



# Orange County Sanitation District Comprehensive Annual Financial Report

for the period ended June 30, 2015



Orange County, California

**ORANGE COUNTY SANITATION DISTRICT  
ORANGE COUNTY, CALIFORNIA**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

Prepared By:  
Administrative Services Department  
Financial Management Division

Michael D. White, CPA  
Controller

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**ORANGE COUNTY SANITATION DISTRICT**  
 Comprehensive Annual Financial Report  
 Table of Contents  
 For the Year Ended June 30, 2015

	<u>Page</u>
<b>INTRODUCTORY SECTION:</b>	
Letter of Transmittal.....	i-viii
GFOA Certificate of Achievement .....	ix
Board of Directors.....	x
Organization Chart .....	xi
Map of Service Area .....	xii
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report.....	1-2
Management Discussion and Analysis – Required Supplementary Information .....	3-9
Basic Financial Statements:	
Statement of Net Position .....	12
Statement of Revenues, Expenses, and Changes in Net Position .....	13
Statement of Cash Flows.....	14
Notes to Basic Financial Statements .....	15-43
Required Supplementary Information:	
Proportionate Share of the Net Pension Liability – OCERS Pension Plan.....	46
Schedule of District Contributions – OCERS Pension Plan .....	47
Schedule of Funding Progress – Additional Retiree Benefit Account .....	48
Schedule of Funding Progress – Other Postemployment Benefits .....	48
Supplementary Information:	
Combining Area Schedule of Net Position.....	50
Combining Area Schedule of Revenues, Expenses, and Changes in Net Position .....	51
Combining Area Schedule of Cash Flows .....	52
<b>STATISTICAL SECTION:</b>	
Net Position by Component – Last Ten Fiscal Years.....	54
Revenues and Gross Capital Contributions by Source – Last Ten Fiscal Years.....	55
Expenses by Type – Last Ten Fiscal Years .....	56
Change in Net Position – Last Ten Fiscal Years.....	57
Cash and Investment Reserve Balances – Last Ten Fiscal Years .....	58
Sewer Service Fees – Last Nine Fiscal Years and Next Fiscal Year.....	59
Number of Accounts and Revenues by Customer Class – Last Ten Fiscal Years .....	60
Principal Sewer Service Customers – Current Fiscal Year and Nine Years Ago .....	61
Ratio of Annual Debt Service to Total Expenses – Last Ten Fiscal Years .....	62
Debt Coverage Ratios – Last Ten Fiscal Years .....	63
Computation of Direct and Overlapping Debt.....	64
Ratios of Outstanding Debt – Last Ten Fiscal Years .....	65
Comparison of the Volume of Wastewater Treated – Last Ten Fiscal Years .....	66
Authorized Full-time Equivalents by Function – Last Ten Fiscal Years .....	67
Biosolids Produced – Last Ten Fiscal Years.....	68
Capital Asset Statistics – Last Ten Fiscal Years.....	69
Demographic Statistics – Last Ten Fiscal Years.....	70
Estimated Population Served by Orange County Sanitation District .....	71
Principal Orange County Employers – Current Fiscal Year and Nine Years Ago.....	72
Operating Indicators .....	73
<b>OTHER DATA &amp; TRENDS:</b>	
Cash and Investment Portfolio .....	76
Property Tax Rates – Direct and Overlapping Governments – Last Ten Fiscal Years.....	77
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years .....	78
Property Tax and User Fee Levies and Collections – Last Ten Fiscal Years.....	79
Property Value and Construction – Last Ten Fiscal Years .....	80
Insurance in Force.....	81

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## Serving:

Anaheim  
Brea  
Buena Park  
Cypress  
Fountain Valley  
Fullerton  
Garden Grove  
Huntington Beach  
Irvine  
La Habra  
La Palma  
Los Alamitos  
Newport Beach  
Orange  
Placentia  
Santa Ana  
Seal Beach  
Stanton  
Tustin  
Villa Park  
County of Orange  
Costa Mesa  
Sanitary District  
Midway City  
Sanitary District  
Irvine Ranch  
Water District  
Yorba Linda  
Water District

October 23, 2015

The Board of Directors of the  
Orange County Sanitation District,  
Orange County, California

Submitted herewith is the Comprehensive Annual Financial Report of the Orange County Sanitation District, Orange County, California for the fiscal year ended June 30, 2015. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2015 and was prepared by the Financial Management Division of the Sanitation District's Administrative Services Department.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Sanitation District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Sanitation District. All disclosures necessary to enable the reader to gain an understanding of the agency's financial activities have been included.

Included within the accompanying financial statements are all of the organizations, activities, and functions controlled by the Sanitation District's Board of Directors in accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting. For the purpose of this evaluation, control was determined by the Board's responsibility for: (1) adoption of the budget and user charges, (2) taxing authority, and (3) establishment of policies. The reporting entity and its services are described in further detail in Note 1 of the financial statements.

An audit of the books, financial records and transactions of the Sanitation District is conducted annually by independent certified public accountants. The Sanitation District selected the accounting firm of McGladrey LLP to perform the audit for the year ended June 30, 2015. The auditors' report on the Sanitation District's basic financial statements and supplementary information is located on page 1 within the financial section of this report. This report renders an unmodified opinion on the Sanitation District's basic financial statements for the year ended June 30, 2015.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

## GOVERNMENTAL STRUCTURE

The Orange County Sanitation District encompasses the Northern section of Orange County. The Sanitation District provides wastewater treatment for an area of the County covering 479 square miles and serving a population of approximately 2.5 million, or 79 percent of the County's population. The Sanitation District was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at the Sanitation District's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in order to simplify governance structures, reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of



collecting sewer user fees at the previously established rate schedules, and were referred to as nine individual revenue areas through June 30, 2000. Effective July 1 2003, all Revenue Areas, except Revenue Area 14, consolidated user fee rates and all enterprise fund accounting and budgeting activities and are now known as the Consolidated Revenue Area.

The Sanitation District is managed by an administrative organization composed of directors appointed by the agencies or cities which are serviced by the Sanitation District. Each of the two remaining Revenue Areas, the Consolidated Revenue Area and Revenue Area 14, has its own budget and is responsible for the construction and maintenance of its own collection system. All Revenue Areas, except Revenue Area 14 and the portion of the Consolidated Revenue Area previously known as Revenue Area 13, receive their own share of the one-percent ad valorem property tax levy. In addition, all Revenue Areas except Revenue Area 14, collect user fees from property owners. Revenue Area 14 receives all of its revenues from service charges to the Irvine Ranch Water District.

The purpose of the Sanitation District's wastewater management program is to protect the public's health, preserve the beneficial uses of the coastal waters, and maintain air quality. The objectives of operating the treatment plants are to process and dispose of the treated wastewater and the separated solids in accordance with Federal, state, and local laws including the Environmental Protection Agency.

The Sanitation District sewerage system includes approximately 580 miles of sewers that convey wastewater generated within the Sanitation District's boundaries to the Sanitation District's two wastewater treatment plants, Reclamation Plant No. 1 located in the City of Fountain Valley, and Treatment Plant No. 2 located in the City of Huntington Beach.

Plants No. 1 and No. 2 have secondary treatment capacities of 182 million gallons per day (mgd) and 150 mgd, respectively. Both plants are master-planned for a future primary and secondary treatment capacity of 235 mgd for a combined total of 470 mgd by the year 2070.

After wastewater receives secondary treatment at Plant No. 1, it flows to the Groundwater Water Replenishment System (GWRS) at the Orange County Water District, located adjacent to the Sanitation District, where it undergoes a state-of-the-art purification process consisting of microfiltration, reverse osmosis, and ultraviolet light with hydrogen peroxide. The product water is near-distilled quality. Approximately 35 million gallons (132,500 cubic meters) per day of the GWRS water are pumped into injection wells to create a seawater intrusion barrier. Another 65 million gallons (246,000 cubic meters) are pumped daily to Orange County Water District's percolation basins in Anaheim where the GWRS water naturally filters through sand and gravel to the deep aquifers of the groundwater basin.

Remaining outflows of treated wastewater from Plants 1 and 2 are combined and discharged to the ocean off the Huntington Beach coast through an outfall pipe that is 120 inches in diameter and approximately five miles long. The last mile of the outfall pipe is a diffuser that dilutes the wastewater with seawater in a ratio of 148 parts seawater to one part treated wastewater at an average depth of 185 feet.

## **ECONOMIC CONDITIONS AND OUTLOOK**

In October 2015, the Center for Economic Analysis and Forecasting at the California State University Fullerton Mihaylo College of Business and Economics (CSUF) forecasts that the real U.S. gross domestic product will grow an average of 2.4 percent this year; less than originally anticipated due in part to the greater-than-expected slowdown in China causing a strengthening of the dollar and a worsening trade balance, weaker than expected sales, lower investments in the energy sector due to the slump in crude prices, and another year of weather setbacks; and then modestly increase to 2.6 percent in 2016.

CSUF forecasts Orange County's unemployment rate to decline from an average rate of 5.5 percent in 2014 to 4.4 percent in 2015 and 4.3 percent in 2016. The county's economy is expected to add 40,100 payroll jobs in 2015, an increase of 2.7 percent, and 37,700 jobs in 2016, an increase of 2.5 percent.

Payroll employment rose by 36,000 during 2014 for a 2.5 percent increase, approximately the same amount as in 2012.

According to CSUF, California's recovery has picked up momentum in the last eighteen months as job growth in the state is faster than for the nation as a whole. This above-average performance is largely attributable to the heated job market in the Silicon Valley, but employment growth in Southern California and Orange County has shown marked improvement over the past year. They forecast further growth in the coming years as local consumer and business sentiment surveys indicate continued optimism and improved household financial health. While the continued drought will negatively impact the economy, especially California agriculture sector, better performance in high-tech, housing, and exports is expected to keep the overall growth on a steady path during the forecast horizon.

The housing market continues to mend in Southern California and construction has started to pick up. A large portion of the epic collapse in home values during the Great Recession has been recovered by the solid price increases posted during the last few years. The median price of a single-family home in Orange County has increased from \$420,000 in January 2009 to \$680,000 in September 2015. This is an increase of 62 percent and puts the median price at the same level it was almost ten years ago, in September 2006. It is however, still below the level reached in June 2007 when the median prices for the county peaked at \$735,000.

## MAJOR INITIATIVES

Following are the District's current major initiatives as outlined in the General Manager's work plan for FY 2015-16:

1. **Safety and Security** – Implement measures to reduce risk, protect our regional infrastructure and provide a secure and safe workplace for our employees.
  - Implement Administrative Controls and address high priority items identified in the Safety Study by December 31, 2015.
  - Complete a feasibility analysis about obtaining VPP certification from OSHA by December 31, 2015.
  - Implement remaining high priority physical site security improvements as identified by recent surveys and reports regarding OCSD's facilities by June 30, 2016.
  - Work with Department of Homeland Security to assess and implement recommended mitigations to reduce cyber security risk by June 30, 2016.
  - Enhance security awareness training, proactive identification and protection of Personally Identifiable Information (PII) on our network and add additional layers of protection on OCSD servers and employee workstations by December 31, 2015.
2. **Succession Planning** – Review, modify, improve and enhance OCSD's workforce planning and workforce development strategic initiative to develop and implement tools to expand labor force capacity and staff skill levels.
  - Employee Engagement Survey – Conduct an agency wide employee engagement survey to assist in measuring the staff satisfaction levels. Use the results of the survey to develop an action plan by June 30, 2016.
  - Classification and Compensation Study – Complete all phases of the classification and compensation study by February 28, 2016.

- Workforce Vulnerability Assessment – Identify vulnerable positions based on retention, criticality, and difficulty to fill. Develop a workforce planning action plan for each position identified in the vulnerability analysis. Identify workforce needs for the upcoming budget process by December 31, 2015.
  - Talent Readiness Assessments – Identify key talent, as well as possible development efforts. Develop guidelines and forms for this tool by December 31, 2015. Conduct 2 assessments by June 30, 2016.
3. **Resource Recovery** – Move towards 100 percent water recycling and expand from treatment to resource recovery.
- Research – Present findings and recommendations on Super Critical Water Oxidation and how to more efficiently clean digester gas to the Board of Directors June 30, 2016.
  - Planning Studies – Receive a draft Effluent Reuse report by June 30, 2016. Retain a consultant to conduct a new biosolids master plan by June 30, 2016.
4. **Reliability** – Move towards future sustainability and resiliency of operations by implementing best practices for managing infrastructure maintenance and replacement and timely adoption of operational and technology improvements.
- Civil Assets Management Plan (CAMP) – Finalize the data management structure for collecting, storing and retrieving all civil asset related data; implement the operational housekeeping program to enhance the availability and reliability of our civil assets and develop a 5-year program implementation plan for prioritizing, resourcing and integrating civil assets into existing maintenance programs.
  - Planned Maintenance – Ensure that critical process units and equipment are ready to operate and are receiving preventive maintenance in advance of the 2015-16 rainy season (El Nino). Develop and apply planning and scheduling key performance indicator reports to measure success by June 30, 2016.
  - Operational Resiliency – Present the results of the business continuity plan to the Board of Directors identifying the most critical functions to keep OCSD operating in the event of a major event by December 31, 2015.
5. **Operational Optimization** – Evaluate and optimize operations at the OCSD to increase efficiency.
- Energy Efficiency – Evaluate the energy savings opportunities identified by The Energy Network (TEN). Present findings and implementation recommendations to the Board of Directors by March 2016.
  - Shared Services – Continue to explore the six areas identified as potential opportunities where shared services can improve performance and reduce costs for OCSD rate payers by consolidating functions while also monitoring other opportunities regionally and statewide. Implement at least one shared service contract by June 30, 2016.
  - Odor Control Master Plan – Develop a recommendation on odor treatment technologies and levels of service goals for both plant facilities and complete Odor Control Master Plan by June 30, 2016.
  - OCSD Headquarters Building - Advertise request for proposal to retain a consultant to design the replacement of the Headquarters Complex Project P1-128 by January 31, 2016.

