

ORANGE COUNTY SOLID WASTE SYSTEM
ORANGE COUNTY, FLORIDA
ANNUAL FINANCIAL REPORT
for the years ended September 30, 2012 and 2011

ORANGE COUNTY SOLID WASTE SYSTEM

ANNUAL FINANCIAL REPORT

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Independent Auditors' Report

To the Honorable County Mayor and
Board of County Commissioners of
Orange County, Florida:

We have audited the accompanying basic financial statements of the Orange County Solid Waste System of Orange County, Florida (the "System") as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the management of Orange County, Florida. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements referred to above present only the System and do not purport to, and do not, present fairly the financial position of Orange County, Florida, as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Solid Waste System of Orange County, Florida as of September 30, 2012 and 2011, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, the System is administered by the Orange County, Florida Board of County Commissioners, for which, in accordance with *Government Auditing Standards*, a report is issued which includes our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The Schedule of Budgeted Revenues and Expenses Compared to Actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Budgeted Revenues and Expenses Compared to Actual has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Budgeted Revenues and Expenses Compared to Actual is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cheryl Behrman CPA

Orlando, Florida
January 31, 2013

**ORANGE COUNTY SOLID WASTE SYSTEM
BALANCE SHEETS
September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 57,454,491	\$ 45,536,471
Accrued interest receivable	125,219	126,028
Accounts receivable	3,011,879	2,778,538
Less allowance for doubtful accounts	(840)	(6,122)
Inventories and prepaid costs	388,067	349,777
Restricted cash and cash equivalents	<u>206,748</u>	<u>205,314</u>
Total current assets	<u>61,185,564</u>	<u>48,990,006</u>
Capital assets:		
Land	33,286,171	33,286,171
Construction in progress	3,386,347	3,842,898
Utility plant	128,219,145	128,726,999
Less accumulated depreciation	<u>(65,493,589)</u>	<u>(60,989,287)</u>
Total capital assets	<u>99,398,074</u>	<u>104,866,781</u>
Total assets	<u>\$ 160,583,638</u>	<u>\$ 153,856,787</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,251,157	\$ 1,801,858
Accrued closure costs	1,485,618	374,277
Payable from restricted assets:		
Customer deposits	<u>206,748</u>	<u>205,314</u>
Total current liabilities	<u>3,943,523</u>	<u>2,381,449</u>
Noncurrent liabilities:		
Compensated absences payable	125,068	162,986
Accrued closure costs	<u>36,803,940</u>	<u>34,739,804</u>
Total noncurrent liabilities	<u>36,929,008</u>	<u>34,902,790</u>
Total liabilities	<u>40,872,531</u>	<u>37,284,239</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	98,578,599	104,709,731
Unrestricted	<u>21,132,508</u>	<u>11,862,817</u>
Total net assets	<u>119,711,107</u>	<u>116,572,548</u>
Total liabilities and net assets	<u>\$ 160,583,638</u>	<u>\$ 153,856,787</u>

See accompanying notes to financial statements.

**ORANGE COUNTY SOLID WASTE SYSTEM
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Tipping fees	\$ 27,088,852	\$ 27,399,187
Gas sales	1,372,060	618,514
Miscellaneous	<u>1,137,896</u>	<u>964,873</u>
Total operating revenues	<u>29,598,808</u>	<u>28,982,574</u>
Operating and maintenance expenses:		
Personal services	6,580,818	6,986,238
Contractual services	3,352,911	2,636,864
Materials and supplies	2,060,319	1,915,194
Utilities	312,107	311,907
Repairs and maintenance	2,067,211	1,943,753
Provision for closure costs	4,552,532	(5,250,591)
Other expenses	<u>679,598</u>	<u>751,069</u>
Total operating and maintenance expenses	<u>19,605,496</u>	<u>9,294,434</u>
Operating income before depreciation	9,993,312	19,688,140
Depreciation	<u>6,180,862</u>	<u>7,393,479</u>
Operating income	<u>3,812,450</u>	<u>12,294,661</u>
Nonoperating revenues (expenses):		
Interest revenue	344,679	235,401
Interest expense and fiscal charges	(300)	(300)
Gain on disposal of assets	79,106	634
Loss on abandoned projects	<u>(1,097,376)</u>	<u>-</u>
Total net nonoperating revenues (expenses)	<u>(673,891)</u>	<u>235,735</u>
Change in net assets	3,138,559	12,530,396
Total net assets, October 1	<u>116,572,548</u>	<u>104,042,152</u>
Total net assets, September 30	<u>\$ 119,711,107</u>	<u>\$ 116,572,548</u>

