

Attachment 14

Allied Waste Financial Audit 2006 Operations

ALLIED WASTE TRANSFER OF
SAN MATEO COUNTY

(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

DECEMBER 31, 2006

INDEPENDENT AUDITORS' REPORT,
FINANCIAL STATEMENTS

AND

SUPPLEMENTAL SCHEDULE

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Table of Contents

Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Income	3
Statement of Retained Earnings	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 13
Independent Auditors' Report on Supplementary Schedule	14
Supplemental Schedule	15



*Consultants and
Business Advisors*

Independent Auditors' Report

TO THE MANAGEMENT OF ALLIED WASTE TRANSFER OF
SAN MATEO COUNTY
San Carlos, California

*2744 Sand Hill Road
Menlo Park
CA 94025
650.854.8700
fax 650.854.7666*

We have audited the accompanying balance sheet of *Allied Waste Transfer of San Mateo County* (a division of BFI Waste Systems of North America, Inc., a wholly-owned subsidiary of Allied Waste Industries, Inc.) as of December 31, 2006 and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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. 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 audit provides a reasonable basis for our opinion.

*San Francisco
Menlo Park*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Allied Waste Transfer of San Mateo County (a division of BFI Waste Systems of North America, Inc., a wholly-owned subsidiary of Allied Waste Industries, Inc.) as of December 31, 2006 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

April 30, 2007

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Balance Sheet

December 31, 2006

Assets

Current Assets:

Cash	\$ 105,514
Accounts receivable	3,019,530
Inventory	17,913
Prepays and other assets	54,137

Total current assets 3,197,094

Property and Equipment, net 635,600

Affiliated Balance with Allied Waste Industries, Inc. 13,167,444

Total assets \$ 17,000,138

Liabilities and Retained Earnings

Current Liabilities:

Accounts payable	\$ 1,124,168
Accrued salaries and wages	154,984
Contract payable	1,124,898
Other accrued liabilities	864,545

Total current liabilities 3,268,595

Commitments and Contingencies

Retained Earnings 13,731,543

Total liabilities and retained earnings \$ 17,000,138

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Statement of Income

Year ended December 31, 2006

Revenues	\$ 38,646,761
Costs and Expenses:	
Cost of operations	36,558,478
Selling, general and administrative expense	1,387,973
<hr/>	
Total costs and expenses	37,946,451
<hr/>	
Operating income before provision for income tax	700,310
<hr/>	
Provision for Income Taxes	255,753
<hr/>	
Net income	\$ 444,557
<hr/>	

The accompanying notes are an integral part of this statement. 3

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Statement of Retained Earnings

Year ended December 31, 2006

Balance, December 31, 2005	\$ 13,286,986
Net Income	444,557
Balance, December 31, 2006	\$ 13,731,543

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Statement of Cash Flows

Year ended December 31, 2006

Cash Flows from Operating Activities:

Net income	\$	444,557
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation		240,274
Loss on sale of property and equipment		3,982
Changes in operating assets and liabilities:		
Receivables		844,464
Inventory		(17,913)
Prepays and other assets		42,000
Current liabilities		(941,109)
Net cash provided by operating activities		616,255

Cash Flows from Financing Activities:

Repayments to Allied Waste Industries, Inc., net of advances		(565,125)
Net cash used by financing activities		(565,125)

Net increase in cash		51,130
----------------------	--	--------

Cash at the Beginning of Year		54,384
--------------------------------------	--	--------

Cash at the End of Year	\$	105,514
--------------------------------	----	---------

Supplemental Disclosure of Non-Cash Investing and Financing Activities:

Transfer of property and equipment to other divisions, net	\$	14,953
--	----	--------

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

Note 1 - Nature of Business:

Allied Waste Transfer of San Mateo County (the Company), located in San Carlos, California, is an operating division of BFI Waste Systems of North America, Inc. (BFI), a Delaware Corporation and a wholly-owned subsidiary of Allied Waste Industries, Inc. (AWI).

The Company operates under franchise agreements with several municipalities that grant it exclusive rights to collect and process recyclable materials generated from commercial, residential and industrial properties within agreed upon areas. The agreements will expire on December 31, 2010. The agreements provide for the Company to receive a surcharge based on collection of solid waste within the service area. Rate increases under these agreements must be cost-justified by the Company.

