure care costs  | (5,649)           |
| Pollution remediation obligation payments   | (497)             |
| Taxes and other fees  | (23,850)          |
| Other payments  | <u>(1,495)</u>    |
| Net cash provided by operating activities   | <u>84,319</u>     |
| <b>Cash flows from noncapital and related financing activities</b>  |                   |
| Transfers out to other funds of the County  | (10,536)          |
| Transfers in from other funds of the County   | 710               |
| Intergovernmental revenues  | 3                 |
| Advances in from other funds of the County  | <u>5,030</u>      |
| Net cash used in noncapital and related financing activities  | <u>(4,793)</u>    |
| <b>Cash flows from capital and related financing activities</b>   |                   |
| Acquisition of capital assets   | (19,812)          |
| Intangible assets obligation  | (6)               |
| Loss from sale of capital assets  | <u>(518)</u>      |
| Net cash used in capital and related financing activities   | <u>(20,336)</u>   |
| <b>Cash flows from investing activities</b>   |                   |
| Interest on investments   | <u>14,551</u>     |
| Net cash provided by investing activities   | <u>14,551</u>     |
| Net increase in cash and cash equivalents   | 73,741            |
| Cash and cash equivalents - beginning of year   | <u>557,884</u>    |
| Cash and cash equivalents - end of year   | <u>\$ 631,625</u> |
| <b>Reconciliation of cash and cash equivalents to</b>   |                   |
| <b>statement of net position</b>  |                   |
| Pooled cash and investments - current assets  | \$ 524,049        |
| Pooled cash and investments - imprest cash  | 35                |
| Pooled cash and investments - closure and postclosure care costs  | 96,759            |
| Pooled cash and investments - corrective action   | 8,716             |
| Pooled cash and investments - Prima Deshecha/La Pata closure  | 104               |
| Pooled cash and investments - Frank R. Bowerman landfill wetland and<br>Agua Chinon Wash habitat mitigation | 879               |
| Pooled cash and investments - customer deposits   | 870               |
| Pooled cash and investments - contractor deposits   | <u>213</u>        |
| Total cash and cash equivalents   | <u>\$ 631,625</u> |

See accompanying notes to financial statements.

**OC WASTE & RECYCLING**  
Statement of Cash Flows (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

**Reconciliation of operating income to net cash**

**provided by operating activities:**

|   |    |               |
|---|----|---------------|
| Operating income  | \$ | 48,912        |
| Adjustments to reconcile operating income to net cash provided by operating activities: |    |               |
| Depreciation and amortization   |    | 21,616        |
| Fines, forfeitures and penalties  |    | 52            |
| Other revenues  |    | 14            |
| Changes in operating assets and liabilities:  |    |               |
| Decrease (increase) in:   |    |               |
| Accounts receivable   |    | (1,310)       |
| Deposits in-lieu of cash  |    | (429)         |
| Prepaid costs   |    | (230)         |
| Due from other funds  |    | (446)         |
| Due from other governmental agencies  |    | 733           |
| Deferred outflows of resources related to pension                                       |    | 5,418         |
| Deferred outflows of resources related to OPEB  |    | 128           |
| Increase (decrease) in:   |    |               |
| Accounts payable  |    | 819           |
| Salaries and accrued employee benefits payable  |    | 231           |
| Accrued closure and postclosure care costs  |    | 4,623         |
| Pollution remediation obligation  |    | (1,296)       |
| Unearned revenue  |    | (175)         |
| Compensated employee absences payable   |    | 86            |
| Due to other funds  |    | 10,819        |
| Due to other governmental agencies  |    | 359           |
| Deposits from others  |    | 490           |
| Net pension liability from pension contribution and expenses                            |    | (8,119)       |
| Deferred inflows of resources related to pension  |    | 2,244         |
| Net OPEB liability from pension contribution and expenses                               |    | (532)         |
| Deferred inflows of resources related to OPEB   |    | 312           |
| Net cash provided by operating activities   | \$ | <u>84,319</u> |

**Noncash Investing, Capital, and Financing Activities**

|   |    |       |
|---|----|-------|
| Loss on disposition of capital assets               | \$ | (518) |
| Acquisition of capital assets with accounts payable |    | 1,424 |
| Acquisition of capital assets with retainage        |    | 109   |

See accompanying notes to financial statements.