## **Strategic Planning**

In November 2013, the Board of Directors approved the biennium update to the rolling five-year strategic plan. This is a comprehensive strategic plan to steer OCSD's efforts and engage the organization to envision service levels and operational needs for the next five years. This annual process begins with the General Manager's Office initiating the planning effort with the Executive Management Team, and then soliciting input and ideas from managers and supervisors. A draft of the updated five-year strategic plan is then presented to the Board of Directors during a workshop, where Board Members discuss and deliberate changes and additions to the plan.

Driven by the Sanitation District's mission, vision and core values, the 2014 Strategic Plan update maintains an aggressive effort to meet the sanitation, health, and safety needs of the 2.5 million people being served in a cost effective manner, while protecting the environment where we live.

Since the implementation of the first strategic plan in 2007, 38 strategic goals have been established and completed. Following are the strategic goals included in the 2014 Strategic Plan Biennium:

1. Providing Exceptional Customer Service
  - a. Completion of the Odor Control Master Plan.
2. Protecting the Public Health
  - a. Development of Future Biosolids Management Options.
  - b. Research new energy efficiency and conversion technologies.
3. Managing and Protecting the Public's Funds
  - a. Cessation of Disinfection of Ocean Discharge.
  - b. Ownership transfer of local sewers.
4. Stakeholder Understanding and Support
  - a. Communicating the District's mission and strategies with those we serve and other stakeholders.
  - b. Partnering with others to benefit our customers, this region, and our industry.
5. Organizational Effectiveness
  - a. Creating the best possible workforce in terms of safety, productivity, customer service, and training.

This strategic plan continues to chart a focused roadmap of success for the future of the Orange County Sanitation District. It addresses critical issues and challenges, and communicates clear and concise future direction to Sanitation District staff. The next biennium update is scheduled for November 2015.

## **SERVICE EFFORTS AND ACCOMPLISHMENTS**

In July 2014, the Sanitation District was awarded the Peak Performance Award from the National Association of Clean Water Agencies in recognition of its complete and consistent National Pollutant Discharge Elimination System permit compliance during calendar year 2013.

In October 2014, the Sanitation District received the Ten Year Platinum award for continuous improvement and best management practices in biosolids management from the National Biosolids Partnership.

In November 2014, the Sanitation District received the Safety Award from the Water Environment Association.

In January 2015, the Sanitation District received the Wastewater Conveyance Project of the Year Award for the Santa Ana River Interceptor Relocation Project from the American Society of Engineers.

In March 2015, the Sanitation District received the Safety Plant of the Year award from the California Water Environment Association.

In May 2015, the Sanitation District received the 2015 American In-house Design Award from Graphic Design USA for its publication of OCSD's 60<sup>th</sup> Anniversary Annual Report.

In June 2015, the Sanitation District received the Leading Fleets No. 1 Mid-Size Fleet Award from Government Fleet Magazine.

### **ACCOUNTING AND BUDGETARY CONTROLS**

The Sanitation District's accounting records are maintained on the accrual basis. In developing and evaluating the Sanitation District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. We believe that the Sanitation District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Each year the Sanitation District's Board of Directors adopts an annual operating plan. A joint works budget is first prepared that identifies the specific capital projects and operating activities to be undertaken by the Sanitation District during the year. The budgetary level of control, the level at which expenses cannot exceed budget, is exercised at the individual district, or fund level. The Sanitation District has adopted a Uniform Purchasing Policy that identifies the agreed upon purchasing standards.

### **ACCUMULATED FUNDS AND RESERVES POLICY**

The Board of Directors of the Orange County Sanitation District has established the following Accumulated Funds and Reserves Policy:

**Cash Flow Reserve:** is established to fund operations, maintenance and certificates of participation expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and the sewer service user fees which are collected as a separate line item on the property tax bill. The level of this reserve will be established as the sum of an amount equal to six months operations and maintenance expenses and the total of the annual debt (COP) service payments due in August each year.

**Operating Contingency Reserve:** is established to provide for non-recurring expenditures that were not anticipated when the annual budget and sewer service fees were considered and adopted. The level of this reserve will be established at an amount equal to ten percent of the annual operating budget.

**Capital Improvement Reserve:** is established to fund annual increments of the capital improvement program. The long-term target is for one half of the capital improvement program to be funded from borrowing and for one half to be funded from current revenues and reserves. With this program in mind, the target level of this reserve has been established at one half of the average annual capital improvement program through the year 2020. Levels higher and lower than the target can be expected while the long-term financing and capital improvement programs are being finalized.

**Catastrophic Loss or Self-Insurance Reserves:** are established for property damage including fire, flood and earthquake; for general liability; and for workers' compensation. These reserves are intended to work with purchased insurance policies, FEMA disaster reimbursements and State disaster reimbursements. Based on the current infrastructure replacement value of \$6.2 billion, the reserve level has been set to fund the District's non-reimbursed costs, estimated to be \$57 million.

**Capital Replacement/Renewal Reserve Policy:** is established to provide thirty percent of the funding to replace or refurbish the current collection and treatment and disposal facilities at the end of their useful economic lives. The current replacement value of these facilities is estimated to be \$3.09 billion for the collection facilities and \$3.11 billion for the treatment and disposal facilities. The initial reserve level was established at \$50 million, which will be augmented by interest earnings and a small portion of the annual sewer user fees in order to meet projected needs through the year 2030.

**Debt Service Reserves:** Provisions of the various Certificate of Participation (COP) issues require debt service reserves to be under the control of the Trustee for that issue. These reserve funds are not available for the general needs of the District and must be maintained at specified levels. The level of required COP service reserves at June 30, 2015 was \$33.0 million. In addition, the District's Debt Service Reserve policy requires total debt service reserves to be ten percent of the total outstanding COP debt, or \$129 million at June 30, 2015.

Accumulated funds exceeding the levels specified by District policy will be maintained in a rate stabilization fund. These funds will be applied to future years' needs in order to maintain rates or to moderate annual fluctuations. There is no established target for this reserve.

As of June 30, 2015, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$557 million, and have been earmarked for the following specific purposes in accordance with the Sanitation District's reserve policy:

Designated Cash and Investments

Designated For Cash Flow Contingency	\$178 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	193 million
Designated For Debt Service Requirements	<u>129 million</u>
 Total Designated Cash and Investments	 <u>\$ 557 million</u>

**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE  
IN FINANCIAL REPORTING**

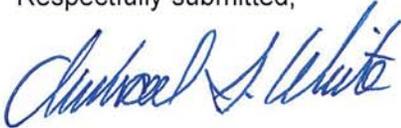
The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Sanitation District for the Sanitation District's comprehensive annual financial report for the year ended June 30, 2014. This was the twentieth consecutive year that the Sanitation District has received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGMENTS

This report could not have been accomplished without the dedicated services of the Financial Management Division staff, and I would like to especially express my appreciation to Lina Hsiao, Accounting Supervisor, who assisted in its preparation. I would also like to thank the Sanitation District's Board of Directors, the General Manager, and the Director of Finance and Administrative Services for their interest and support in conducting the financial operations of the Sanitation District in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Michael D. White". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping underline.

Michael D. White, CPA  
Controller



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Orange County Sanitation District  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2014**

Executive Director/CEO

**ORANGE COUNTY SANITATION DISTRICT**

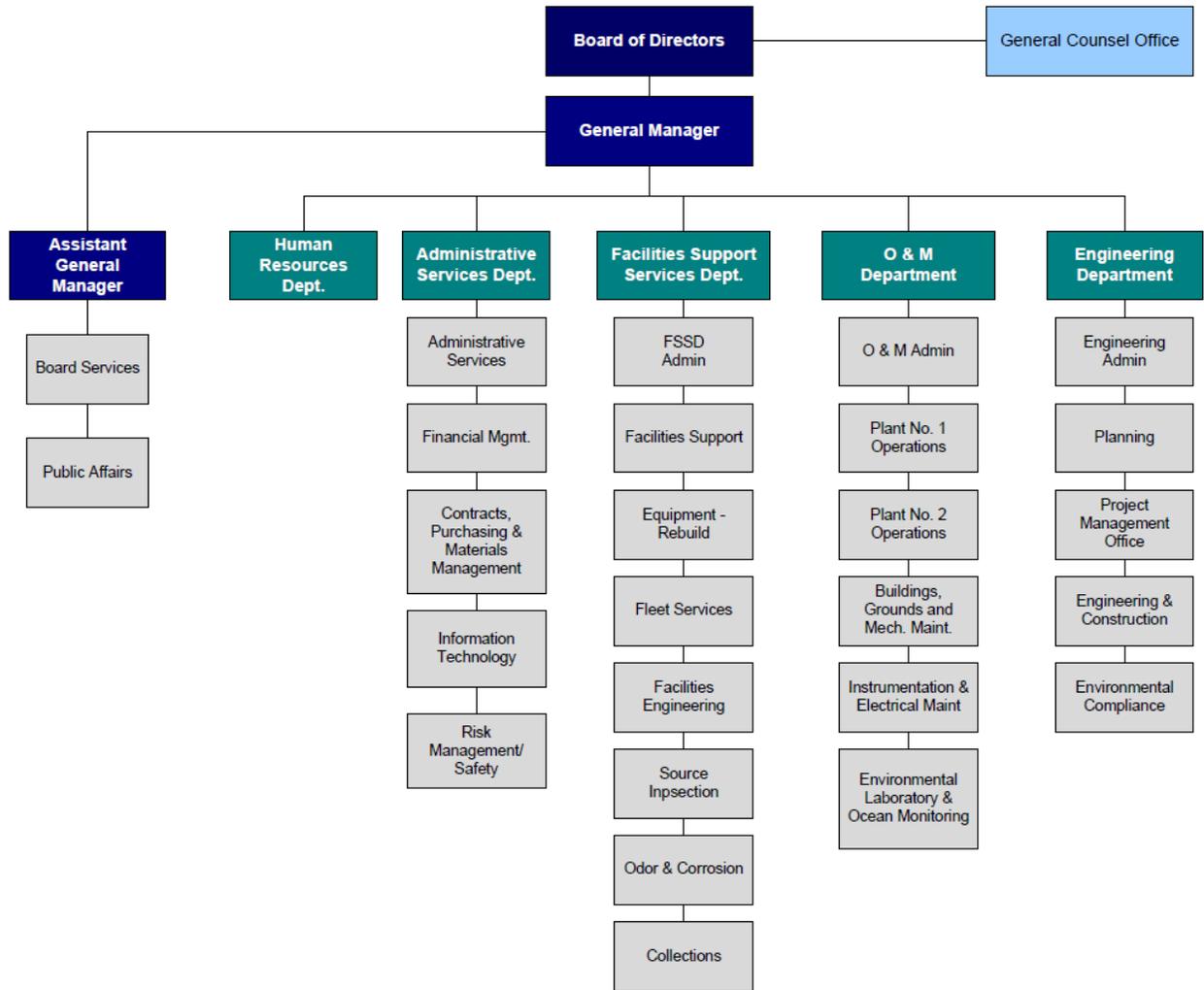
Board of Directors  
As of June 30, 2015

<u>Agency</u>	<u>Active Director</u>	<u>Alternate Director</u>
Cities:		
Anaheim	Lucille Kring	Jordan Brandman
Brea	Glenn Parker	Cecilia Hupp
Buena Park	Fred Smith	Steve Berry
Cypress	Mariellen Yarc	Stacy Berry
Fountain Valley	Steve Nagel	Michael Vo
Fullerton	Gregory Sebourn	Doug Chaffee
Garden Grove	Steve Jones	Kris Beard
Huntington Beach	Jim Katapodis	Erik Peterson
Irvine	Steven Choi	Lynn Schott
La Habra	Tom Beamish	Rose Espinoza
La Palma	Peter Kim	Michele Steggell
Los Alamitos	Richard Murphy	Shelley Hasselbrink
Newport Beach	Keith Curry	Scott Peotter
Orange	Teresa Smith	Mark Murphy
Placentia	Chad Wanke	Constance Underhill
Santa Ana	Sal Tinajero	David Benavides
Seal Beach	Ellery Deaton	Sandra Massa-Lavitt
Stanton	David Shawver	Carol Warren
Tustin	John Nielsen	Allan Bernstein
Villa Park	Greg Mills	Robert Collacott
Sanitary Water Districts:		
Costa Mesa Sanitary District	James M. Ferryman	Robert Ooten
Midway City Sanitary District	Tyler Diep	Joy Neugebauer
Irvine Ranch Water District	John Withers	Douglas Reinhart
Yorba Linda Water District	Robert Kiley	Michael Beverage
County Areas:		
Member of the Board of Supervisors	Lisa Bartlett	Michelle Steel