On March 1, 2000, the Company entered into an operating agreement with the South Bayside Waste Management Authority ("SBWMA") (the "Agreement") to operate the transfer station and recyclery. The Agreement expires on December 31, 2010 with multiple extensions through 2016, subject to SBWMA approval. Under terms of the Agreement, two times each month, the Company collects and remits all revenues applicable under the Agreement to SBWMA. SBWMA withholds amounts in order to perform its contractual and fiduciary responsibilities as the owner of the facilities. The amount remitted to the Company represents compensation and is based on projected costs plus profit. At the end of each calendar year, the Company reconciles projected costs plus profit to actual results to determine whether the actual amounts are within the profit range as calculated in accordance with the Agreement.

Any resulting surplus balance (due to SBWMA) or shortfall balance (due to the Company), referred to herein as the "Contract Settlement", is maintained by the Company and carried forward into the Agreement for purposes of determining projected revenues and rates for the subsequent calendar period. In the event the Agreement expires or is terminated, the accumulated Contract Settlement will be settled in cash over a one-year period.

The change in the Contract Payable for the period from January 1, 2006 to December 31, 2006 was estimated at \$1,014,611 and represents management's best estimate. This amount was charged as an increase in revenue for the period ended December 31, 2006 and is a reduction in the Company's contract payable as of December 31, 2006.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

The Company obtains financing for both capital and operating needs from AWI and is dependent upon continued financial support from its parent company.

The accompanying financial statements include the assets, liabilities, operating results and cash flows of the Company. The results of operations include revenues and costs directly attributable to the Company as well as allocation of certain corporate expenses based on specific allocation methods. The expense allocation has been determined on bases that the Company considers to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The financial information included herein may not reflect the financial position and cash flows of the Company in the future or what would have resulted if the Company had operated as a separate, stand-alone entity during the period presented.

Note 2 - Summary of Significant Accounting Policies:

a. Revenue Recognition

Revenue is recognized when the related services are provided based upon the weight and type of solid waste received at rates based primarily upon contracted terms.

In accordance with the SBWMA operating agreement, additional revenue can be earned by the Company when recyclable materials sales exceed \$4.5 million on an annual basis, or by achieving specific performance criteria related to the total tonnage of recyclable waste diverted at the transfer station from disposal at a landfill to the recycler. For the year ended December 31, 2006, the Company recognized approximately \$5.58 million under these revenue-sharing incentives.

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

c. Cash

The Company considers any liquid investment with an original maturity of three months or less to be cash.

d. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk primarily consist of trade receivables. As discussed in Note 1, the Company's trade receivable represents the balance due from the SBWMA, a large, financially viable municipal agency, which limits the credit risk to the Company. An allowance for doubtful accounts is established based on aging of receivables, payment performance factors, historical trends and other information. As of December 31, 2006, there was no allowance for doubtful accounts recorded in the Company's financial statement.

e. Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, which include cash, accounts receivable and accounts payable, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures about the Fair Value of Financial Instruments," approximate fair values due to the short-term maturities of these instruments.

f. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market and consist primarily of equipment parts, materials, supplies and commodity held for resale.

g. Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of buildings and improvements (30 to 40 years), vehicles and equipment (3 to 15 years), containers and compactors (5 to 10 years) and furniture and office equipment (3 to 8 years).

Expenditures for major renewals and betterments are capitalized, while expenditures for maintenance and repairs, which do not improve assets or extend their useful lives, are charged to expense as incurred. When property is retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

Note 3 - Property and Equipment:

Property and equipment at December 31, 2006 is as follows:

Buildings and improvements	\$ 2,503
Vehicles and equipment	2,261,276
Containers and compactors	16,101
Furniture and equipment	17,029
<hr/>	
Total property and equipment	2,296,909
Less: Accumulated depreciation	(1,661,309)
<hr/>	
Property and equipment, net	\$ 635,600