See accompanying notes to financial statements.

**ORANGE COUNTY SOLID WASTE SYSTEM
STATEMENTS OF CASH FLOWS
for the years ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$ 29,361,619	\$ 27,657,212
Cash payments to suppliers for goods and services	(10,117,264)	(17,181,502)
Cash payments to employees for services	<u>(6,602,088)</u>	<u>(7,144,421)</u>
Net cash provided by operating activities	<u>12,642,267</u>	<u>3,331,289</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,544,576)	(6,255,841)
Proceeds from disposition of assets	<u>476,575</u>	<u>646</u>
Net cash used by capital and related financing activities	<u>(1,068,001)</u>	<u>(6,255,195)</u>
Cash flows from investing activities:		
Interest on investments	<u>345,188</u>	<u>254,827</u>
Net cash provided by investing activities	<u>345,188</u>	<u>254,827</u>
Net increase (decrease) in cash and cash equivalents	11,919,454	(2,669,079)
Cash and cash equivalents, October 1	<u>45,741,785</u>	<u>48,410,864</u>
Cash and cash equivalents, September 30	<u>\$ 57,661,239</u>	<u>\$ 45,741,785</u>
Classified as:		
Current assets	\$ 57,454,491	\$ 45,536,471
Current assets, restricted	<u>206,748</u>	<u>205,314</u>
Total	<u>\$ 57,661,239</u>	<u>\$ 45,741,785</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 3,812,450</u>	<u>\$ 12,294,661</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,180,862	7,393,479
(Increase) in assets:		
Accounts receivable	(233,341)	(1,231,321)
Allowance for doubtful accounts	(5,282)	(632)
Inventories and prepaid costs	(38,290)	(36,127)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(251,043)	(919,156)
Accrued closure costs	3,175,477	(14,076,206)
Customer deposits	<u>1,434</u>	<u>(93,409)</u>
Total adjustments	<u>8,829,817</u>	<u>(8,963,372)</u>
Net cash provided by operating activities	<u>\$ 12,642,267</u>	<u>\$ 3,331,289</u>

See accompanying notes to financial statements.

**ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS
for the years ended September 30, 2012 and 2011**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose:

The Orange County Solid Waste System (the System) is owned and operated by the Orange County Board of County Commissioners, Orange County, Florida, an elected body (the Board). The System, which serves areas primarily within Orange County (County), provides facilities and administration relating to the sanitary disposal of solid waste (refuse). The Orange County Comptroller, an elected official, provides the accounting and financial reporting functions for the System. The System is operated as a self-supporting governmental operation and is accounted for as an enterprise fund of the Board.

Basis of Presentation:

The System uses the enterprise fund concept of accounting. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that expenses of services provided to customers, as well as depreciation, amortization, and interest, be recovered primarily through user charges.

Basis of Accounting:

The financial statements have been prepared on an accrual basis. Revenues are recognized when earned and expenses are recognized when incurred. In addition, the financial statements are prepared in conformity with accounting principles generally accepted in the United States of America.