# ORANGE COUNTY SANITATION DISTRICT

## Organizational Chart

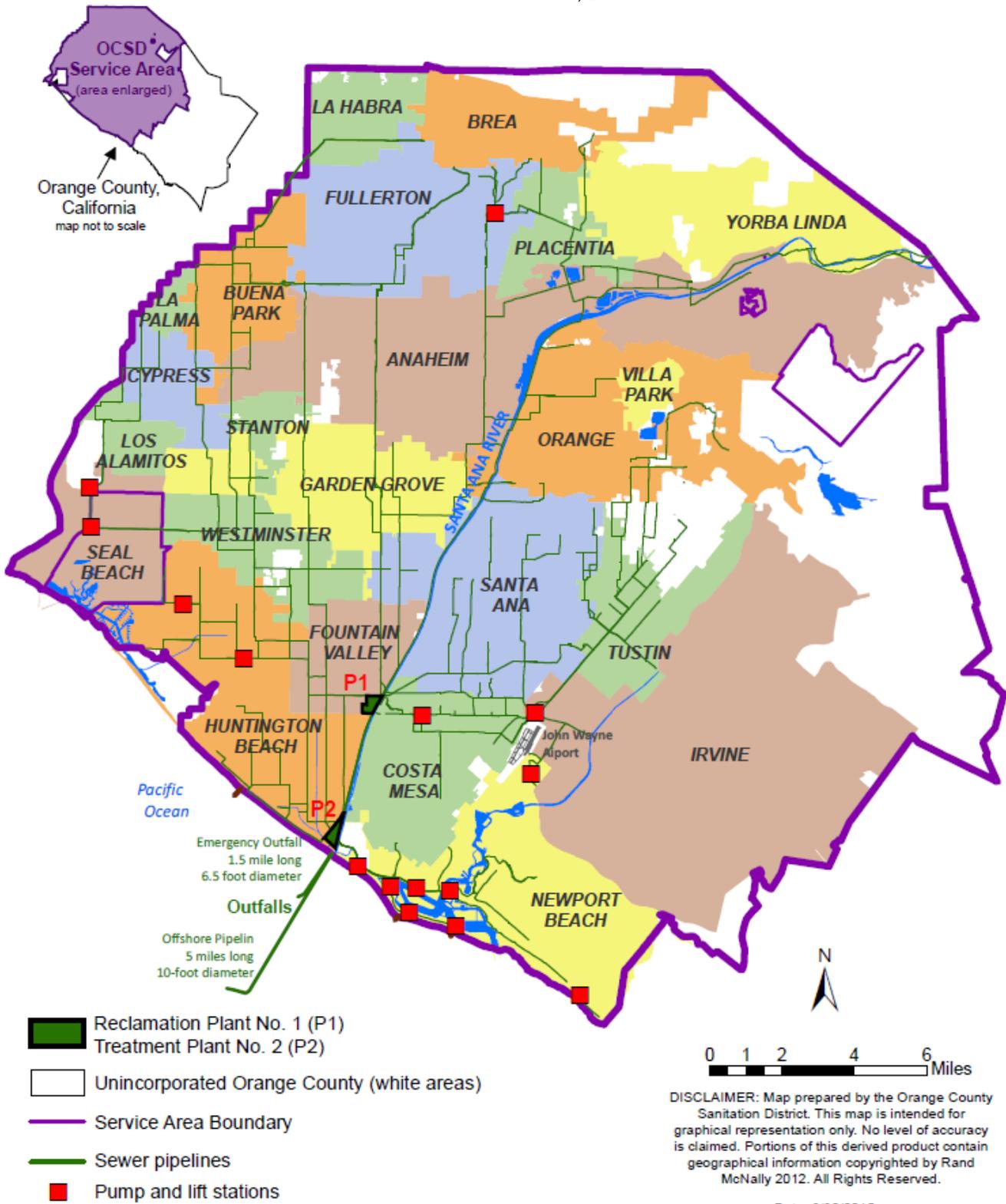
As of June 30, 2015



# ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2015



## **Independent Auditor's Report**

To the Board of Directors  
Orange County Sanitation District  
Fountain Valley, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Orange County Sanitation District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic 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. 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 District'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 District'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 the District as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statements Nos. 68 and 71, which impacted the accounting and reporting of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, for the year ended June 30, 2015. 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 management's discussion and analysis, Proportionate Share of Net Pension Liability, Schedule of District Contributions, and Schedules of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, which 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The separate "Combining Area" financial statements, introductory section, statistical section, and other data and trends are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The "Combining Area" financial statements are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information 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 "Combining Area" financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections and other data and trends have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Irvine, California  
October 23, 2015

## **Management Discussion and Analysis June 30, 2015**

This section of the financial statements of the Orange County Sanitation District (District) is management's narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. The information presented here is to be considered in conjunction with additional information provided within the letter of transmittal located in the Introductory Section of this report.

### **Financial Highlights**

- As of June 30, 2015, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1,761.8 million (net position). Of this amount, \$434.5 million represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- Total net position decreased \$60.5 million, or 3.3 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$85.0 million, or 3.5 percent over the prior year.
- Net investment in capital assets increased \$122.7 million, or 10.2 percent.
- Unrestricted Net Assets decreased \$183.1 million, or 29.7 percent from the prior year.
- Total outstanding bonded debt decreased by \$71.0 million over the prior year to \$1.162 billion.
- The FY 2014-15 beginning net position of \$1,627.8 million has been restated from the FY 2013-14 ending net position of \$1,822.3 million due to the implementation of GASB Statements No. 68 and No. 71, and the recognition of a net pension liability of \$194.5 million as of June 30, 2014.

### **Overview of the Basic Financial Statements**

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements are comprised of two components: financial statements and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

In accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the District's financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. The Statement of Net Position includes all of the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources; and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Position accounts for the current year's revenues and expenses. This statement measures the success of the District's operations over the past year and can be used to determine the District's creditworthiness. It also highlights the District's dependency on property tax revenues in supplementing user fees and other charges for recovering total cost.

The final required financial statement, the Statement of Cash Flows, reports cash receipts, cash payments, and net changes in cash resulting from operations and investments of the reporting period.

As indicated in Note 1 of the accompanying financial statements, the District implemented GASB Statement No. 68 – Accounting and Financial Reporting for Pensions in its financial statements for the year ended June 30, 2015 that required the reporting of net pension liability of \$194.5 million as of June 30, 2014 and the restatement of the District's net position from \$1,822.3 million to \$1,627.8 million on this date.

## Net Position

As previously noted, net position decreased \$60.5 million, or 3.3 percent over the net position for FY 2013-14, to \$1,761.8 million in Fiscal Year 2014-15.

*(Dollars in thousands)*

	June 30, 2015	June 30, 2014	Increase (Decrease)	Percentage Increase (Decrease)
<b>Assets and deferred outflow of resources</b>				
<b>Assets</b>				
Current and other assets	\$ 604,005	\$ 755,807	\$ (151,802)	-20.1%
Net Capital assets	2,504,980	2,420,005	84,975	3.5%
<b>Total assets</b>	<b>3,108,985</b>	<b>3,175,812</b>	<b>(66,827)</b>	<b>-2.1%</b>
<b>Deferred outflow of resources</b>	<b>52,949</b>	<b>18,173</b>	<b>34,776</b>	<b>191.4%</b>
<b>Total Assets and deferred outflow of resources</b>	<b>3,161,934</b>	<b>3,193,985</b>	<b>(32,051)</b>	<b>-1.0%</b>
<b>Liabilities</b>				
Current liabilities	105,031	113,987	(8,956)	-7.9%
Noncurrent liabilities	1,269,553	1,257,703	11,850	0.9%
<b>Total liabilities</b>	<b>1,374,584</b>	<b>1,371,690</b>	<b>2,894</b>	<b>0.2%</b>
<b>Deferred inflow of resources</b>	<b>25,506</b>	<b>-</b>	<b>25,506</b>	<b>N/A</b>
<b>Total Liabilities and deferred inflow of resources</b>	<b>1,400,090</b>	<b>1,371,690</b>	<b>28,400</b>	<b>2.1%</b>
<b>Net position:</b>				
Net investment in capital assets	1,327,384	1,204,706	122,678	10.2%
Unrestricted	434,460	617,589	(183,129)	-29.7%
<b>Total net position</b>	<b>\$ 1,761,844</b>	<b>\$ 1,822,295</b>	<b>\$ (60,451)</b>	<b>-3.3%</b>

*Current and other assets* decreased \$151.8 million, or 20.1 percent, due primarily to net cash provided by operations of \$19.3 million, proceeds from property taxes of \$79.9 million, receipt of capital facilities capacity charges of \$20.2 million, and other government repayments of \$9.5 million offset by capital outlays of \$156.7 million, interest expense of \$54.9 million, bonded debt retirements of \$40.1 million, and the current year reclassification of prepaid retirement under current assets as a deferred outflow of resources in accordance with GASB Statement No. 68. The amount recorded in the prior year as prepaid retirement was \$20.1 million.

*Net Capital assets* increased \$85.0 million, or 3.5 percent, due mostly to the ongoing capital improvement program construction in progress additions of \$182.6 million less depreciation of \$94.2 million. Included in total capital outlay additions is the Sludge Dewatering and Odor Control Project at Plant No. 1 with a total project budget of \$172.0 million. This project constructs primary sludge thickening facilities to improve solids handling capacity, replace aging sludge dewatering facilities, reduce biosolids handling and disposal, and rehabilitate obsolete solids handling odor control equipment. In FY 2014-15, the District incurred project costs of \$58.8 million bringing the total cost-to-date to \$107.4 million with completion scheduled in FY 2017-18. Another solids handling project underway is the Solids Thickening and Processing Upgrades at Plant No. 2. This project consists of the rehabilitation and upgrades to the four existing dissolved air flotation thickeners (DAFTs) to treat the current activated sludge plant solids as well as the additional solids that will be generated from the new secondary trickling filter/solids contractor process. In FY 2014-15, \$8.6 million of the total project budget of \$48.3 million was incurred bringing the cost-to-date to \$41.1 million with completion scheduled in FY 2017-18.

One large collection system projects; Newport Force Main Rehabilitation, with total project budget of \$55.6 million incurred outlays of \$35.6 million in FY 2014-15. This project will rehabilitate approximately 28,000 feet of the Newport Force Main system located on Pacific Coast Highway in Newport Beach between the Bitter Point Pump Station and Dover Drive. The force main system consists of two parallel, interconnected pipelines, varying in size from 22 to 36 inches. More than half of the force main system will be rehabilitated rather than replaced to minimize impacts to the community, businesses, tourism, and the environment at a total project budget of \$55.6 million with completion scheduled for FY 2016-17. See page 8 for the Schedule of Capital Assets and listing of other major capital additions for FY 2014-15.

*Deferred Outflow of Resources* increased \$34.8 million, or 191.4 percent over the prior year primarily due to the implementation of GASB Statement No. 68 and reclassifying prepaid retirement of \$20.1 million in the current year as a deferred outflow of resources.

*Deferred Inflow of Resources* – Also due to the implementation of GASB Statement No. 68, the District is now required to report its deferred inflows of net pension liability of \$25.5 million on the face of the financial statements. This amount represents changes in the net pension liability not recognized as pension expense in the current reporting period.

*Net Investment in capital assets* increased \$122.7 million, or 10.2 percent over the prior year primarily as a result of the net increase in capital assets of \$85.0 million coupled with the \$37.7 million decrease in related debt. The net reduction in capital assets consists of the \$87.5 million increase in construction in progress offset by capital asset depreciation for the year of \$99.8 million.

*Unrestricted net position* decreased \$183.1 million, or 29.7 percent due to the overall decrease in net position of \$60.5 million coupled with the increase in net investment in capital assets of \$122.6 million.

### **Changes in Net Position**

Net position decreased \$60.5 million in FY 2014-15, a 3.3 percent decrease over the prior year.