**OC WASTE & RECYCLING**  
Notes to Financial Statements  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 1 – Importation Revenue Transfer for Bankruptcy Recovery and Importation Revenue Sharing***

In late 1995, the County of Orange, California (County) proposed to import out-of-county waste as a new source of revenue for the repayment of County obligations from the bankruptcy in 1994. Pursuant to the proposal, the County obtained legislation exempting OC Waste & Recycling from certain provisions of the California Environmental Quality Act (CEQA), thereby expediting the County's process to pursue and contract for the importation of out-of-county waste.

The County requested proposals for waste-importation contracts and, in January 1996, entered into contracts of various durations, which renewed in April 2016 and will terminate on June 30, 2025. These contracts generated revenue of approximately \$13 million of net importation revenue per year for 20 years to support the County General Fund to pay bankruptcy related obligations in accordance with the County's Plan of Adjustment. After the obligations were paid in full in 2017, the importation revenue has been shared between OC Waste & Recycling, the County General Fund and the participating cities in accordance with the Amendment I of the Waste Disposal Agreements approved by the Board of Supervisors in 2016.

During the year ended June 30, 2020, OC Waste & Recycling collected imported waste disposal fees of \$52,378. The County's share of Net Import Revenues totaling \$9,301 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 \$9,301 was distributed to the cities. It is included in the Taxes and other fees 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.

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 delivered to County landfills 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.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)***

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.

*New Accounting Pronouncement - Change in Accounting Principle*

The following lists recent GASB Pronouncements that have been implemented in FY 2019-20:

In May 2020, GASB issued Statement No. 95, “*Postponement of the Effective Dates of Certain Authoritative Guidance.*” This Statement postpones effective dates of certain Statements and Implementation Guides that first became effective for periods beginning after June 15, 2018. The primary objective of this Statement is to provide temporary relief to governments and stakeholders in light of the COVID-19 pandemic.

The following summarizes recent GASB Pronouncements that will be implemented in future financial statements, as amended by GASB Statement No. 95. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of OC Waste & Recycling.

In January 2017, GASB issued Statement No. 84, “*Fiduciary Activities.*” This statement establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The statement also describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, which requires the County to implement this Statement in FY 2020-21.

In June 2017, GASB issued Statement No. 87, “*Leases.*” This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor to recognize a lease receivable and a deferred inflow of resources. The requirements of this statement are effective for reporting periods beginning after June 15, 2021, which requires the County to implement this Statement in FY 2021-22.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)***

In August 2018, GASB issued Statement No. 90, “*Majority Equity Interests.*” This statement improves the consistency and comparability of a government’s majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The statement requires that a component unit in which a government has a 100% equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired 100% equity interest in the component unit. The requirements of this statement are effective for reporting periods beginning after December 15, 2019, which requires the County to implement this Statement in FY 2020-21.

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

In January 2020, GASB issued Statement No. 92, “*Omnibus 2020.*” This statement enhances comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this statement are effective for reporting periods after June 15 2021, which requires the County to implement the Statement in FY 2021-22.

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

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

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

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)***

In June 2020, GASB Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*”. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board, and (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans by clarifying the financial burden criteria in Statement No.84. It also extends the accounting and financial reporting requirements related to the Pension Plans, to Section 457 plans that meet the definition of a pension plan. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021 and all reporting periods thereafter, which requires the County to implement this Statement in FY 2020-21. However, portions of the Statement related to GASB No. 84 are effective for reporting periods beginning after December 15, 2019, or FY 2020-21

*Operating/Nonoperating Revenues and Expenses*

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

*Cash and Cash Equivalents*

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

*Pooled Cash and Investments*

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

*Capital Assets*

Property, plant and equipment purchased or constructed by OC Waste & Recycling are capitalized at cost, while contributed assets are recorded at acquisition value when received. Assets are capitalized when the original unit cost is equal to or greater than the County’s capitalization threshold of \$5 for equipment, \$150 for buildings and improvements, \$5 for commercially acquired intangible software, \$150 for all other intangible assets, \$150 for infrastructure, \$150 for land improvements, and \$0 for land.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)***