Budgetary Data:

Florida Statutes require the Board to adopt an annual budget for the System on an accrual basis. Revenues and expenses are budgeted on a basis consistent with generally accepted accounting principles except that depreciation, amortization, noncash capital contributions, and gains/losses on the disposal of assets are not budgeted, capitalized net interest costs on funds borrowed to finance the construction of capital assets are budgeted as interest income and interest expense, capital outlays are budgeted as expense, and debt proceeds and principal payments are respectively budgeted as revenue and expense. Beginning net assets and expenditure reserves are also included in the adopted budget. Encumbrance accounting, under which purchase orders are recorded as a reservation of available budget, is practiced during the year. At year end, outstanding encumbrances lapse and are not presented in the financial statements.

Continued

ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The annual budget is subject to amendment during the year. The County Administrator is authorized to approve transfers of appropriations between individual expense accounts. The Board, by motion, may approve transfers of appropriations between a reserve account and an expense account. The Board, by resolution recorded in the minutes, may add to the overall appropriations of the System due to a financing source unanticipated when the original budget was adopted or due to increased revenues above the level contemplated in the original budget. Amendments to overall appropriations for any other reasons also require a public hearing prior to adoption. There were no amendments during the 2012 and 2011 fiscal years that were extraordinary or unusual in cause or effect.

Cash and Cash Equivalents and Investments:

The System's cash and cash equivalents consist of cash on hand, demand and time deposits, and highly liquid investments (including restricted assets) with a maturity of 90 days or less when purchased. The System's cash balances are pooled with other funds of the County for investment purposes. The investment pool allows all participating funds the ability to deposit and withdraw cash daily as needed, and therefore all balances representing participants' equity in the investments pool are classified as cash equivalents for purposes of these statements. Earnings from the pooled investments are allocated to the System based on cash participation in the pool. All investments are stated at fair value. Investment fair values are based on quoted market prices, except for bankers' acceptances and commercial paper, which are based on accreted value.

Accounts Receivable and Revenue Recognition:

Tipping fee revenues are recognized when earned, with an allowance for accounts considered to be uncollectible. Revenues from five of the System's customers accounted for approximately 61% and 63% of the total tipping fee revenues recognized in fiscal years 2012 and 2011, respectively.

Inventories and Prepaid Costs:

Inventories and prepaid costs consist of the following: inventory of supplies held for consumption valued at the lower of cost or market, using the weighted average method; and the portion of operating permit fees which is applicable to future periods. Operating permit expense amounted to \$7,436 and \$5,983 in the fiscal years 2012 and 2011, respectively. Prepaid permit fees are allocated to operating periods over the life of the permit, using the straight-line method.

Continued

**ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011**

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted Assets:

The use of certain System assets is restricted by legal requirements. Assets so designated are identified as restricted assets on the balance sheets. It is the System's policy to first apply restricted assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Utility Plant and Depreciation:

Utility Plant is stated at cost when purchased or constructed, or at fair market value when donated to the System. The System capitalizes expenditures for plant additions and improvements. The thresholds for capitalization of assets range from \$500 to \$25,000, depending on the asset class. Expenses for plant maintenance and repairs are charged to operations. Projects under construction are retained in Construction in Progress and are transferred into Utility Plant when placed in service. Provisions for depreciation are made using the straight-line method, based upon the following estimated useful lives of the assets:

Buildings	15-50 years
Improvements other than buildings	4-50 years
Machinery and equipment	4-10 years

Accounts Payable and Accrued Liabilities:

Current liabilities reported as accounts payable and accrued liabilities were comprised of the following components at September 30:

	2012	2011
Due to vendors	\$ 1,479,668	\$ 1,044,640
Salaries and benefits payable	771,489	757,218
Total	\$ 2,251,157	\$ 1,801,858

Continued

ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Compensated Absences:

The System accrues a liability, with a corresponding charge to current operations, for employees' rights to receive compensation for future absences to be subsequently taken or paid at point of employment termination in accordance with GASB Statement No. 16. The liability for compensated absences was \$660,208 and \$690,346 at September 30, 2012 and 2011, respectively. Of these amounts, \$535,140 and \$527,360, respectively, is expected to be paid out within one year and thus is included in current liabilities; the remainder is reported as noncurrent. The current portion is based on the average annual amount of leave charged over the preceding three years.