Note 4 - Commitments and Contingencies:

a. Litigation

The Company is subject to extensive and evolving laws and regulations and has implemented environmental safeguards to respond to regulatory requirements. In the normal course of conducting operations, the Company may become involved in certain legal and administrative proceedings. Some of these actions may result in fines, penalties or judgments against the Company, which may have an impact on earnings for a particular period. Litigation and regulatory compliance contingencies are accrued for when such costs are probable and reasonably estimable. There are no matters at December 31, 2006 that management expects the resolution to have a material adverse effect on liquidity, financial position or results of operations of the Company.

b. Lease Agreements

The Company has non-cancelable operating lease agreements for equipment extending through 2007. Future minimum lease commitments under these agreements are approximately \$99,000 for the year ending December 31, 2007.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

c. Financial Assurances

The Company is required to provide approximately \$2.0 million in financial assurances to the SBWMA relating to its operation of the transfer station and recycler. The Company satisfies the financial assurance requirements by providing a performance bond to secure its obligation as it relates to performance under certain recycling and transfer station contracts.

The financial instruments are issued in the normal course of business. They are not debt and, therefore, are not reflected in the accompanying balance sheet. The underlying obligations of the financial assurance instruments would be valued and recorded in the balance sheet based on the likelihood of performance being required. Management does not expect this to occur.

d. Collateral and Guarantees

The Company enters into contracts in the normal course of business that include indemnification clauses. Indemnifications relating to known liabilities are recorded in the financial statements based on management's best estimate of required future payments. Certain of these indemnifications relate to contingent events or occurrences, such as the imposition of additional taxes due to a change in the tax law or adverse interpretation of the tax law.

Along with substantially all of the other operations of the AWI, the Company's assets collateralize certain of AWI's outstanding debt obligations.

e. Income Taxes

Operating results of the Company are included in the consolidated federal income tax return of AWI. AWI files a combined state income tax return in California. The provision for income taxes represents an allocation of consolidated income taxes by AWI to the Company determined in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." The income tax liability is reflected in the affiliated balance with AWI on the balance sheet. Deferred tax assets and liabilities (including any valuation allowance) are recognized and maintained on a corporate-wide basis by AWI. For the year ended December 31, 2006, the tax expense allocated to the Company was \$255,753.

f. Labor Force

Eighty-six percent of the Company's labor force is subject to various collective bargaining agreements extending through December 2009.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

Note 5 - Retirement Plans:

a. Defined Benefit Pension Plan

The Company participates in a defined benefit pension plan (the "Plan") sponsored by BFI. Benefits are based on the employees' years of service and compensation using the average of earnings over the highest five consecutive calendar years out of the last fifteen years of service. Effective January 1, 2004, the Plan was amended to provide Company's participants unreduced pension benefits upon attainment of age 55 and with more than 30 years of service. The Plan was also amended in October 2005 to freeze participation by highly compensated employees after 2005 and to provide that no employees hired or rehired after 2005 will be eligible to participate in or accrue a benefit under the Plan after 2005. AWI does not allocate pension costs to participating divisions, as AWI does not perform separate actuarial studies by participating division. The general funding policy for the Plan is to make annual contributions to the Plan as determined by the Plan's actuary to meet the funding requirements of the Employee Retirement Income Security Act of 1974. No contributions to the Plan were required in 2006 and none are anticipated for 2007.

b. Post-Retirement Health Care Benefits

The Company provides health care benefits under a defined post-retirement plan, which is sponsored by AWI. The Company's medical benefits are extended into retirement for employees with 30 years of service who are at least 55 years old, until the age of 65. Prior to May of 2003, the Company's accounting policy was to expense medical costs paid for its retirees. Beginning in May 2003, the medical plan for the Company's eligible retirees was merged with AWI's medical plan for active employees. AWI allocates a cost per participant to each of its divisions determined by estimating annual costs and dividing by the expected number of participants. Management believes this allocation methodology results in a reasonable estimate of annual retiree medical costs but does not represent the cost determined under the provisions of SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* which the Company does not apply at the division level. For the year ended December 31, 2006, the Company expensed approximately \$59,700 for retiree medical costs, which was included in cost of operations and selling, general and administrative expenses. In connection with the election by certain employees to join a union, electing employees will no longer be eligible to participate in the medical plan if they retire after May 1, 2004.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