(Dollars in thousands)

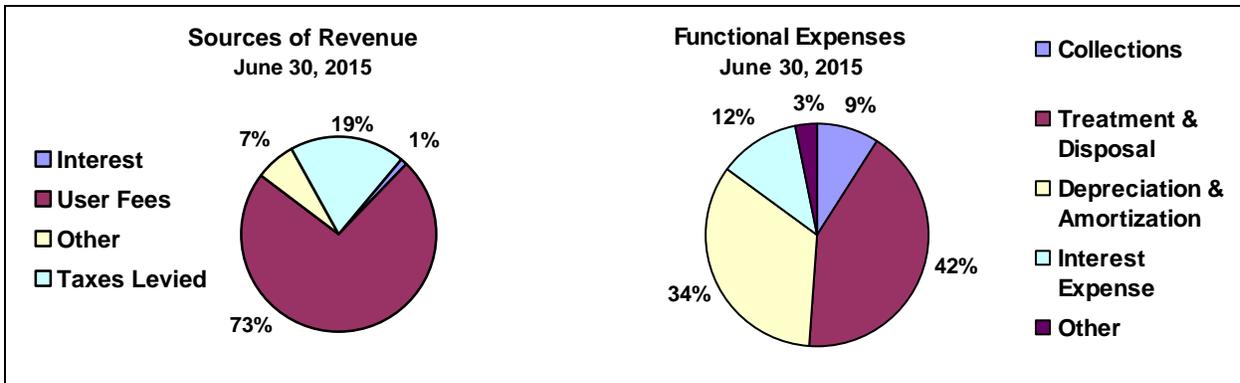
	June 30, 2015	June 30, 2014	Increase (Decrease)	Percentage Increase (Decrease)
<b>Revenues:</b>				
Operating revenues				
Service Charges	\$ 301,549	\$ 300,611	\$ 938	0.3%
Permit and inspection fees	902	848	54	6.4%
Total operating revenues	<u>302,451</u>	<u>301,459</u>	<u>992</u>	<u>0.3%</u>
Non-operating revenues				
Property taxes	79,835	74,944	4,891	6.5%
Investment and interest income	4,806	6,498	(1,692)	-26.0%
Contrib. from other government	8,555	11,278	(2,723)	-24.1%
Other	1,441	1,317	124	9.4%
Total non-operating revenues	<u>94,637</u>	<u>94,037</u>	<u>600</u>	<u>0.6%</u>
<b>Total revenues</b>	<b><u>397,088</u></b>	<b><u>395,496</u></b>	<b><u>1,592</u></b>	<b><u>0.4%</u></b>
<b>Expenses:</b>				
Operating expense other than depreciation and amortization				
	149,227	146,447	2,780	1.9%
Depreciation and amortization	94,186	99,805	(5,619)	-5.6%
Non-operating expense	37,280	41,767	(4,487)	-10.7%
<b>Total expenses</b>	<b><u>280,693</u></b>	<b><u>288,019</u></b>	<b><u>(7,326)</u></b>	<b><u>-2.5%</u></b>
<b>Income before capital contributions</b>	<b>116,395</b>	<b>107,477</b>	<b>8,918</b>	<b>8.3%</b>
<b>Capital facilities capacity charges</b>	<b>17,656</b>	<b>14,093</b>	<b>3,563</b>	<b>25.3%</b>
<b>Increase in net position</b>	<b>134,051</b>	<b>121,570</b>	<b>12,481</b>	<b>10.3%</b>
Beginning net position <sup>(1)</sup>	1,627,793	1,700,725	(72,932)	-4.3%
<b>Ending net position</b>	<b>\$ 1,761,844</b>	<b>\$ 1,822,295</b>	<b>\$ (60,451)</b>	<b>-3.3%</b>

(1) The FY 2014-15 beginning net position of \$1,627.8 million has been restated from the FY 2013-14 ending net position of \$1,822.3 million due to the implementation of GASB Statements No. 68 and No. 71, and the recognition of a net pension liability of \$194.5 million as of June 30, 2014.

As previously stated, an enterprise fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises. This allows the District to determine that the costs (expenses, including depreciation and amortization) of providing wastewater management services on a continuing basis are financed or recovered primarily through user charges.

Sewer service user fees are evaluated annually based primarily on budget requirements for total operation and maintenance expenses and capital outlays for providing wastewater management services. Property tax revenues are dedicated for the payment of debt service.

In FY 2014-15, operating revenues increased \$1.0 million, or 0.3 percent over the prior year that is reflective of a \$7.6 million increase in service charges to IRWD that is mostly offset by the \$6.6 million decrease in service charges made directly to property owners, from \$290.8 million in FY 2013-14 to \$284.1 million in FY 2014-15. The decrease from service charges made directly to property owners is primarily due to the increase in rebates provided to commercial property users of \$9.4 million in FY 2014-15, a 35.5 percent increase over the prior year. This decrease was somewhat offset by the 2.6 percent increase in the average sewer user fee rate over the prior year.



The \$0.6 million, or 0.6 percent increase in non-operating revenues primarily consists of a \$4.9 million, or 6.5 percent increase in property tax revenues that is mostly offset by a \$1.7 million, or 26.0 percent decrease in investment and interest income and a \$2.7 million, or 24.1 percent decrease in contributions from other governments. The increase in property tax revenue is primarily the result of the increase in total assessed valuation of over the prior year of 6.4 percent over the prior year. The decrease in investment and interest income is attributable to lower yields earned on investments and lower cash and investments balances. Yields earned on investments decreased from a 1.1 percent in FY 2013-14 to a 0.8 percent in FY 2014-15 while cash and investment balances decreased from \$673 million at June 30, 2014 to \$557 million at June 30, 2015. The decrease in contributions from other governments is reflective of the decrease in capital contributions from IRWD.

Operating expense before depreciation and amortization increased \$2.8 million or 1.9 percent over the prior year. The majority of this increase is attributable to the \$1.3 million, or 5.4 percent increase in supplies, repairs and maintenance, as repairs and maintenance services and materials alone went up \$1.5 million, or 17.6 percent over the prior year due to Plant No. 1 Headworks repairs and installation of carbon media in the trickling filters at Plant No. 2. Utilities totaling \$7.2 million increased \$0.9 million, or 13.6 percent over the prior year primarily due to increased electricity and natural gas rates. Feasibility studies to determine the necessity and preferred designs of future potential construction projects increased to \$6.0 million, or 11.5 percent over the prior year.

Operating salaries and benefits also increased by \$0.5 million to \$79.7 million, a 0.6 percent increase over the prior year. The operating salaries and benefits costs are part of the overall increase of \$2.3 million in total salaries and benefits when including the salaries and benefits capitalized within the capital improvement program. Overall, total District salaries and benefits were \$94.2 million, a 2.5 percent increase over the prior year total of \$91.9 million. This increase is equally attributable to the \$1.1 million, or 3.6 percent increase in benefits and the \$1.2 million, or 1.9 percent increase in salaries and wages.

Non-operating expense decreased \$4.5 million, or 10.7 percent, and is primarily reflective of the decrease in interest expense of \$6.3 million to \$34.1 million, a 15.7 percent decrease from the prior year as the District continues to pay down on its long-term bonded debt. Conversely, the loss on disposal of assets increased to \$3.1 million, or a \$1.8 million increase over the prior year.

Capital Facility Capacity Charges increased \$3.6 million, or 25.3 percent over the prior year due to the rebound in the economy and the increase activity in construction as total the total nonresidential permit valuation in Orange County increased 26.5 percent in Calendar Year 2014 over the prior year.

### Capital Assets

At June 30, 2015, the District had a net investment of \$2.505 billion in capital assets. This represents a net increase (including additions and deletions) of \$85.0 million or 3.5 percent over the prior year.

(Dollars in thousands)

	June 30, 2015	June 30, 2014	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 15,960	\$ 15,960	\$ -	0.0%
Construction in Progress	392,209	258,019	134,190	52.0%
Sewage collection facilities	442,183	453,824	(11,641)	-2.6%
Sewage treatment facilities	1,536,861	1,568,340	(31,479)	-2.0%
Effluent disposal facilities	37,726	39,314	(1,588)	-4.0%
Solids disposal facilities	316	326	(10)	-3.1%
General and administrative facilities	78,820	82,659	(3,839)	-4.6%
Assets acquired in excess of book value	905	1,563	(658)	-42.1%
<b>Capital assets, net</b>	<b>\$ 2,504,980</b>	<b>\$ 2,420,005</b>	<b>\$ 84,975</b>	<b>3.5%</b>

Major capital asset additions for the current fiscal year included the following:

- \$58.8 million – Sludge Dewatering and Odor Control at Plant No. 1
- \$35.7 million – Newport Force Main Condition Assessment
- \$13.5 million – Central Generation Emissions Control Project
- \$ 8.6 million – Solids Thickening and Processing Upgrades at Plant No. 2
- \$ 7.6 million – Sludge Digester Rehabilitation at Plant No. 1
- \$ 6.9 million – Sludge Dewatering and Odor Control at Plant No. 2

More detailed information about the District's capital assets is provided in Notes 1 and 3 of Notes to the Financial Statements.

### Debt Administration

At June 30, 2015, the District had \$1.162 billion outstanding in bonded debt, a net decrease of \$71.0 million, or 5.8 percent over the prior year. This reduction consisted of the accumulation of principal payments made in accordance with the schedule of debt service payments and the refunding of 1) \$246.9 million of Series 2007B Certificates of Participation (COP) with Series 2014A Wastewater Refunding Revenue Obligations in the amount of \$85.1 million issued in August 2014 and Series 2015A Wastewater Refunding Obligations in the amount of \$127.5 million issued in February 2015; and 2) the refunding of the one-year \$129.6 million Series 2013A Revenue Refunding Certificate Anticipation Notes (CANs) with the two-year Series 2014B Revenue Refunding CANs issued in the amount of \$120.9 million in October 2014.

Both Standard and Poor's Corporation and Fitch Ratings reaffirmed their AAA rating of the Orange County District in the past fiscal year. The District's long-range financing plan is designed to maintain this high rating. Over the next five years, the District is projecting close to \$900 million in future treatment plant and collection system capital improvements. In accordance with the District's long-term debt fiscal policy, the District will restrict long-term borrowing to capital improvements that cannot be financed from current revenue. However, no new debt issuances are being proposed over the next five years to assist with the funding of the system improvements scheduled over this time period.

For more information on long-term debt activities, see Note 4 of the Notes to Basic Financial Statements.

### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate within the County of Orange is currently 4.0 percent, a decrease from the rate of 5.4 percent a year ago.

- Inflation for Orange County in 2014 increased 1.3 percent based on the actual percentage change in the consumer price index according to the June 2015 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments decreased from the 1.1 percent earnings rate in FY 2013-14 to 0.8 percent for FY 2014-15.

All of these factors were considered in preparing the District's biennium budget beginning July 1, 2015.

The District's user fee schedule was increased by 1.9 percent for FY 2015-16 over the prior year. The annual fee applicable to the District's largest customer base and the underlying basis for all other user rates: the single-family residential fee, increased by \$6, from \$316 to \$322. This rate increase was necessary to finance the District's cash flow needs as capital improvement outlays alone are projected to be \$175.0 million in FY 2015-16 and are projected to total \$2.2 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and maintain full secondary treatment standards.

### **Requests for Information**

The financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Management Division, Orange County Sanitation District, 10844 Ellis Avenue, Fountain Valley, CA 92708-7018.

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**ORANGE COUNTY SANITATION DISTRICT  
BASIC FINANCIAL STATEMENTS**

**ORANGE COUNTY SANITATION DISTRICT**

Statement of Net Position

June 30, 2015

	<u>2015</u>
Current assets:	
Cash and cash equivalents	\$ 58,334,350
Investments	465,586,079
Accounts receivable, net of allowance for uncollectibles \$32,844	4,538,036
Accrued interest receivable	1,251,757
Connection fees receivable	618,742
Property tax receivable	1,121,558
Inventories	6,722,734
Prepaid expenses	1,217,084
Total current assets	<u>539,390,340</u>
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	16,028,848
Investments	16,940,965
Accrued interest receivable	218,852
Unrestricted:	
Non-depreciable capital assets	408,168,784
Depreciable capital assets, net of accumulated depreciation	2,096,811,510
Prepaid insurance on outstanding debt payable	217,772
Due from other governmental agency	31,080,935
Net OPEB asset	116,600
Other noncurrent assets, net	10,344
Total noncurrent assets	<u>2,569,594,610</u>
Total assets	<u>3,108,984,950</u>
Deferred outflow of resources:	
Deferred charges on defeasances	30,355,758
Deferred outflows of net pension liability	22,592,946
Total deferred outflow of resources	<u>52,948,704</u>
Total assets and deferred outflow of resources	<u>3,161,933,654</u>
Current liabilities:	
Accounts payable	19,459,022
Accrued expenses	9,370,551
Retentions payable	4,238,495
Interest payable	20,059,050
Due to other governmental agency	2,869,329
Current portion of long-term obligations	49,034,185
Total current liabilities	<u>105,030,632</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	1,212,134,124
Net pension liability	57,418,760
Total noncurrent liabilities	<u>1,269,552,884</u>
Total liabilities	<u>1,374,583,516</u>
Deferred inflow of resources:	
Deferred inflows of net pension liability	25,505,684
Total liabilities and deferred inflow of resources	<u>1,400,089,200</u>
Net position:	
Net investment in capital assets	1,327,384,360
Unrestricted	434,460,094
Total net position	<u>\$ 1,761,844,454</u>

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Statement of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2015