Accrued Closure Costs:

Under the terms of current state and federal regulations, the System is required to place a final cover on closed landfill areas, and to perform certain monitoring and maintenance functions for a period of up to 30 years after closure. In accordance with GASB Statement No. 18, the System is recognizing these costs of closure and post-closure maintenance over the active life of each landfill area, based on landfill capacity used during the period.

Operating Revenues, Nonoperating Revenues and Nonoperating Expenses:

The System reports as operating revenues all charges for services generated through landfill tipping fees and certain other miscellaneous charges. Other revenues, including interest revenue and non-capital grants, are reported as nonoperating. Nonoperating expenses include a loss on an abandoned project.

New Accounting Pronouncement:

Effective October 1, 2011, the County elected to early implement the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Implementation of this statement had no effect on the financial statements of the Solid Waste System and minimal effect on certain note disclosures.

Continued

**ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011**

B. DEPOSIT AND INVESTMENT RISK

As of September 30, 2012 and 2011, the carrying value of the System's deposits and investments, with their respective Standard & Poor's credit ratings, was as follows:

<u>Investment Type</u>	<u>2012</u>	<u>2011</u>	<u>Credit Rating</u>
Demand and time deposits	\$ 30,426	\$ 30,334	NA
U.S. Treasury Bills	12,947,490	13,592,674	A-1+
U.S. Treasury Notes	36,121,187	25,432,809	AA+
Federal instrumentalities:			
Discount notes	747,194	-	A-1+
Notes and bonds	4,491,201	-	AA+
Money market mutual funds	3,323,741	6,685,968	AAAm
Total	<u>\$ 57,661,239</u>	<u>\$ 45,741,785</u>	

The System deposits all cash and investments in the County's investment pool portfolio. Investment balances by type, included in the County's investment pool, are presented above based on the System's proportionate share of the investment pool portfolio.

Credit Risk:

The Board's Investment Policy (Policy) limits credit risk by restricting authorized investments to the following: obligations issued or explicitly guaranteed by the U.S. Government (Treasuries), obligations of certain U.S. Government-sponsored Federal instrumentalities (Instrumentalities), direct obligations of states and municipalities, repurchase agreements comprised of Treasuries or Instrumentalities, Florida PRIME administered by the Florida State Board of Administration, commercial paper, bankers' acceptances, bank certificates of deposit or savings accounts, and money market mutual funds (Money Markets). The Policy requires that investments in Instrumentality debt be guaranteed by the full faith and credit of the U. S. Government-sponsored agency, and that investments in Money Markets have a Standard & Poor's rating of AAAM or AAAG. Eligible Money Markets are limited to those comprised of Treasuries.

Concentration of Credit Risk:

Except for Treasuries, the Policy establishes limitations on portfolio composition for all permitted investments, both by investment type and by issuer, in order to control concentration of credit risk. The Policy, which pertains to the overall investment pool portfolio of the Board and is not monitored at the individual fund level, provides that a maximum of 45% of the portfolio may be invested in any of four specified Instrumentalities, with a limit of 15% of the portfolio invested in any one issuer; and that a maximum of 25% of the portfolio may be invested in Money Markets, with a limit of 10% of the portfolio invested in any one issuer. At September 30, 2012, the System's portion of the Board investment pool portfolio was invested in three authorized Instrumentalities, each of which represented less than four percent of the pool portfolio.