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

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

*Landfill Closure and Postclosure Care Costs*

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

*Self-Insurance*

OC Waste & Recycling participates in the County’s self-insurance programs for general and automobile liability claims, workers’ compensation claims, group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits. Unpaid claim liabilities have been discounted and are accrued in these self-insurance programs based upon case reserves, development of known and incurred but not reported claims, including allocated and unallocated loss adjustment expenses. Also, OC Waste & Recycling participates in commercial insurance purchased for excess liability coverage, property coverage, and other risk exposures. OC Waste & Recycling records its portion of related self-insurance and commercial insurance premiums charged by the County as an expense. Insurance expense for the year ended June 30, 2020, was \$303.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

*Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)*

*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, 2020, OC Waste & Recycling reported a restricted net position of \$37,533 for landfill closure and postclosure, landfill corrective action, Prima Deshecha/La Pata closure, and Frank R. Bowerman (FRB) landfill wetland and Agua Chinon Wash habitat mitigation.

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

*Use of Restricted Funds*

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

*Use of Estimates*

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

*Deferred Outflows and Deferred Inflows of Resources*

When applicable, the statement of fund net position reports a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 2 – Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)***

*Pension*

OC Waste & Recycling recognizes a net pension liability to reflect its portion in the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the County's retirement plans.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Orange County Employees Retirement System (OCERS) and the Extra-Help Defined Benefit Plan and additions to/deductions from OCERS and the Extra-Help Defined Benefit Plan fiduciary net position have been determined on the same basis as they are reported by OCERS and the Extra-Help Defined Benefit Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Other Postemployment Benefits (OPEB)*

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

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

***Note 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 County Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. At June 30, 2020, the Pool contains investments with an average maturity of 289 days. Interest is apportioned to individual funds based on the average daily balances on deposit with the County Treasurer. The Pool is not registered with the Securities and Exchange Commission (SEC) and is not rated.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

*Note 3 – Cash and Investments (Continued)*

Total OC Waste & Recycling cash and investments at fair value as of June 30, 2020, were as follows:

|   |    |                   |
|---|----|-------------------|
| Cash and investments pooled by the County Treasurer | \$ | 631,590           |
| Imprest cash funds                                  |    | <u>35</u>         |
| Total cash and investments                          |    | <u>\$ 631,625</u> |

The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. OC Waste & Recycling’s share is 4.8% of the Pool. Investments in the investment pool are not subject within the level hierarchy. OC Waste & Recycling records its portion of the Pool on an amortized cost basis which approximates fair value.

*Interest Rate Risk*

The IPS serves as the formal policy for the County Treasurer’s office and provides specific guidelines and limitations to mitigate interest rate risk.

The IPS is reviewed and approved by the Board of Supervisors (Board) annually, and any amendments to the IPS must first be reviewed and approved by the Treasury Oversight Committee and then by the Board. The IPS is therefore considered formally adopted. The IPS was last adopted on November 19, 2019.

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, 2020, the major classes of OC Waste & Recycling’s deposits and investments consisted of the following:

|                        | <u>Fair Value</u> | <u>Weighted<br/>Average<br/>Maturity<br/>(Years)</u> |
|------------------------|-------------------|--|
| County Investment Pool | \$ 631,590        | .079   |

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 3 – Cash and Investments (Continued)***

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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 County Treasurer did not have any securities lending during the year (or at year-end).

*Credit Risk*

The IPS sets forth the minimum acceptable credit ratings for investments from any two (2) of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody’s) or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an “A”. As of June 30, 2020, the County’s investments were in compliance with the IPS limits. In addition, OC Waste & Recycling's pooled cash and investments are combined with the County’s pooled investments, and therefore, do not represent specific identifiable investments and are not discretely rated.

Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, credit and concentration of credit risks, is presented in Note 3 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>.