	2015
Operating revenues:	
Service charges	\$ 301,548,331
Permit and inspection fees	902,264
Total operating revenues	302,450,595
Operating expenses other than depreciation and amortization:	
Salaries and benefits	79,657,181
Utilities	7,246,147
Supplies, repairs and maintenance	24,569,388
Contractual services	26,677,971
Directors' fees	156,083
Meetings and training	843,485
Feasibility studies	6,043,385
Other	4,033,010
Total operating expenses other than depreciation and amortization	149,226,650
Operating income before depreciation and amortization	153,223,945
Depreciation and amortization	94,185,539
Operating income	59,038,406
Non-operating revenues:	
Property taxes	79,834,734
Investment and interest income	4,806,307
Contributions from other government	8,554,977
Other	1,440,520
Total non-operating revenues	94,636,538
Non-operating expenses:	
Interest	34,111,685
Other	64,610
Loss on disposal of assets	3,103,861
Total non-operating expenses	37,280,156
Income before capital contributions	116,394,788
Capital Contributions:	
Capital facilities capacity charges	17,656,357
Change in net position	134,051,145
Total net position - beginning, as restated	1,627,793,309
Total net position - ending	\$ 1,761,844,454

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Statement of Cash Flows  
For the Year Ended June 30, 2015

	2015
Cash flows from operating activities:	
Receipts from customers and users	\$ 279,501,222
Payments to employees	(214,339,462)
Payments to suppliers	(45,837,714)
Net cash provided by operations	19,324,046
Cash flows from noncapital financing activities:	
Proceeds from property taxes	79,919,489
Proceeds from various resources	1,362,236
Net cash provided by noncapital financing activities	81,281,725
Cash flows from capital and related financing activities:	
Capital facilities capacity charges	20,242,080
Additions to capital assets	(156,673,564)
Interest paid	(54,850,314)
Principal payments on debt obligation	(27,875,000)
Proceeds released to escrow account on defeased debts	(376,545,000)
Proceeds from debt issuances	365,566,949
Debt issuance costs	(1,295,923)
Net cash used in capital and related financing activities	(231,430,772)
Cash flows from investing activities:	
Proceeds from the sale of investments	7,084,150,575
Purchases of investments	(7,140,273,092)
SARI project payments	9,542,217
Interest received	8,110,687
Net cash used in investing activities	(38,469,613)
Net decrease in cash and cash equivalents	(169,294,614)
Cash and cash equivalents, beginning of year	243,657,812
Cash and cash equivalents, end of year	\$ 74,363,198
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 59,038,406
Adjustments to reconcile operating income to net cash provided by operations:	
Depreciation and amortization	94,185,539
Bad debt expense (Net recoveries)	3,392
(Increase)/decrease in operating assets:	
Accounts receivable	3,288,569
Inventories	(1,722,873)
Prepaid and other assets	19,603,792
Increase/(decrease) in operating liabilities:	
Accounts payable	2,274,913
Accrued expenses	2,074,890
Due to other governmental agency	(26,237,942)
Net pension liability	(134,169,917)
ARBA/OPEB/Catastrophe leave payable	251,161
Compensated absences	14,483
Other payable	65,188
Claims and judgments	654,445
Net cash provided by operations	\$ 19,324,046
<u>Noncash Activities:</u>	
Unrealized (loss) on the fair value of investments	\$ (3,009,747)
Receivable from non-operating activities	2,592,167
Capital assets acquired through accounts payable	5,262,051

See Accompanying Notes to Basic Financial Statements.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

### (1) Summary of Significant Accounting Policies

#### Reporting Entity

The Orange County Sanitation District (OCSD) is a public agency which owns and operates certain wastewater facilities in order to provide regional wastewater collection, treatment, and disposal services to approximately 2.5 million people in the northern and central portion of the County of Orange, California. OCSD is managed by an administrative organization comprised of directors appointed by the agencies and cities which are serviced by OCSD.

OCSD's service area was originally formed in 1954 pursuant to the County Sanitation District Act and consisted of seven independent special districts. Two additional districts were formed and additional service areas were added in 1985 and 1986. These special districts were jointly responsible for the treatment and disposal facilities which they each used. In April of 1998, the Board of Supervisors of Orange County passed Resolution 98-140 approving the consolidation of the existing nine special districts into a new, single sanitation district. This action was taken in order to simplify the governance structures, reduce the size of OCSD's Board of Directors, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. Pursuant to the Resolution and Government Code Section 57500, the predecessor special districts transferred and assigned all of their powers, rights, duties, obligations, functions and properties to OCSD, including all assets, liabilities, and equity.

Effective July 1, 1998, the organization became known as the Orange County Sanitation District. The boundaries of one of the previous districts, now known as Revenue Area No. 14, have been maintained separately because their use of OCSD's collection, treatment, and disposal system is funded by the Irvine Ranch Water District (IRWD). The boundaries of the other eight districts have been consolidated and are collectively referred to as the Consolidated Revenue Area. OCSD utilizes joint operating and capital outlay accounts to pay joint treatment, disposal, and construction costs. These joint costs are allocated to each revenue area based on gallons of sewage flow. The supplemental schedules and statements show internal segregations and are not intended to represent separate funds for presentation as major or non-major funds in the basic financial statements.

The accompanying financial statements present OCSD and its blended component unit, the Orange County Sanitation District Financing Corporation. The Corporation is a legally separate entity although in substance it is considered to be part of OCSD's operations. OCSD is considered to be financially accountable for the Corporation which is governed by a board comprised entirely of OCSD's board members. There is no requirement for separate financial statements of the Corporation; consequently, separate financial statements for the Corporation are not prepared. The Corporation had no financial activity during the fiscal year ended June 30, 2015, other than principal and interest payments on outstanding certificates of participation/ revenue obligations and notes (see Note 4).

OCSD is independent of and overlaps other formal political jurisdictions. There are many governmental entities, including the County of Orange, that operate within OCSD's jurisdiction; however, financial information for these entities is not included in the accompanying financial statements in accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

#### Measurement Focus and Basis of Accounting

OCSD operates as an enterprise activity. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the

## ORANGE COUNTY SANITATION DISTRICT

### Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Board of Directors is that the costs (expenses, including depreciation and amortization) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows.

The accounting policies of OCSD conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles in the United States.

#### Operating Plans

Each year, OCSD staff prepares an annual operating plan which is adopted by the Board of Directors. The annual operating plan is used to serve as a basis for monitoring financial progress, estimating the levy and collection of taxes, and determining future service charge rates. During the year, these plans may be amended as circumstances or levels of operation dictate.

#### Cash and Cash Equivalents

Investments with original maturities of three months or less when purchased and money market funds and external investment pools that can be withdrawn on demand are considered to be cash equivalents.

#### Investments

All investments are stated at fair value (the value at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale). Changes in fair value that occur during the fiscal year are reported as part of investment and interest income. Investment and interest income includes interest earnings and realized and unrealized gains or losses in fair value. Investment and interest income are recorded as revenues and receivables when declared and realized gains or losses are recorded when the investment is sold.

#### Accounts Receivable

Accounts receivable is reported net of the allowance for uncollectible receivables. Uncollectible receivables were \$32,844 at June 30, 2015. Unbilled sewer services through June 30, 2015 are recorded as revenue and receivables. Management determines the allowance for uncollectible receivables by evaluating individual accounts receivable at least one year past due and considering a customer's financial condition, credit history and current economic conditions. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

#### Inventories

Inventories, which is held for consumption and not resale, is stated at cost on a weighted-average basis, and then is expensed when used.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

### Capital Assets

Outlays for property, plant, equipment, and construction in progress are recorded in the revenue area which will use the asset. Such outlays may be for individual revenue area assets or for a revenue area's share of joint assets.

Capital assets of property, plant, and equipment are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of at least three years. Such assets are recorded at cost, except for assets acquired by contribution, which are recorded at fair market value at the time received. Cost includes labor; materials; outside services; vehicle and equipment usage; other ancillary costs consisting of direct charges such as engineering, purchasing, supervision, or fringe benefits. Interest costs, net of interest earnings, are capitalized on projects. During the fiscal year ended June 30, 2015, net interest costs of \$9,506,501 were capitalized.

Depreciation of plant and equipment is provided for over the estimated useful lives of the assets using the straight-line method in accordance with generally accepted accounting principles. OCSD also considers the guidelines of estimated useful lives as recommended in the State of California Controller's Uniform System of Accounts for Waste Disposal Districts, which range from 3 to 75 years. The following are estimated useful lives for major classes of depreciable assets: Sewage collection facilities – 50 years, Sewage treatment facilities – 40 years, Sewage disposal facilities – 40 years, and General plant and administrative facilities – 11.5 years.

### Amortization

Amortization of the excess purchase price over the book value of assets acquired is provided using the straight-line method over an estimated useful life of 30 years.

Premiums and discounts on certificate anticipation notes and wastewater refunding revenue obligations are amortized to interest expense over the respective terms of the installment obligations based on the effective interest method (Note 4).

### Restricted Assets

Certain assets are classified as restricted because their use is limited by applicable debt covenants. Specifically, the assets are restricted for installment payments due on certificates of participation and revenue obligations or are maintained by a trustee as a reserve requirement for the certificates of participation and revenue obligations. When both restricted and unrestricted resources are available for use, it is OCSD's policy to use restricted resources first, then unrestricted resources as they are needed.

### Deferred Charges on Defeasances

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (i.e. deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. OCSD's deferred charges on the refunding debt at June 30, 2015 are \$30,355,758.

### Net Position

Net position represents the total of assets and deferred outflows of resources less liabilities and deferred inflows of resources, and is classified into two categories:

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets and excludes unspent debt proceeds. Deferred

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position.

Unrestricted – This amount represents the residual of amounts not classified in the other category and represents the net equity available for OCSD.

### Compensated Absences

OCSD's employees, other than operations and maintenance personnel, are granted vacation and sick leave in varying amounts with maximum accumulations of 200 hours and 560 hours for vacation and sick days earned but unused, respectively. Operations and maintenance personnel accrue between 80 and 250 personal leave hours per year depending on years of service. Personal leave can be accumulated up to a maximum of 440 hours.

Vacation and sick leave benefits and personal days are recorded as an expense and liability when earned by eligible employees. The distribution between current and long-term portions of the liability is based on historical trends.

### Claims and Judgments

OCSD records estimated losses when it is probable that a claim liability has been incurred and when the amount of the loss can be reasonably estimated. Claims payable includes an estimate for incurred but unreported claims. The distribution between current and long-term portions of the liability is based on historical trends.

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of OCSD's cost sharing multiple-employer plan with the Orange County Employee's Retirement System (OCERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by OCERS. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit term. Investments are reported at fair value.

A deferred outflow of resources and deferred inflow of resources related to pensions result from changes in the components of the net pension liability and are applicable to a future reporting period. OCSD's deferred outflows of net pension liability, deferred inflows of net pension liability, and net pension liability at June 30, 2015 are \$22,592,946, \$25,505,684, and \$57,418,760 respectively.

### Property Taxes

The County is permitted by State law (Proposition 13) to levy taxes at one percent of full market value (at time of purchase) and can increase the assessed value no more than two percent per year. OCSD receives a share of this basic levy, proportionate to what was received in the 1976 to 1978 period.

Property taxes are determined annually as of January 1 and attached as enforceable liens on real property as of July 1 and are payable in two installments which become delinquent after December 10 and April 10. The County bills and collects the property taxes and remits them to OCSD in installments during the year. Property tax revenues are recognized when levied for. The Board of Directors has designated property tax revenue to be used for the annual debt service requirements prior to being used as funding for current operations.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

### Capital Facilities Capacity Charges

Capital facilities capacity charges represent fees imposed at the time a structure is newly connected to OCSD's system, directly or indirectly, or an existing structure or category of use is increased. This charge is to pay for District facilities in existence at the time the charge is imposed or to pay for new facilities to be constructed that are of benefit to the property being charged.

### Operating and Non-operating Revenues and Expenses

Operating revenues and expenses result from collecting, treating, and disposing of wastewater and inspection and permitting services. OCSD's operating revenues consist of charges to customers for the services provided. Operating expenses include the cost of providing these services, administrative expenses, and depreciation and amortization expenses. All revenues and expenses not meeting these definitions and which are not capital in nature are reported as non-operating revenues and expenses.

### Construction Commitments

OCSD has active construction projects to add additional capacity, improve treatment, or replace/rehabilitate existing assets. At June 30, 2015, the outstanding commitments with contractors totaled \$141,178,054.

### Self-Insurance Plans

For the year ended June 30, 2015, OCSD was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation exposure is the \$750,000 deductible per occurrence under the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$250,000 per occurrence deductible (for most perils) under the outside excess property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$100,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. OCSD is self-insured for virtually all property damage from the peril of earthquake. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$500,000 per occurrence deductible under the outside excess liability coverage to \$40 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$100,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. There were no significant changes in insurance coverage during the fiscal year ended June 30, 2015.

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OCSD are processed by outside insurance administrators. These claims are charged to claims expense based on estimated or known amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. Workers' compensation reserves are actuarially determined and general liability estimated loss accruals are estimated using past experience adjusted for current trends and any other factors that would modify past experience. The estimate of the claims liability also includes any amounts for incremental and nonincremental claim adjustment expenses. OCSD management believes that there are no unrecorded claims as of June 30, 2015 that would materially affect the financial position of OCSD.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Deferred Compensation Plan

OCSD offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan permits all employees of OCSD to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or for unforeseeable emergency. The assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries. Since the plan assets are administered by an outside party and are not subject to the claims of OCSD's general creditors, in accordance with GASB Statement 32, the plan's assets and liabilities are not included within OCSD's financial statements.