Continued

**ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011**

B. DEPOSIT AND INVESTMENT RISK, Continued

Custodial Credit Risk:

The Policy requires that bank demand and time deposits be secured as provided by Chapter 280, Florida Statutes. This law requires local governments to deposit funds only in financial institutions designated as qualified public depositories by the Chief Financial Officer of the State of Florida. Additionally, the System's bank deposits were fully secured by the FDIC under the Dodd-Frank Deposit Insurance provision, which provides unlimited FDIC insurance on non-interest bearing transaction accounts through December 31, 2012. At September 30, 2012 and 2011, all of the System's bank deposits were in qualified public depositories.

The Policy requires execution of a third-party custodial safekeeping agreement for all purchased securities, and requires that securities be held in the Board's name. As of September 30, 2012 and 2011, all of the System's investments were held in a bank's trust department in the Board's name.

Interest Rate Risk:

For all investment types, the Policy limits the investment of current operating funds to 13 months. To increase returns and provide diversity, the Policy also provides for the investment of noncurrent (beyond 13 months) operating funds in investments with maturities no longer than 60 months. Noncurrent operating funds are invested in the intermediate term portfolio with a maximum maturity of 36 months, and the noncurrent operating portfolio with a maximum maturity of 60 months. Construction funds and debt service reserve funds may be invested for up to 10 years, subject to debt covenant restrictions and liquidity needs.

The System's investments had weighted average maturities of 18.1 months and 12.5 months at September 30, 2012 and 2011, respectively. The portfolio did not contain any callable securities at September 30, 2012 and 2011. The Money Markets have a weighted average maturity of not more than 60 days.

C. RESTRICTED ASSETS

Restricted assets of the system consists of funds available for repayment of customer deposits. These restricted assets were \$206,748 and \$205,314 at September 30, 2012 and 2011, respectively.

Continued

ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011

D. CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2012 and 2011 was as follows:

	Balance 10/1/11	Additions	Reductions	Balance 9/30/12
Capital assets, not being depreciated:				
Land	\$ 33,286,171	\$ -	\$ -	\$ 33,286,171
Construction in progress	3,842,898	1,127,223	(1,583,774)	3,386,347
Total capital assets, not being depreciated	<u>37,129,069</u>	<u>1,127,223</u>	<u>(1,583,774)</u>	<u>36,672,518</u>
Capital assets, being depreciated:				
Buildings	11,562,736	3,206	-	11,565,942
Improvements other than buildings	88,590,722	611,860	-	89,202,582
Machinery and equipment	28,573,541	959,601	(2,082,521)	27,450,621
Total capital assets, being depreciated	<u>128,726,999</u>	<u>1,574,667</u>	<u>(2,082,521)</u>	<u>128,219,145</u>
Less accumulated depreciation for:				
Buildings	(5,372,177)	(372,571)	-	(5,744,748)
Improvements other than buildings	(40,364,155)	(3,247,090)	-	(43,611,245)
Machinery and equipment	(15,252,955)	(2,561,201)	1,676,560	(16,137,596)
Total accumulated depreciation	<u>(60,989,287)</u>	<u>(6,180,862)</u>	<u>1,676,560</u>	<u>(65,493,589)</u>
Total capital assets, being depreciated, net	<u>67,737,712</u>	<u>(4,606,195)</u>	<u>(405,961)</u>	<u>62,725,556</u>
Total System capital assets, net	<u>\$ 104,866,781</u>	<u>\$ (3,478,972)</u>	<u>\$ (1,989,735)</u>	<u>\$ 99,398,074</u>
	Balance 10/1/10	Additions	Reductions	Balance 9/30/11
Capital assets, not being depreciated:				
Land	\$ 33,286,171	\$ -	\$ -	\$ 33,286,171
Construction in progress	34,852,799	2,585,507	(33,595,408)	3,842,898
Total capital assets, not being depreciated	<u>68,138,970</u>	<u>2,585,507</u>	<u>(33,595,408)</u>	<u>37,129,069</u>
Capital assets, being depreciated:				
Buildings	11,253,982	308,754	-	11,562,736
Improvements other than buildings	56,560,405	32,030,317	-	88,590,722
Machinery and equipment	26,483,866	2,146,394	(56,719)	28,573,541
Total capital assets, being depreciated	<u>94,298,253</u>	<u>34,485,465</u>	<u>(56,719)</u>	<u>128,726,999</u>
Less accumulated depreciation for:				
Buildings	(5,011,809)	(360,368)	-	(5,372,177)
Improvements other than buildings	(36,129,508)	(4,234,647)	-	(40,364,155)
Machinery and equipment	(12,471,345)	(2,798,464)	16,854	(15,252,955)
Total accumulated depreciation	<u>(53,612,662)</u>	<u>(7,393,479)</u>	<u>16,854</u>	<u>(60,989,287)</u>
Total capital assets, being depreciated, net	<u>40,685,591</u>	<u>27,091,986</u>	<u>(39,865)</u>	<u>67,737,712</u>
Total System capital assets, net	<u>\$ 108,824,561</u>	<u>\$ 29,677,493</u>	<u>\$ (33,635,273)</u>	<u>\$ 104,866,781</u>