***Note 4 – Accounts Receivable***

Accounts receivable as of June 30, 2020, were as follows:

|   |    |               |
|---|----|---------------|
| Imported waste disposal fees                      | \$ | 6,487         |
| County of Orange (In-county) waste disposal fees  |    | 7,846         |
| Miscellaneous                                     |    | 1,462         |
| Allowance for estimated uncollectible receivables |    | <u>(1)</u>    |
| Total accounts receivable, net                    | \$ | <u>15,794</u> |

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 5 – Prepaid Costs***

OC Waste & Recycling prepaid \$5,248 for FY 2020-21, for pension obligations to OCERS in January 2020. As part of the County-wide plan, the prepayment allowed OC Waste & Recycling a savings of \$236, based on the discount rate of 4.31%. The prepaid cost is recognized in the fiscal year during which services are provided. Due to the difference in the County's fiscal year end date and the pension plan measurement date, half of the prepaid pension contribution is recognized as deferred outflows of resources, and the other half will remain as prepaid costs. Prepaid costs for pension obligation and software licenses, net of amortization reported in the accompanying Statement of Fund Net Position, is \$2,780 for 2020.

***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, 2020, was \$17,668.

***Note 7 – Advances to Other County Agencies for County Projects***

On June 23, 2009, the Board adopted Resolution 09-090 authorizing the temporary transfer of monies to the County General Fund from OC Waste & Recycling in order to meet County cash flow shortages or deficits.

Since October 2009, the Board has issued resolutions authorizing the County to borrow monies from OC Waste & Recycling for part of the costs associated with the upgrades of various County Information Technology projects. In June 2014, the Board issued Resolution 14-060 identifying new projects that may require borrowing monies from OC Waste & Recycling, such as the Sheriff-Coroner Department's Musick Jail Capital Project and OC Community Resources Department's Animal Care Project.

On June 25, 2019, by Resolution 19-052, the Board authorized the borrowing up to \$141,800 for FY 2019-20. Repayment of the amount to be borrowed includes interest. The actual amount repaid in FY 2019-20 from the Sheriff-Coroner was \$3,500 and OC Community Resources was \$15,030. The outstanding balance as of June 30, 2020, was \$21,000 from the Sheriff-Coroner and \$5,000 from the Probation Department and \$4,052 from the OC Community Resources Department for a total of \$30,052.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

**Note 8 – Interfund and Transfers**

The composition of interfund balances as of June 30, 2020, was as follows:

Due From/To Other Funds of the County:

| Receivable Fund                | Payable Fund           |           |
|--------------------------------|------------------------|-----------|
| Waste Management               | General                | \$ 502    |
| Waste Management               | Roads                  | 2         |
| Waste Management               | Flood Control District | 422       |
| Waste Management               | Parks                  | 1         |
| Total Due from Other Funds:    |                        | 927       |
|                                |                        |           |
| Waste Management               | Sheriff-Coroner        | 21,000    |
| Waste Management               | Probation              | 5,000     |
| Waste Management               | OCCR                   | 4,052     |
| Total Advances to Other Funds: |                        | 30,052    |
|                                |                        |           |
| General                        | Waste Management       | 19,193    |
| Roads                          | Waste Management       | 20        |
| Other Governmental Funds       | Waste Management       | 33        |
| Internal Service Funds         | Waste Management       | 1         |
| Total Due to Other Funds:      |                        | \$ 19,247 |

The amount receivable from General Fund agencies of \$502 is due primarily to a transfer from the OC Community Resources for a loan repayment for Animal Care projects in the amount of \$455. The amount due from the Flood Control District for \$422, Roads Fund for \$2 and OC Parks for \$1 is for disposal charges for landfill usage. Amounts payable by OC Waste & Recycling to General Fund agencies of \$19,193 include net importation revenue in the amount of \$9,612 to pay obligations in accordance with the renewed waste-importation contracts and a transfer to the Sheriff-Coroner Department in the amount of \$8,500 for the Musick Jail Project. The advances represent interfund loans made to the Sheriff-Coroner Department, Probation and OC Community Resources from OC Waste & Recycling for various county projects. Refer to Note 7, Advances to Other County Agencies for County Projects, for additional information.