c. 401(k) Plan

AWI sponsors the Allied Waste Industries, Inc. 401(k) Plan, a defined contribution plan, which is available to all eligible employees not represented by collective bargaining agreements. Eligible employees may contribute up to 25% of their annual compensation on a pre-tax basis. Participant contributions are subject to certain restrictions as set forth in the Internal Revenue Code. AWI matches in cash 50% of employee contributions, up to the first 5% of the employee's contribution. Participant contributions vest immediately and the employer contributions vest in increments of 20% based upon years of service. The Company's matching contribution to the plan amounted to approximately \$12,300 for the year ended December 31, 2006.

Note 6 - Related-Party Transactions:

a. Affiliated Balance with AWI

Cash receipts are deposited into an account maintained by AWI, and cash requirements of the Company are met by AWI on behalf of the Company. The net amount of these cash transactions is recorded in the affiliated balance with AWI.

b. Affiliated Revenues

The Company receives a significant portion of its solid waste from an affiliated division of AWI. Revenues from this affiliated division totaled approximately \$18.5 million for the year ended December 31, 2006. Management believes that rates charged for the services provided are comparable to rates that would be charged to non-affiliated hauling companies for similar services.

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Notes to Financial Statements

c. Affiliated Cost of Operations

The Company disposes of substantially all of its solid waste it receives at landfills operated by subsidiaries of AWI. Disposal costs paid to the affiliated divisions totaled approximately \$12.3 million for the year ended December 31, 2006. Management believes that rates charged by the affiliates to the Company for disposal services are comparable to rates that would be charged to non-affiliated companies for similar volumes of solid waste.

The Company leases equipment from another division of AWI which it uses in its operations. The total lease expense related to these leases was approximately \$180,000 for the year ended December 31, 2006, and would not necessarily represent those charged by non-affiliated companies.

AWI charges the Company for employee health, workers' compensation and other insurance coverage administered on behalf of the Company. Related charges for the year ended December 31, 2006 of approximately \$1.4 million were allocated on the basis of estimated annual costs.

d. Affiliated Selling, General and Administrative Expenses

AWI charges the Company for management, financial and other administrative services provided by national and regional personnel, including allocations for overhead. Amounts were allocated on the basis of revenues earned and would not necessarily represent those charged by non-affiliated companies or incurred for similar functions on a stand-alone basis. Related charges for the year ended December 31, 2006, were approximately \$628,000 included in selling, general and administrative expenses.

**Independent Auditors' Report
on Supplementary Information**

TO MANAGEMENT OF ALLIED WASTE TRANSFER
OF SAN MATEO COUNTY
San Carlos, California

Our report on our audit of the financial statements of *Allied Waste Transfer of San Mateo County* (a division of BFI Waste Systems of North America, Inc., a wholly-owned subsidiary of Allied Waste Industries, Inc.) as of and for the year ended December 31, 2006, appears on page 1. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hood & Strong LLP

April 30, 2007

*Consultants and
Business Advisors*

2744 Sand Hill Road

Menlo Park

CA 94025

650.854.8700

fax 650.854.7666

San Francisco

Menlo Park

Allied Waste Transfer of San Mateo County
(a division of BFI Waste Systems of North America, Inc.,
a wholly-owned subsidiary of Allied Waste Industries, Inc.)

Supplemental Schedule

The original agreement between the Company and the SBWMA had an expiration date of December 31, 2006. In 2005, the Company and the SBWMA entered into negotiations to amend the original agreement. Out of the negotiations, an amended agreement was put in place that now expires on December 31, 2010.

In order to service this amended agreement, the Company has financed capital expenditures. The capital charge resulting from the net book value of these expenditures and the adjusted net income is as follows:

Beginning net book value at December 31, 2005	\$ 894,809
Ending net book value at December 31, 2006	635,600
<hr/>	
Average net book value	765,205
Weighted average cost of capital	7.5%
<hr/>	
Capital allocation charge for year ended 2006	\$ 57,390
<hr/>	
Net income	\$ 444,557
Less: Capital allocation charge	57,390
<hr/>	
Net income after capital allocation	\$ 387,167
<hr/>	