Continued

**ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011**

E. CHANGES IN LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities (current and noncurrent portions) of the System for the years ended September 30, 2012 and 2011 is as follows:

	Balance 10/1/11	Additions	Reductions	Balance 9/30/12
Compensated absences payable	\$ 690,346	\$ 474,062	\$ (504,200)	\$ 660,208
Accrued closure costs	35,114,081	4,552,532	(1,377,055)	38,289,558
System long-term liabilities, including current portion	<u>\$ 35,804,427</u>	<u>\$ 5,026,594</u>	<u>\$ (1,881,255)</u>	<u>\$ 38,949,766</u>

	Balance 10/1/10	Additions	Reductions	Balance 9/30/11
Compensated absences payable	\$ 828,354	\$ 444,925	\$ (582,933)	\$ 690,346
Accrued closure costs	49,190,287	13,336,670	(27,412,876)	35,114,081
System long-term liabilities, including current portion	<u>\$ 50,018,641</u>	<u>\$ 13,781,595</u>	<u>\$ (27,995,809)</u>	<u>\$ 35,804,427</u>

F. REVENUE BONDS PAYABLE

The amount of defeased debt still outstanding and not reported on the balance sheet is as follows as of September 30, 2012 and 2011:

	Original Defeased Amount	September 30	
		<u>2012</u>	<u>2011</u>
Solid Waste Facility Refunding Revenue Bonds, Series 2003	\$ 31,760,000	\$ 16,285,000	\$ 19,635,000

G. PROVISION FOR CLOSURE COSTS

As explained in Note A, current regulations of the U.S. Environmental Protection Agency (EPA) and the Florida Department of Environmental Protection (FDEP) require the System to place a final cover on closed landfill areas, and to maintain those areas for up to 30 years after closure. The System recognizes the expenses associated with final closure and post-closure maintenance of landfill areas over the active life of those areas. These costs are recognized in each operating period based on the amount of waste received during that period, regardless of when cash disbursements are made for these costs.

Continued

ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011

G. PROVISION FOR CLOSURE COSTS, Continued

The System annually obtains updated and revised estimates of total future closure and post-closure costs from its consulting engineers. The cumulative effect of such updated and revised estimates is recognized in the period of the change to the extent it relates to current and past operations. All amounts recognized are based on what it would cost to perform all closure and post-closure functions in current dollars. Actual costs may be different due to inflation, changes in technology, or changes in laws and regulations.

In fiscal year 2011, a downward trend in costs was applied to all closure and post-closure activity estimates. The effect of the cost estimate reduction resulted in a credit to the provision for closure and post-closure costs.