Total transfer from the Sheriff-Coroner to repay interest for borrowings to fund various county projects was \$255. Total transfer from the OC Community Resources to repay interest for borrowings to fund Animal Care projects was \$455.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

**Note 9 – Capital Assets**

Capital asset activities for the year ended June 30, 2020 were as follows:

|  | Balance at<br>June 30, 2019 | Additions       | Deductions        | Balance at<br>June 30, 2020 |
|--|-----------------------------|-----------------|-------------------|-----------------------------|
| <b>Capital Assets, Not Depreciated/Amortized</b>     |                             |                 |                   |                             |
| Land   | \$ 22,701                   | \$ --           | \$ --             | \$ 22,701                   |
| Construction in progress                             | 3,548                       | 8,257           | (3,997)           | 7,808                       |
| Intangible Assets in progress                        | 291                         | 15              | --                | 306                         |
| Total Capital Assets, Not Depreciated/Amortized      | <u>26,540</u>               | <u>8,272</u>    | <u>(3,997)</u>    | <u>30,815</u>               |
| <b>Capital Assets, Depreciable/Amortizable</b>       |                             |                 |                   |                             |
| Land Improvements                                    | --                          | 611             | --                | 611                         |
| Building and improvements                            | 27,660                      | 1,980           | --                | 29,640                      |
| Equipment  | 80,481                      | 12,702          | (5,587)           | 87,596                      |
| Infrastructure                                       | 470,668                     | 1,591           | --                | 472,259                     |
| Software   | 1,888                       | 54              | --                | 1,942                       |
| Total Capital Assets, Depreciable/Amortizable        | <u>580,697</u>              | <u>16,938</u>   | <u>(5,587)</u>    | <u>592,048</u>              |
| <b>Less Accumulated Depreciation/Amortization</b>    |                             |                 |                   |                             |
| Land Improvements                                    | --                          | (8)             | --                | (8)                         |
| Buildings and improvements                           | (14,175)                    | (944)           | --                | (15,119)                    |
| Equipment  | (45,631)                    | (6,060)         | 4,608             | (47,083)                    |
| Infrastructure                                       | (215,568)                   | (14,398)        | --                | (229,966)                   |
| Software   | (423)                       | (206)           | --                | (629)                       |
| Total Accumulated Depreciation/Amortization          | <u>(275,797)</u>            | <u>(21,616)</u> | <u>4,608</u>      | <u>(292,805)</u>            |
| Total Capital Assets, Depreciable/Amortizable, (Net) | <u>304,900</u>              | <u>(4,678)</u>  | <u>(979)</u>      | <u>299,243</u>              |
| Total Capital Assets, Net                            | <u>\$ 331,440</u>           | <u>\$ 3,594</u> | <u>\$ (4,976)</u> | <u>\$ 330,058</u>           |

Total depreciation and amortization expense for the year ended June 30, 2020, was \$21,616.

**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, 2020, were as follows:

**Landfills**

|   |                 |
|---|-----------------|
| Frank R. Bowerman (FRB)                                     |                 |
| FRB Phase VIII-A Groundwater Protection & Stockpile Project | 1,544           |
| Bee Canyon Greenery   | 4,526           |
| Other   | <u>1,738</u>    |
| Total construction in progress                              | <u>\$ 7,808</u> |

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 9 – Capital Assets (Continued)***

*Construction Contracts*

OC Waste & Recycling entered into various major construction contracts to facilitate its landfill operations. At June 30, 2020, OC Waste & Recycling is committed to open construction contracts for the following projects:

| Description         | Remaining<br>Commitments |
|---------------------|--------------------------|
| Bee Canyon Greenery | 4,767                    |
| Capistrano Greenery | 4,073                    |
| Total               | \$ 8,840                 |

***Note 10 – Defined Benefit Pension Plan***

Plan: All full-time employees of OC Waste & Recycling participate in the OCERS, a cost-sharing multiple-employer public employee retirement system. OCERS issues a stand-alone annual financial report each year ending December 31, which can be obtained online at [www.ocers.org](http://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, 2020, employer’s contributions as a percentage of covered payrolls was 37.06% for General Members. OC Waste & Recycling’s total contribution to OCERS for the year ended June 30, 2020, was \$4,983.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 10 – Defined Benefit Pension Plan (Continued)***

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

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

OC Waste & Recycling’s covered payroll participating in OCERS was \$18,575 for the year ended June 30, 2020.