Accounting Changes

The accompanying financial statements reflect the implementation of GASB Statement No. 68 - *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The retroactive effect of implementing this change in reporting pension expenses and obligations resulted in a restatement of the beginning net position as described further in Note 9. The effect on the previously issued financial statement as of June 30, 2014 resulted in an adjustment to ending net position from \$1,822,294,724 to \$1,627,793,309.

(2) Cash and Investments

Cash and investments as of June 30, 2015 are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 58,334,350
Investments	<u>465,586,079</u>
Subtotal - current, unrestricted	<u>523,920,429</u>
Restricted:	
Cash and cash equivalents	16,028,848
Investments	<u>16,940,965</u>
Subtotal - restricted	<u>32,969,813</u>
Total cash and cash equivalents and investments	<u><u>\$556,890,242</u></u>

Cash and investments consist of the following as of June 30, 2015:

Cash on hand		\$ 3,000
Deposits with financial institutions		3,401,930
Managed portfolio - cash and investments		<u>520,515,499</u>
Subtotal - unrestricted cash and investments		523,920,429
Monies held by trustees:		
Cash and cash equivalents	\$ 16,028,848	
Investment contracts	<u>16,940,965</u>	
Subtotal - monies held by trustees		<u>32,969,813</u>
Grand total cash and investments		<u><u>\$556,890,242</u></u>

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Investments Authorized by the California Government Code and OCSD's Investment Policy

The following table identifies the investment types that are authorized by the California Government Code and OCSD's investment policy. This table, and the subsequent tables on pages 20-23, also identifies certain provisions of either the California Government Code or OCSD's investment policy (whichever is more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Investment Type - Authorized by the California Government Code	Authorized by OCSD's Investment Policy?	Maximum Maturity <sup>(1)(3)</sup>	Maximum Percentage of Portfolio <sup>(1)</sup>	Maximum Investment in a Single Issuer <sup>(1)</sup>
Local Agency Bonds	Yes	5 years	10% <sup>(2)</sup>	10% <sup>(2)</sup>
U.S. Treasury Obligations	Yes	5 years	No limit	No limit
California State Treasury Obligations	Yes	5 years	No limit	No limit
U.S. Agency Securities	Yes	5 years	No limit	No limit
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	30%
Repurchase Agreements	Yes	1 year	20% <sup>(2)</sup>	20% <sup>(2)</sup>
Reverse Repurchase Agreements	Yes	90 days <sup>(2)</sup>	5% <sup>(2)</sup>	5% <sup>(2)</sup>
Corporate Medium-Term Notes	Yes	5 years	30%	30%
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	20%
Mortgage Pass-Through Securities/ CMO/Asset-Backed Securities	Yes	5 years	20%	20%
County Investment Pools	Yes	N/A	15% <sup>(2)</sup>	15% <sup>(2)</sup>
Local Agency Investment Fund (LAIF)	Yes	N/A	15% <sup>(2)</sup>	15% <sup>(2)</sup>
Supranational Obligations	Yes	5 years	30%	30%

Notes

(1) Restrictions are in accordance with the California Government Code unless indicated otherwise.

(2) The restriction is in accordance with OCSD's Investment Policy which is more restrictive than the California Government Code.

(3) As allowed by California Government Code Section 53601, the Board of Directors has adopted a policy of no maximum maturity for investments purchased by OCSD's external money manager for the long-term investment portfolio. However, the duration of the long-term investment portfolio can never exceed 60 months. Investments purchased for the short-term portfolio are subject to the maturity restrictions noted in this table.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Investments Authorized by Debt Agreements

The investment of debt proceeds held by trustees is governed by provisions of the debt covenant agreements, rather than the general provisions of the California Government Code or OCSD's investment policy. The following table identifies the investment types that are authorized for investments held by OCSD's debt trustees. This table, and the subsequent tables on pages 20-23 also identifies certain provisions of the debt covenant agreements that address interest rate risk, credit risk, and concentration of credit risk.

Investment Type - Authorized by the Debt Covenant Agreement	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in a Single Issuer
State and Local Agency Bonds	5 years	No limit	No limit
U.S. Treasury Obligations	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	No limit
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	No limit	No limit
Corporate Medium-Term Notes	5 years	30%	30%
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	20%
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
Guaranteed Investment Contracts	N/A	No limit	No limit

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment has before maturity, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that OCSD manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time, as necessary to provide the cash flow and liquidity needed for operations.

OCSD monitors the interest rate risk inherent in its managed portfolio by measuring the modified duration of its portfolio. The duration of monies held for shorter term purposes is recommended by OCSD's Treasurer and is based on OCSD's cash flow requirements in meeting current operating and capital needs. The average duration of monies invested for shorter term purposes may never exceed 180 days. The duration of monies held for longer term purposes is recommended annually by OCSD's Treasurer and is based on OCSD's five-year cash flow forecast. The average duration may not exceed 120 percent nor be less than 80 percent of the recommended duration. The average duration of monies invested for longer term purposes may never exceed 60 months. There is no stated maximum maturity for the Money Market Mutual Funds. The money market mutual funds for Blackrock Institutional Fund and the US Bank Money Market Fund are daily liquid funds available on demand.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2015.

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
<b>Short-Term Portfolio:</b>			
U.S. Agency Securities *	\$ 22,519,555	0.203	2.44
U.S. Treasury Notes	24,510,105	0.254	3.05
Corporate Medium-Term Notes	11,671,279	0.418	5.02
Local Agency Investment Fund (LAIF)	49,930,420	0.655	7.86
Money Market Mutual Funds	<u>3,096,031</u>	<u>0.083</u>	<u>1.00</u>
Short-term portfolio subtotal	<u>\$ 111,727,390</u>	<u>0.435</u>	<u>5.22</u>
<b>Long-Term Portfolio:</b>			
U.S. Treasury Notes	\$ 152,485,677	2.679	32.14
U.S. Treasury Inflation-Protected Securities (TIPS)	13,372,749	8.407	100.88
U.S. Agency Securities	95,690,290	1.505	18.06
U.S. Govt. Backed Mortgage Pools (GNMA) *	314,173	3.747	44.97
Taxable Municipal Bonds	9,991,639	5.408	64.90
Corporate Medium-Term Notes	102,159,571	2.279	27.35
Money Market Mutual Funds	928,618	0.079	0.95
Mortgage Pass-Through Securities/CMO/Asset-Backed Securities *	<u>33,845,392</u>	<u>1.199</u>	<u>14.39</u>
Long-term portfolio subtotal	<u>\$ 408,788,109</u>	<u>2.431</u>	<u>29.17</u>
<b>Total Portfolio</b>	<u><b>\$ 520,515,499</b></u>		

\*Includes highly sensitive securities.

OCSD monitors the interest rate risk inherent in its other investments using specific identification of the investments. Following is a table of these investments all held by trustees, as of June 30, 2015.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
US Bank Cash	\$ 29	N/A
Money Market Mutual Funds:		
Blackrock Institutional Funds	19,456	37 days
Federated Government Obligations Fund	26,679	41 days
US Bank Money Market Fund	64,712	N/A
Local Agency Investment Fund (LAIF)	15,917,972	239 day average
Investments held by fiscal agents:		
Guaranteed Investment Agreements:		
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 29, 2030
Bayerische Landesbank Girozentrale - 2009A COP	<u>7,422,965</u>	August 1, 2016
Total Fair Value of Investments Held by Fiscal Agents	<u><b>\$ 32,969,813</b></u>	

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

### Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

OCSD's investments (including investments held by trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above):

- Mortgage-backed securities: These securities are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities, making them highly sensitive to change in interest rates. At fiscal year end, the fair value of investments in mortgage-backed securities totaled \$7,100,920 including \$4,252,799 of mortgage pass-through securities, \$2,533,948 of U.S. agency securities, and \$314,173 of U.S. government backed mortgage pools.

### Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following table presents the minimum rating as required by the California Government Code, OCSD's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Investment Type and the Lowest Rating Reported at Year End	Fair Value	
Investments with no legal minimum rating & no required disclosure:		
U.S. Treasury Obligations	\$ 190,368,531	
U.S. Govt. Backed Mortgage Pools (GNMA)	314,173	
Subtotal		\$ 190,682,704
Investments with no legal minimum rating:		
U.S. Agency Securities (other than GNMA):		
Rating of AA+ (Standard & Poor's)	118,209,845	
Municipal Bonds:		
Rating of Aaa (Moody's)	1,367,808	
Rating of Aa1 (Moody's)	1,497,902	
Rating of Aa3 (Moody's)	5,854,813	
Rating of A3 (Moody's)	1,271,116	
Local Agency Investment Fund (LAIF):		
Not rated	65,848,392	
Investments with fiscal agents - Guaranteed Investment Contracts:		
Rating of A3 (Moody's)	7,422,965	
Rating of A2 (Moody's)	9,518,000	
Subtotal		210,990,841
Investments with a legal minimum rating (or its equivalent) of A:		
Corporate Medium-Term Notes:		
Rating of Aaa (Moody's)	13,027,260	
Rating of AA (Standard & Poor's)	3,982,880	
Rating of P-1 (Moody's)	8,491,642	
Rating of AA- (Standard & Poor's)	6,801,651	
Rating of A1 (Moody's)	15,986,350	
Rating of F1 (Fitch)	7,479,020	
Rating of A (Fitch)	8,803,442	
Rating of A2 (Moody's)	23,052,613	
Rating of A3(Moody's)*	12,734,713	
Rating of Baa1 (Moody's)*	8,556,724	
Rating of BBB+ (Standard & Poor's)*	3,288,890	
Rating of BBB (Fitch)*	1,344,915	
Not rated	280,750	
Money Market Mutual Funds:		
Rating of Aaa (Moody's)	3,980,366	
Not rated	44,283	
Invested with fiscal agents:		
Rating of Aaa-mf (Moody's)	46,135	
Rating of P-1 (Moody's)	64,741	
Subtotal		117,966,375
Investments with a legal minimum rating (or its equivalent) of AA:		
Mortgage Pass-Through Securities/CMO/Asset-Backed Securities:		
Rating of AAA (Standard & Poor's)	29,544,678	
Rating of AA+ (Standard & Poor's)	4,054,611	
Rating of A (Fitch)*	122,566	
Rating of BBB (Fitch)*	123,537	
Subtotal		33,845,392
Total		\$ 553,485,312

\* Investment was in compliance with legal requirements at the time it was purchased.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

### Concentration of Credit Risk

Limitations on the amount that OCSD is allowed to invest in any one issuer have been identified previously in the section "Investments Authorized by the California Government Code and OCSD's Investment Policy" and in the section "Investments Authorized by Debt Covenant Agreements." OCSD follows whichever guideline is the most restrictive.

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and OCSD's investment policy contain legal requirements that limit the exposure to custodial credit risk for deposits as follows: a financial institution must secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and OCSD's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of June 30, 2015, in accordance with OCSD's investment policy, none of OCSD's investments were held with a counterparty. All of OCSD's investments were held with an independent third party custodian bank registered in the name of OCSD. OCSD uses Bank of New York (BNY) Mellon as a third party custody and safekeeping service for its investment securities.