The total unrecognized closure and post-closure costs attributable to the currently active landfill areas (2A cell 2, cells 9-12, and the tire disposal area) are approximately \$152 million. These costs will be recognized in future periods as the remaining capacity of approximately 38 million tons is filled. As of September 30, 2012, the active landfill areas were filled to approximately 5% and 21% for subbasins 2A cell 2 and 9-12, respectively. The current landfill facilities are expected to provide the needed capacity through the year 2088.

The System is required by FDEP annually to show proof of ability to finance closure and post-closure costs, and has done so by fulfilling the requirements of the financial test provision of the regulation. In addition, the System is making deposits to a closure costs account to provide for the financing of future closure-related expenditures. The balance in this account, reported as a current asset on the System's balance sheets, was approximately \$38.0 million as of September 30, 2012 and \$35.8 million as of September 30, 2011. The liability for closure and post-closure activities reported on the System's balance sheet, as calculated in accordance with GASB Statement No. 18, was \$38,289,558 and \$35,114,081 at September 30, 2012 and 2011, respectively. Of these amounts, \$1,485,618 and \$374,277, respectively, are expected to be paid out within one year and are included in current liabilities.

H. RETIREMENT SYSTEM

Plan Description:

The System's employees participate in the Florida Retirement System (FRS), administered by the Florida Department of Management Services. Employees elect participation in either the defined benefit plan ("Pension Plan"), a multiple-employer cost-sharing defined benefit retirement plan, or the defined contribution plan ("Investment Plan") under the FRS. As a general rule, membership in the FRS is compulsory for all employees working in a regularly

Continued

ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011

H. RETIREMENT SYSTEM, Continued

established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida Legislature.

Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service, or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Substantial changes were made to the Pension Plan during fiscal year 2011 affecting new members enrolled on or after July 1, 2011 by extending the vesting requirement to eight years of credited service and increasing normal retirement to age 65 or 33 years of service regardless of age. Also, the final average compensation for these members will be based on the eight highest years of salary. A post-employment health insurance subsidy is also provided to eligible retired members through the FRS in accordance with Florida Statutes.

In addition to the above benefits, the FRS administers a Deferred Retirement Option Program (DROP). This program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

For those members who elect participation in the Investment Plan rather than the Pension Plan, vesting occurs at one year of service. These participants receive a contribution for self-direction in an investment product with a third party administrator selected by the State Board of Administration.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site www.dms.myflorida.com/retirement.

Continued

**ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011**

H. RETIREMENT SYSTEM, Continued

Funding Policy:

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute 3.0% of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates. These rates are updated as of July 1 of each year. The employer contribution rates by job class at September 30, 2012 were as follows: regular--5.18%; senior management--6.30%; and DROP participants--5.44%. The employer contribution rates by job class at September 30, 2011 were as follows: regular--4.91%; senior management--6.27%, and DROP participants--4.42%.

The System contributed to the plan an amount equal to 4.98% and 9.61% of covered payroll during the fiscal years ended September 30, 2012 and 2011, respectively. System contributions to the FRS for the fiscal years ending September 30, 2010 through 2012 were \$548,269, \$496,164, and \$253,989 respectively, which were equal to the required contributions for each fiscal year. The System has historically contributed amounts equal to required contributions and, therefore, does not have a pension asset or liability as determined in accordance with GASB Statement No. 27.

I. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN

In addition to the pension benefits described in Note H, the System offers an OPEB Plan that subsidizes the cost of health care for its retirees and eligible dependents. The OPEB Plan is reported in accordance with GASB Statement No's. 43 and 45. Employees of the System with at least 10 years of combined service under the System and/or any other Board department or any of five county officers (County Comptroller, Property Appraiser, Sheriff, Supervisor of Elections, Tax Collector) who retire and immediately begin receiving benefits from the Florida Retirement System (FRS) are eligible to receive a monthly benefit of three dollars per year of service up to a maximum of \$90 per month. If combined service is at least 20 years and receipt of FRS benefits is deferred to a later date, the monthly benefit may be vested for commencement at such deferral date. Additionally, employees of the System who retire and immediately begin receiving benefits from the FRS have the option of continuing in the Board's health insurance plan at the same group rate as for active employees.