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

The County reported a liability of \$4,124,932 for its proportionate share of the net pension liability (NPL), of which OC Waste & Recycling’s allocated share of the County’s NPL totaled \$49,042. The County’s NPL was measured as of December 31, 2019, and the total pension liability was determined by an actuarial valuation from OCERS. OC Waste & Recycling’s allocated share of the County’s NPL is based on an average percentage of actual employer contributions.

OC Waste & Recycling recognized pension expense of \$4,649 for the year ended June 30, 2020, 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, 2020, was \$9,270 and \$6,675, 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, 2020  
(Dollar Amounts in Thousands)

*Note 10 – Defined Benefit Pension Plan (Continued)*

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Net Difference Between Projected and Actual Investment  |                                   |                                  |
| Earnings on Pension Plan Investments                    | \$ -                              | \$ 3,673                         |
| Difference Between Expected and Actual Experience       | 145                               | 2,647                            |
| Changes of Assumptions                                  | 3,582                             | 306                              |
| Changes in Proportion and Differences Between Employer  |                                   |                                  |
| Contributions and Proportionate Share of Contributions  | 202                               | 49                               |
| County contributions subsequent to the measurement date | 2,717                             | -                                |
| County Prepaid Pension Contribution                     | 2,624                             | -                                |
| Total   | \$ 9,270                          | \$ 6,675                         |

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

Year ending June 30:

|            |         |
|------------|---------|
| 2021       | (1,365) |
| 2022       | (680)   |
| 2023       | 1,166   |
| 2024       | (1,834) |
| 2025       | (33)    |
| Thereafter | -       |

Contributions subsequent to the measurement date of \$2,717 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021.

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, 2020  
(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.

Contributions: As an enterprise fund of the County, OC Waste & Recycling is currently setting aside an actuarially determined contribution of 3.9% of its payroll for the Retiree Medical Plan. OC Waste & Recycling’s contribution was \$724 for the year ended June 30, 2020, which is 100% of the annual required contribution.

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

The County reported a liability of \$328,412 for its proportionate share of the collective net OPEB liability at June 30, 2020. OC Waste & Recycling’s allocated share of the County’s net OPEB liability is \$3,448, which is based on its percentage of actual employer contributions.

OC Waste & Recycling recognized OPEB expense of \$423 for the year ended June 30, 2020, which represents the change in the net OPEB liability during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits. The total deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2020, was \$290 and \$312, respectively. Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net OPEB liability to be recognized in future periods in a systematic and rational manner.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

**Note 11 – Postemployment Health Care Benefits (continued)**

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Net difference between projected and actual investment earnings on OPEB plan investments | \$ -                              | \$ 80                            |
| Contributions and proportionate share of contributions                                   | 49                                | -                                |
| County contributions subsequent to measurement date                                      | 241                               | -                                |
| Difference between expected and actual experience  | -                                 | 88                               |
| Changes of assumptions   | -                                 | 144                              |
| Total  | <u>\$ 290</u>                     | <u>\$ 312</u>                    |

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

| <u>Year ending June 30:</u> |      |
|-----------------------------|------|
| 2021                        | (48) |
| 2022                        | (48) |
| 2023                        | (15) |
| 2024                        | (67) |
| 2025                        | (25) |
| Thereafter                  | (60) |

Contributions subsequent to the measurement date of \$241 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021.

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, 2020, were as follows:

| Long-Term Liabilities              | Balance<br>July 1, 2019 | Additions       | Reductions       | Balance<br>June 30, 2020 | Due Within<br>One Year |
|------------------------------------|-------------------------|-----------------|------------------|--------------------------|------------------------|
| Compensated absences               | \$2,319                 | \$2,566         | (\$2,480)        | \$2,405                  | \$1,392                |
| Intangible asset obligation        | 8                       | 0               | (6)              | 2                        | 0                      |
| Closure and postclosure care costs | 179,758                 | 10,272          | (5,649)          | 184,381                  | 3,680                  |
| Pollution remediation obligation   | 16,487                  | 0               | (1,296)          | 15,191                   | 698                    |
| Total long-term liabilities        | <u>\$198,572</u>        | <u>\$12,838</u> | <u>(\$9,431)</u> | <u>\$201,979</u>         | <u>\$5,770</u>         |