### Investment in State Investment Pool

OCSD is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of OCSD's investment in this pool is reported in the accompanying financial statements at amounts based upon OCSD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. The amounts invested in LAIF are recorded as cash and cash equivalents at June 30, 2015.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2015 is as follows:

	Balance at June 30, 2014	Additions / Transfers	Deletions / Transfers	Balance at June 30, 2015
Capital assets not depreciated:				
Cost:				
Land	\$ 15,959,559	\$ -	\$ -	\$ 15,959,559
Construction in progress	258,018,939	182,604,773	(48,414,487)	392,209,225
Total nondepreciable assets	<u>273,978,498</u>	<u>182,604,773</u>	<u>(48,414,487)</u>	<u>408,168,784</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	753,136,534	6,878,386	(1,856,818)	758,158,102
Sewage treatment facilities	2,220,814,179	35,242,665	(279,230)	2,255,777,614
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	224,717,092	3,683,995	(455,617)	227,945,470
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>3,319,124,861</u>	<u>45,805,046</u>	<u>(2,591,665)</u>	<u>3,362,338,242</u>
Accumulated depreciation:				
Sewage collection facilities	(299,312,573)	(17,690,007)	1,027,810	(315,974,770)
Sewage treatment facilities	(652,473,888)	(66,717,494)	273,917	(718,917,465)
Effluent disposal facilities	(57,700,939)	(1,588,008)	-	(59,288,947)
Solids disposal facilities	(3,136,816)	(9,718)	-	(3,146,534)
General and administrative facilities	(142,058,469)	(7,522,603)	455,617	(149,125,455)
Excess purchase price over book value on acquired assets	(18,415,852)	(657,709)	-	(19,073,561)
Subtotal	<u>(1,173,098,537)</u>	<u>(94,185,539)</u>	<u>1,757,344</u>	<u>(1,265,526,732)</u>
Net depreciable assets	<u>2,146,026,324</u>	<u>(48,380,493)</u>	<u>(834,321)</u>	<u>2,096,811,510</u>
Net capital assets	<u>\$ 2,420,004,822</u>	<u>\$ 134,224,280</u>	<u>\$ (49,248,808)</u>	<u>\$ 2,504,980,294</u>

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

**(4) Long-Term Liabilities**

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2015:

	Balance, July 1	Additions	Deletions	Balance, June 30	Due within one year	Long-term amount
Arbitrage Payable	\$ 209,762	\$ 65,186	\$ -	\$ 274,948	\$ -	\$ 274,948
Compensated Absences	7,351,775	6,877,809	(6,866,982)	7,362,602	6,751,872	610,730
Claims and Judgments	1,896,152	1,286,106	(631,661)	2,550,597	467,110	2,083,487
Certificates of Participation, Revenue Obligations & Notes	1,233,325,000	333,450,000	(404,420,000)	1,162,355,000	29,405,000	1,132,950,000
Unamortized Premium (Discount)	45,673,124	55,389,964	(22,277,731)	78,785,357	12,410,203	66,375,154
Net Pension Obligation - ARBA	9,263,773	1,076,672	(500,640)	9,839,805	-	9,839,805
<b>Totals</b>	<b>\$ 1,297,719,586</b>	<b>\$ 398,145,737</b>	<b>\$ (434,697,014)</b>	<b>\$ 1,261,168,309</b>	<b>\$ 49,034,185</b>	<b>\$ 1,212,134,124</b>

**Arbitrage Payable**

The Tax Reform Act of 1986 (the Act) requires OCSD to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of OCSD's debt and interest earnings on the proceeds thereof are subject to the requirements of the Act. OCSD's liability at June 30, 2015 is \$274,948.

**Compensated Absences**

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2015 is \$7,362,602 with an estimated \$6,751,872 to be paid or used within the next fiscal year.

**Claims and Judgments Payable**

OCSD is self-insured in a number of areas as described in Note 1. The following is a summary of the change in claims and judgments payable for the years ended June 30, 2015 and 2014:

	2014-15	2013-14
Claims and judgments payable at July 1	\$1,896,152	\$1,578,036
Claims incurred during the fiscal year	1,286,106	989,463
Payments on claims during the fiscal year	(631,661)	(671,347)
Claims and judgments payable at June 30	2,550,597	1,896,152
Less: current portion	(467,110)	(423,590)
<b>Total long-term claims and judgments payable</b>	<b>\$2,083,487</b>	<b>\$1,472,562</b>

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Certificates of Participation/ Revenue Obligations and Notes

OCSD issues certificates of participation, revenue obligations and notes in order to finance construction of the treatment facilities. Each issuance represents a direct and proportionate interest in the semi-annual interest payments. Installment payments for the issues are payable from any source of lawfully available funds of OCSD. Certificates of participation, revenue obligations, and notes at June 30, 2015 are summarized as follows:

	Amount
2007A refunding certificates of participation	\$ 92,140,000
2007B certificates of participation	13,885,000
2008B refunding certificates of participation	17,315,000
2009A certificates of participation	180,235,000
2010A wastewater revenue obligations	80,000,000
2010C wastewater revenue obligations	157,000,000
2011A wastewater refunding revenue obligations	121,290,000
2012A wastewater refunding revenue obligations	100,645,000
2012B wastewater refunding revenue obligations	66,395,000
2014A wastewater refunding revenue obligations	85,090,000
2014B revenue refunding certificate anticipation notes	120,850,000
2015A wastewater refunding revenue obligations	127,510,000
Total certificates of participation, revenue obligations, and notes	<u>\$1,162,355,000</u>

Outstanding Certificates of Participation / Revenue Obligations and Notes

All of the outstanding debt of OCSD is senior lien debt with rate covenants that require a minimum coverage ratio of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2015, the coverage ratio for senior lien debt was 3.04.

May 2007 Refunding Certificates of Participation, Series 2007A

On May 22, 2007, OCSD completed the sale of \$95,180,000 of refunding certificates of participation. The certificates were issued to refund \$88,500,000 of the outstanding principal balance of the 2003 Series certificates of participation. The interest rate on the refunding certificates is fixed and will range from 4.00 percent to 4.5 percent. Annual principal payments are due on February 1, beginning February 1, 2008 through February 1, 2030.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2015 reserve of \$9,518,001 is held by Union Bank, the trustee, and meets the reserve requirement.

December 2007 Certificates of Participation, Series 2007B

On December 20, 2007, OCSD completed the sale of \$300,000,000 of certificates of participation. The certificates were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The interest rate on the refunding certificates is fixed and will range from 4.00 percent to 5.25 percent. Annual principal payments are due on February 1, beginning February 1, 2008 through February 1, 2017.

## ORANGE COUNTY SANITATION DISTRICT

### Notes to Basic Financial Statements

For the Year Ended June 30, 2015

On August 7, 2014, \$93,930,000 of the outstanding principal balance of the 2007 Series B certificates was advance-refunded with the proceeds of the August 7, 2014 wastewater refunding revenue obligations Series 2014A (see below) in a transaction accounted for as an in-substance defeasance. These funds are held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2015, this \$93,930,000 represents the amount still outstanding on bonds considered defeased.

On February 12, 2015, \$152,990,000 of the outstanding principal balance of the 2007 Series B certificates was advance-refunded with the proceeds of the February 12, 2015 wastewater refunding revenue obligations Series 2015A (see below) in a transaction accounted for as an in-substance defeasance. These funds are held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2015, this \$127,500,000 represents the amount still outstanding on bonds considered defeased.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2015 reserve of \$7,491,808 is held by Union Bank, the trustee, and meets the reserve requirement.

#### September 2008 Refunding Certificates of Participation, Series 2008B

On September 11, 2008, OCSD completed the sale of \$27,800,000 of refunding certificates of participation. The certificates were issued to refund the \$26,900,000 outstanding principal balance of the 1993 Series certificates of participation. The interest rate on the refunding certificates is fixed and will range from 2.80 percent to 3.0 percent. Annual principal payments are due on August 1, beginning August 1, 2009 through August 1, 2016.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2015 reserve of \$2,781,783 is held by US Bank, the trustee, and meets the reserve requirement.

#### May 2009 Certificates of Participation, Series 2009A

On May 7, 2009, OCSD completed the sale of \$200,000,000 of certificates of participation. The certificates were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The interest rate on the certificates is fixed and will range from 3.00 percent to 5.00 percent. Annual principal payments are due on February 1, beginning February 1, 2010 through February 1, 2039.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2015 reserve of \$13,118,559 is held by US Bank, the trustee, and meets the reserve requirement.

#### May 2010 Wastewater Revenue Obligations, Series 2010A

On May 18, 2010, OCSD completed the sale of \$80,000,000 of wastewater revenue obligations under the federally taxable Build America Bonds program. The obligations were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The stated interest rate on the obligations is fixed and will range from 5.56 percent to 5.58 percent, however, in accordance with their designation as Build America Bonds, OCSD expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable with respect to these revenue obligations. The expected net interest rate on the obligations is fixed and will range

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

from 3.614 percent to 3.627 percent. Annual principal payments are due on February 1, beginning February 1, 2034 through February 1, 2040.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

December 2010 Wastewater Revenue Obligations, Series 2010C

On December 8, 2010, OCSD completed the sale of \$157,000,000 of wastewater revenue obligations under the federally taxable Build America Bonds program. The obligations were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The stated interest rate on the obligations is fixed and will range from 6.35 percent to 6.40 percent, however, in accordance with their designation as Build America Bonds, OCSD expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable with respect to these revenue obligations. The expected net interest rate on the obligations is fixed and will range from 4.1275 percent to 4.16 percent. Annual principal payments are due on February 1, beginning February 1, 2031 through February 1, 2044.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

October 2011 Wastewater Refunding Revenue Obligations, Series 2011A

On October 3, 2011, OCSD completed the sale of \$147,595,000 of wastewater refunding revenue obligations. The obligations were issued to refund \$89,800,000 of the outstanding principal balance of 2000 Series A and B refunding certificates of participation, and \$83,320,000 of the outstanding principal balance of 2003 certificates of participation. The stated interest rate on the obligations is fixed and will range from 3 percent to 5 percent. Annual principal payments are due on August 1 and February 1, beginning August 1, 2012 through February 1, 2026.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

March 2012 Wastewater Refunding Revenue Obligations, Series 2012A

On March 22, 2012, OCSD completed the sale of \$100,645,000 of wastewater refunding revenue obligations. The obligations were issued to refund the \$108,180,000 outstanding principal balance of the 2003 certificates of participation. The stated interest rate on the obligations is fixed and will range from 3 percent to 4 percent. Annual principal payments are due on February 1, beginning February 1, 2031 through February 1, 2033.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

August 2012 Wastewater Refunding Revenue Obligations, Series 2012B

On August 16, 2012, OCSD completed the sale of \$66,395,000 of wastewater refunding revenue obligations. The obligations were issued to refund the remaining \$91,900,000 outstanding principal balance of the Series 2000A and 2000B refunding certificates of participation. The stated interest rate on the obligations is fixed and will range from 3 to 5 percent. Annual principal payments are due on February 1, beginning February 1, 2019 through February 1, 2026.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The trust agreement for the revenue obligations does not require the establishment of a reserve.

### August 2014 Wastewater Refunding Revenue Obligations, Series 2014A

On August 7, 2014, OCSD completed the sale of \$85,090,000 of wastewater refunding revenue obligations. The obligations were issued to refund \$93,930,000 of the outstanding principal balance of 2007 Series B certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2018 through February 1, 2027.

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$8.2 million. The total future payments for the new debt provide a net present value gain of approximately \$8.4 million to refund the old debt.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

### October 2014 Revenue Refunding Certificate Anticipation Notes, Series 2014B

On October 8, 2014, OCSD completed the sale of \$120,850,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$129,625,000 outstanding principal balance of the 2013 Series A revenue refunding certificate anticipation notes. The interest rate on the notes is fixed at 4 percent. The notes will mature on November 15, 2016. OCSD expects the principal and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$15,000. The total future payments for the new debt provide a net present value loss of approximately \$545,000 to refund the old debt.

The trust agreement for the certificates does not require the establishment of a reserve.

### February 2015 Wastewater Refunding Revenue Obligations, Series 2015A

On February 12, 2015, OCSD completed the sale of \$127,510,000 of wastewater refunding revenue obligations. The obligations were issued to refund \$152,990,000 of the outstanding principal balance of 2007 Series B certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2028 through February 1, 2037.

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$21.2 million. The total future payments for the new debt provide a net present value gain of approximately \$25.4 million to refund the old debt.

The trust agreement for the revenue obligations does not require the establishment of a reserve.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation, revenue obligations, and anticipation notes as of June 30, 2015, including the Revenue Refunding Certificate Anticipation Notes, Series 2014B that currently matures in November 2016, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Estimated Interest</u>	<u>Total</u>
2016	\$ 29,405,000	\$ 51,053,577	\$ 80,458,577
2017	156,425,000	47,462,230	203,887,230
2018	32,415,000	43,516,863	75,931,863
2019	31,940,000	42,422,696	74,362,696
2020	33,535,000	40,828,380	74,363,380
2021-2025	160,775,000	180,176,686	340,951,686
2026-2030	207,115,000	138,507,339	345,622,339
2031-2035	267,635,000	86,881,554	354,516,554
2036-2040	197,600,000	31,788,755	229,388,755
2041-2045	45,510,000	3,534,752	49,044,752
Total	<u>\$1,162,355,000</u>	<u>\$ 666,172,832</u>	<u>\$ 1,828,527,832</u>

(5) Pension Benefits

OCSD has two pension plans for retirees: a defined benefit pension plan maintained through and by the Orange County Employees' Retirement System (OCERS) and the Additional Retiree Benefit Account (ARBA) administered directly by OCSD.