The Board has established the Orange County Retiree Health Care Benefit Trust (Trust) for the Board and the five county officers noted above and engages an actuarial firm to determine each participant's actuarially determined annual OPEB cost (AOC) and unfunded obligation. Through its ownership of the System, the Board's total AOC payment to the Trust includes an allocated contribution from the System. For fiscal year 2012, the System's AOC payment was \$33,660, representing 0.66% of the System's covered payroll amount of \$5,101,577. For fiscal

Continued

ORANGE COUNTY SOLID WASTE SYSTEM
NOTES TO FINANCIAL STATEMENTS, Continued
for the years ended September 30, 2012 and 2011

I. OTHER POSTEMPLOYMENT BENEFIT (OPEB) PLAN, Continued

year 2011, the System's AOC payment was \$45,839, representing 0.89% of the System's covered payroll amount of \$5,160,589. A full presentation of the Trust and OPEB Plan assets, liabilities, funding status, and actuarial methods and assumptions is included in the Orange County, Florida Comprehensive Annual Financial Report.

J. INSURANCE COVERAGE

The Board maintains a self-insurance program that provides for coverage of substantially all risks. Various excess catastrophe insurance policies with a commercial carrier are also in force for claims exceeding the amount chargeable against the loss fund. The System participated in the self-insurance program during fiscal years 2012 and 2011 at an annual cost of \$365,380 and \$382,276, respectively. There has been no claim settlements in excess of insurance coverage during the three fiscal years ended September 30, 2012.

K. COMMITMENTS AND CONTINGENCIES

Outstanding commitments under construction contracts for various projects total approximately \$4.5 million and \$2.9 million at September 30, 2012 and 2011, respectively.

The System is a party in various lawsuits and other claims incidental to the ordinary course of its operation, some of which are covered by the Board's self-insurance program. While the results of litigation cannot be predicted with certainty, management believes the final outcome of such litigation will not have a material adverse effect on the System's financial position.

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SUPPLEMENTARY INFORMATION

**ORANGE COUNTY SOLID WASTE SYSTEM
SCHEDULE OF BUDGETED REVENUES AND EXPENSES COMPARED TO ACTUAL
(NON-GAAP BUDGETARY BASIS*)
for the year ended September 30, 2012**

	<u>Budget</u>	<u>Actual</u>
Operating revenues:		
Tipping fees	\$ 27,958,847	\$ 27,088,852
Gas sales	1,468,996	1,372,060
Miscellaneous	<u>962,789</u>	<u>1,137,896</u>
Total operating revenues	<u>30,390,632</u>	<u>29,598,808</u>
Operating and maintenance expenses:		
Personal services	7,581,329	6,580,818
Contractual services	4,574,099	3,352,911
Materials and supplies	2,366,547	2,060,319
Utilities	343,290	312,107
Repairs and maintenance	2,433,712	2,067,211
Provision for closure costs	6,888,990	4,552,532
Other expenses	<u>913,221</u>	<u>679,598</u>
Total operating and maintenance expenses	<u>25,101,188</u>	<u>19,605,496</u>
Operating income, budgetary basis*	<u>5,289,444</u>	<u>9,993,312</u>
Nonoperating revenues (expenses):		
Interest revenue	387,603	344,679
Interest expense and fiscal charges	<u>(300)</u>	<u>(300)</u>
Total net nonoperating revenues (expenses)	<u>387,303</u>	<u>344,379</u>
Change in net assets, budgetary basis*	<u>\$ 5,676,747</u>	<u>\$ 10,337,691</u>

*Budgetary basis, for purposes of this schedule, includes all budgeted items except for capital and closure cost outlay, beginning net assets, and expenditure reserves.