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(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, 2020, was \$184,381. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (37.18% for FRB, 85.42% for Olinda Alpha and 22.26% 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 \$184,913 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2019 dollars (using the 2019 inflation factor of 1.018). OC Waste & Recycling has enough landfill capacity to operate the system for a minimum of 25 years. However, OC Waste & Recycling estimates that it intends to operate the landfills well beyond this period as a result of approved and planned expansions.

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

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

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

As of June 30, 2020, a total of \$96,759 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Fund Net Position as Restricted Pooled Cash and Investments – Closure and Postclosure Care Costs.

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

***Note 14 – Pollution Remediation Obligations***

GASB Statement No. 49, “Accounting and Financial Reporting for Pollution Remediation Obligations,” requires government agencies to identify and disclose current and potential pollution remediation obligations. Six (6) closed sites were identified and the remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The combined pollution remediation obligation ending balance for the year ended June 30, 2020, after deducting actual pollution remediation expenses incurred during fiscal year 2020 is \$15,191.

***Cannery Former Refuse Disposal Station***

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

The Local Enforcement Agency (LEA) issued a Notice and Order to Huntington Beach, requiring Huntington Beach to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA’s Notice and Order, Huntington Beach and the Huntington Beach City School District (Huntington Beach School District) issued the Notices of Intent to Sue under the Resource and Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation, and Liability Act to the County in 2004. Under an agreement with the County, Huntington Beach, and Huntington Beach School District claims were tolled until June 2006.

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

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 14 – Pollution Remediation Obligations (Continued)***

Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, the length of time waste has been buried and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years from beginning of the obligation date. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$31.

*Lane Road Former Refuse Disposal Station*

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

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years from beginning of the obligation date, then will most likely either no longer be required or will be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the first full year of operation when the carbon canisters needed more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and due to anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next fiscal year of operation is \$310. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$1,469.

*San Joaquin Former Refuse Disposal Station*

The site, owned by the University of California at Irvine (UC Irvine), was leased and operated by the County as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the U.S. Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with UC Irvine that was approved by the Board in May 2008. Pursuant to the Cooperative Agreement, the County constructed a landfill gas collection and control system, including a carbon treatment element.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 14 – Pollution Remediation Obligations (Continued)***

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years from beginning of the obligation date. The cost to operate and maintain the landfill gas collection system at the site for the next fiscal year of operation is \$141. The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$195.

*Forster Former Refuse Disposal Station*

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

The obligation by the County for environmental infrastructure and controls at the site as agreed upon in the Settlement Agreement is \$7,500. The entire sum is anticipated to be released within five (5) years from the approval of the project grading permits, but is dependent upon actions by the owner and regulatory approvals for the project. The County will continue to incur additional costs for work related to the County's current obligation to monitor the groundwater underlying the site. This responsibility will be transferred to the site owner upon completion of one of the settlement agreement milestones, but due to the uncertainty of specific timing, the County is unable to fully estimate the remaining ground water obligations as of June 30, 2020.

The remaining balance for landfill gas remediation at the Forster site is \$7,500 as of June 30, 2020. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

*Yorba Refuse Disposal Station*

The site, located in Orange, California (Orange), was owned and operated as a solid waste disposal site by the County. After disposal operations ceased, the site was sold to Orange for use as a city park. Park deed restrictions were later lifted from the property at the request of the city, which then began investigation into some form of commercial application or development at the site. In 2010, the Orange Redevelopment Agency filed suit against the City of Orange. The Complaint alleged various causes of

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 14 – Pollution Remediation Obligations (Continued)***

action, including those for private nuisance, public nuisance, dangerous condition of property and statutory contributions for hazardous substances, and a Porter-Cologne contribution and for Polanco Redevelopment Act cost recovery. The relief sought is for unknown costs and damages. In turn, Orange filed a cross-complaint against the County. The causes of action alleged include indemnity and/or contribution, declaratory relief, hazardous substance account act indemnity and remedies under the Porter-Cologne Act.

The County and Orange entered into negotiations to resolve the issues brought forth by Orange. The negotiations resulted in a settlement agreement and release of claims executed on November 5, 2015. This settlement agreement and release of claims provides a remedy for the differential settlement or subsidence, to replace the irrigation system, and for costs associated with site maintenance with monies paid for by the County. In addition, effective on the date of the agreement, the County assumed responsibility and ownership of the landfill gas control system at the site. In exchange, indemnification has been provided by Orange to the County. Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 30 years from beginning of the obligation date, then will most likely either no longer be required or will be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the first full year of operation when the system needed upgrades and relocation of critical equipment. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and due to anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next fiscal year of operation will be \$243. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$5,996 as of June 30, 2020.

***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, 2020, 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, 2020, amounts classified in unrestricted net position totaled \$346,970.

**OC WASTE & RECYCLING**  
Notes to Financial Statements (Continued)  
For the Year Ended June 30, 2020  
(Dollar Amounts in Thousands)

***Note 16 – Major Customers***

Disposal fees from three (3) major customers accounted for revenues of approximately \$28,390; \$17,851; and \$13,726 during the year ended June 30, 2020. These customers represent 17.58%, 11.05% and 8.5% of total disposal fee revenue, respectively.

***Note 17 – Property on Lease to Others***

OC Waste & Recycling leases property to others under operating leases for commercial operations. Future minimum rentals to be received under these non-cancellable operating leases as of June 30, 2020 are as follows:

| Fiscal Year Ending June 30   |                            |
|------------------------------|----------------------------|
| 2021                         | \$ 4,542                   |
| 2022                         | 2,611                      |
| 2023                         | 2,997                      |
| 2024                         | 3,075                      |
| 2025                         | 3,407                      |
|                              | <hr style="width: 100%;"/> |
|                              | 16,632                     |
| 2026-2030                    | 16,278                     |
| 2031-2035                    | 15,945                     |
|                              | <hr style="width: 100%;"/> |
|                              | 32,223                     |
|                              | <hr style="width: 100%;"/> |
| Total future minimum rentals | <u>\$ 48,855</u>           |

***Note 18 – Subsequent Events – Frank R. Bowerman Landfill***

In late October 2020, OC Waste & Recycle experienced extensive fire damage at the Frank R. Bowerman landfill (FRB) in Irvine. During the week of October 28, 2020, the wildfire known as the Silverado Fire burned over 12,466 acres, destroyed and damaged a total of 14 structures in Irvine and the surrounding areas, and injured two fire fighters from the Orange County Fire Authority. While its overall financial impact to OC Waste & Recycling and the FRB landfill cannot be fully assessed at the moment, the effects of the Silverado Fire are expected to be significant. OC Waste & Recycling has reported major damage to the landfill environmental control, and landfill infrastructures including the drainage, electrical grid, liner and stormwater structures. The FRB landfill operation has been suspended for an unknown period of time due to the substantial landfill gas system and infrastructure damage, which will result in loss of revenue and high cost for repairs. OC Waste & Recycling has filed a claim to the insurance company and reported estimated loss of over \$20,000 to the County Emergency Center (EOC). However, it is unknown at this point if the potential total loss would be mitigated by recoveries through insurance, or relief from the Federal, State and local government.

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**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Board of Supervisors  
County of Orange, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of OC Waste & Recycling, an enterprise fund of the County of Orange, California (County) as of and for the year then ended June 30, 2020, and the related notes to the financial statements and have issued our report thereon dated December 16, 2020. Our report included an emphasis of matter paragraph stating that the financial statements of OC Waste & Recycling do not purport to, and do not, present fairly the financial position of the County as of June 30, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OC Waste & Recycling’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OC Waste & Recycling’s internal control. Accordingly, we do not express an opinion on the effectiveness of OC Waste & Recycling’s internal control.

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

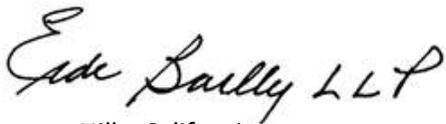
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

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

Laguna Hills, California  
December 16, 2020