Pension Plan

(A) General Information about the Pension Plan

Plan Description:

All qualified permanent and probationary employees are eligible to participate in OCSD's Employee Pension Plan (Plan), which is a cost-sharing multiple employer defined benefit pension plan administered by the Orange County Employees Retirement System (OCERS). OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937 (CERL). The Plan operates under the provisions of the California County Employees' Retirement Law of 1937 (CERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by OCERS' Board of Retirement. The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA and may be amended by the California state legislature. The Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code

Benefits Provided:

OCERS provides service retirement, disability, death and survivor benefits to plan members who may be public employees or beneficiaries. The CERL and PEPRA establish benefit terms. Benefits are based on years of credited service equal to one year of full time employment. Members of plans B, G and H with ten years of service credit are entitled to receive a retirement allowance beginning at age 50; members of plan U with 5 years of service are eligible to receive a retirement allowance at age 52. Members attaining age 70 are eligible to retire regardless of credited service.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

Benefits are determined by plan formula, age, years of service and final average salary as follows:

	Plan G	Plan H	Plan B	Plan U
Hire Date	Prior to 9/21/79	After 9/21/79 Prof/Sup*: Before 10/1/10 OCEA*: Before 8/1/11 501*: Before 7/1/11	Prof/Sup: After 10/1/10 OCEA: After 8/1/11 501: After 7/1/11 All: Before 1/1/2013	On or after 1/1/2013
Final Average Compensation (FAS)	Highest 12 months	Highest 36 months	Highest 36 months	Highest 36 months
Normal Retirement Age	Age 55	Age 55	Age 57.5	Age 67
Service Requirement Eligibility	Age 70, any years Age 50, 10 years	Age 70, any years Age 50, 10 years	Age 70, any years Age 50, 10 years	Age 70, any years Age 52, 5 years
Benefit percent per year of service for normal retirement age	2.5% per year of FAS for every year of service credit	2.5% per year of FAS for every year of service credit	1.667% per year of FAS for every year of service credit	2.5% per year of FAS for every year of service credit
Benefit Adjustments	Reduced before age 55	Reduced before age 55	Reduced before age 57.5	Reduced before age 67
FAS Limitation	Internal Revenue Code Section 401(a)(17)	Internal Revenue Code Section 401(a)(17)	Internal Revenue Code Section 401(a)(17)	Public Employees Pension Reform Act (PEPRA): 120% of Social Security wage base per year

\* Prof/Sup: Professional and Supervisor employee groups, bargaining unit SPMG.

\* OCEA: Administrative, Clerical, Engineering, and Technical Services employee groups, bargaining unit OCEA.

\* 501: Operations and Maintenance employee groups, bargaining unit International Union of Operating Engineers Local 501

A cost of living adjustment is provided to benefit recipients based on changes in the Consumer Price Index (CPI) up to a maximum of 3% per year. Any increase greater than 3% is banked and may be used in years when the CPI is less than 3%. The increase is established and approved annually by the Board of Retirement.

The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retirees the death benefit is determined by the retirement benefit option chosen. For all other members the beneficiary is entitled to benefits based on the member's years of service and whether or not the cause of death is service related.

**(B) Contributions:**

Participating employers and active members are required by statute to contribute a percentage of covered salary to the Plan. Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and be effective on the July 1 following notice of a change in rate. Funding contributions are determined annually on an actuarial basis as of December 31 by OCERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Contributions to the Plan from OCSD were \$17,201,569 for the year ended June 30, 2015. An additional \$125,000,000 was contributed to pay down OCSD's Net Pension Liability.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

Contribution rates in effect for the fiscal year ended June 30, 2015 are as follows:

	Plan G	Plan H	Plan B	Plan U
Employer Contribution Rate, 7/1/14 - 12/31/14	36.57%	36.57%	34.87%	33.52%
Employer Contribution Rate, 1/1/15 - 6/30/15	22.56%	22.56%	20.86%	19.51%
Employee Contribution Rate, 7/1/14 - 6/30/15 (2)	7.07-12.53% (1)	6.60-12.53% (1)	7.44-12.69%	7.00-12.75%
Paid by Employer for Employee	3.50%	3.50%	0.00%	0.00%

(1) Net of employer paid portion of 3.5%

(2) Employee rates are determined by the age of entry into the retirement system.

(C) Pension Liabilities:

As of June 30, 2015, OCSD reported net pension liability of \$57,418,760 for its proportionate share of OCERS' net pension liability. The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OCSD's proportion of the net pension liability was based on a projection of OCSD's long-term share of contributions to the pension plan relative to the projected contribution of all participating employers, actuarially determined.

At December 31, 2014, OCSD's proportion of the net pension liability was 1.130%, which was a decrease of 2.702% from its proportion measured as of December 31, 2013. The change in OCSD's proportion of the net pension liability during the fiscal year ended June 30, 2015 was caused by the contributions and projections noted above and an additional contribution of \$125,000,000 in November 2014 by OCSD to the plan.

(D) Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2015, OCSD recognized pension expense of \$17,945,082 for its proportionate share of the pension expense. At June 30, 2015 OCSD reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 14,245,757
Net difference between projected and actual investment earnings on pension plan investments	5,699,846	-
Changes of Assumptions (1)	-	10,994,683
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	265,244
Employer contributions paid to OCERS subsequent to the measurement date	16,893,100	-
<b>Total</b>	<b>\$ 22,592,946</b>	<b>\$ 25,505,684</b>

(1) The monetary effects of changes in actuarial assumptions and method totals \$10,994,683. These changes include:

- adjustments to the mortality tables (a setback of 3 years),
- a change to the retirement assumptions for deferred vested members (age at retirement from 58 to 57, increase of 5% in reciprocity, and an increase in compensation increases),
- an increase of 5% in the rate of marriage for male members at retirement or pre-retirement death,
- an increase in the Consumer Price Index from 3.0% to 3.5%, although the maximum increase is 3%,
- and a slight increase in salaries for employees with greater than 15 years of service.

Detail for these changes is available in the Segal Actuarial Valuation for December 31, 2014, Section 3. This report is available on the OCERS website at [www.ocers.org](http://www.ocers.org).

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The amount \$16,893,100 reported as deferred outflows of resources related to pensions resulting from OCSD's contributions to OCERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OCERS pensions will be recognized in pension expense as follows:

Year ended June 30	Amount
2016	\$ (3,498,917)
2017	(3,498,917)
2018	(3,498,917)
2019	(3,498,916)
2020	(4,923,878)
2021	(886,293)
Thereafter	-

(E) Actuarial Assumptions and Methods:

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.25% of net pension plan investment expenses, including inflation
Inflation rate	3.00%
Projected salary increases	4.25% to 13.5%
Cost of living adjustment	3.0% of retirement income

The mortality assumptions used in the total pension liability at December 31, 2014 were based on the RP-2000 Combined Healthy Mortality Table projected with the Society of Actuaries Scale BB to 2020. For healthy general members, no adjustments are made. For disabled general members the ages are set forward six years for males and three years for females. The basis for determining the mortality assumptions used were based on the results of the actuarial experience study for the period January 1, 2011 through December 31, 2013.

Further details of the Experience Study can be found in the OCERS CAFR, available on their website at [www.ocers.org](http://www.ocers.org).

(F) Long-Term Expected Real Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and deducting expected investment expenses.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table for the calendar year ended December 31, 2014:

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

Asset Class	Target Allocation	Weighted Average Long- Term Expected Real Rate of Return (Arithmetic)
Large Cap U.A. Equity	14.90%	5.92%
Small/Mid Cap US Equity	2.73%	6.49%
Developed International Equity	10.88%	6.90%
Emerging International Equity	6.49%	8.34%
Core Bonds	10.00%	0.73%
Global Bonds	2.00%	0.30%
Emerging Markets Debt	3.00%	4.00%
Real Estate	10.00%	4.96%
Diversified Credit (US Credit)	8.00%	4.97%
Diversified Credit (Non-US Credit)	2.00%	6.76%
Hedge Funds	7.00%	4.13%
Global Tactical Asset Allocation	7.00%	4.22%
Real Return	10.00%	5.86%
Private Equity	<u>6.00%</u>	9.60%
Total	<u>100.00%</u>	

(G) Discount Rate:

The discount rate used to measure the total pension liability was 7.25% for the year ended December 31, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2014.

(H) Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate:

The following table represents OCSD's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what OCSD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability	\$ 134,934,012	\$ 57,418,760	\$ (6,317,778)

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

(I) Pension Plan Fiduciary Net position:

Detailed information about OCERS' fiduciary net position is available in a separately issued OCERS comprehensive annual financial report. That report may be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92708 or at their web site ([www.ocers.org](http://www.ocers.org)).

Additional Retiree Benefit Account (ARBA)

The OCSD ARBA plan is a single-employer defined benefit plan which was administered by OCERS until February 29, 2008, when OCSD began direct administration. This benefit was established by the OCSD Board of Directors on October 25, 1992. It provides a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OCSD medical plan. The plan is currently paying benefits to 237 retirees. The ARBA plan is not subject to the reporting requirements of GASB 68 and 71 because a trust has not been set up for the plan. The plan is a funded on a pay-as-you-go plan from general funds and is administered by OCSD. The stand-alone financial statements are not issued for the plan.

*Benefits:* Employees who retire receive \$10 per month for every year of service up to a maximum of 25 years, or \$250 per month. This amount is independent of salary and is fixed at retirement. Because OCSD cannot ensure the use of the benefit for payment of eligible health insurance expenses, the benefit is taxable to the retiree. Survivor benefits are provided in the event that a retiree pre-deceases his/her spouse. For retirees hired prior to July 1, 1988, OCSD provides health insurance coverage for 2½ months per year of service (see Note 6 – Other Postemployment Benefits). ARBA benefits begin immediately after this benefit ends. For those hired on or after July 1, 1988, ARBA benefits begin immediately upon retirement and continue for life. Employees hired into the OCEA bargaining group after August 1, 2011 are ineligible for this benefit.

*Funding:* There are no employee contributions for this plan; OCSD covers 100% of the cost. An actuarial evaluation was performed as of July 1, 2013, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 4.0% per year and an inflation rate of 2.5% were used; no salary adjustment was used due to the flat dollar nature of the benefit. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan.

*Trend Information and Funding Progress:* Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. OCSD's trend information follows.

Fiscal Year Ended	Annual Pension Cost		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/13	969,200	43.5%	8,629,918
6/30/14	1,087,975	41.7%	9,263,773
6/30/15	1,076,672	46.5%	9,839,805

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The annual pension cost and net pension obligation for the years ended June 30, 2013, 2014 and 2015 were as follows:

	For the Fiscal Year Ended		
	June 30, 2013	June 30, 2014	June 30, 2015
Annual required contribution	\$ 1,090,849	\$ 1,241,847	\$ 1,241,847
Interest on net pension obligation	404,118	345,197	370,551
Adjustment to annual required contribution	(525,767)	(499,069)	(535,726)
Annual pension cost	969,200	1,087,975	1,076,672
Contributions made	(421,650)	(454,120)	(500,640)
Increase in net pension obligation	547,550	633,855	576,032
Net pension obligation, beginning of year	8,082,368	8,629,918	9,263,773
Net pension obligation, end of year	\$ 8,629,918	\$ 9,263,773	\$ 9,839,805

The net pension obligation is reported in the noncurrent portion of long-term obligations on the Statement of Net Position.

(6) Other Postemployment Benefits

OCSD offers medical insurance to active and retired employees, as well as their qualified dependents. This is a single-employer defined benefit plan administered by OCSD. All retirees may choose coverage in an OCSD medical plan, with retirees paying the full premium. However, for employees hired prior to July 1, 1988, medical benefits begin immediately at retirement with OCSD paying 2.5 months of premium for each year of continuous service toward the cost of coverage under OCSD medical plans. At the termination of this period the retiree may elect to continue coverage at his/her own expense. This plan was established and may be modified only by action of the OCSD Board of Directors. The stand-alone financial statements are not issued.

As of the date of the latest actuarial valuation (7/1/13), there were 593 active employees, 58 retirees paying premiums, and 71 retirees whose premium is fully paid by OCSD. For the fiscal year ended June 30, 2015, premiums ranged between \$183 and \$3,487 per month, depending on the plan and number of dependents covered.

*Funding Policy:* There are no employee contributions to this plan; OCSD covers 100% of the cost for qualifying employees as stated above. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom OCSD pays for a period (see above). An actuarial evaluation was performed as of July 1, 2013, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date, assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 4.0% per year was used. The rate of increase for healthcare premium was set at 8.0%. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan. For fiscal year 2014-15, OCSD contributed \$1,072,644 and retirees contributed \$576,984 to cover current year expenses.

*Annual OPEB Cost and Net OPEB Obligation / (Asset):* The annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the unfunded actuarial liabilities over 30 years.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

The following OPEB cost and net OPEB obligation/(asset) was determined for the years ended June 30, 2013, 2014, and 2015:

	For the Fiscal Year Ended		
	June 30, 2013	June 30, 2014	June 30, 2015
Annual required contribution	\$ 900,035	\$ 755,078	\$ 755,078
Interest on net OPEB obligation	39,260	23,356	8,185
Adjustment to annual required contribution	(51,078)	(33,767)	(11,833)
Annual OPEB cost	888,217	744,667	751,430
Contributions made	(1,089,516)	(1,123,961)	(1,072,644)
Increase (decrease) in net OPEB obligation	(201,299)	(379,294)	(321,214)
Net OPEB obligation, beginning of year	785,207	583,908	204,614
Net OPEB obligation/(asset), end of year	<u>\$ 583,908</u>	<u>\$ 204,614</u>	<u>\$ (116,600)</u>

OCSD's annual OPEB cost contributed and the net OPEB obligation/(asset) for the years ended June 30, 2013, 2014, and 2015 are shown in the following table.

Fiscal Year Ended	Annual OPEB Cost			Net OPEB Obligation/(Asset)
	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	
6/30/13	888,217	1,089,516	122.7%	583,908
6/30/14	744,667	1,123,961	150.9%	204,614
6/30/15	751,430	1,072,644	142.7%	(116,600)

The net OPEB asset is reported in the noncurrent portion of assets on the Statement of Net Position.

*Actuarial methods and assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The ARC for the current year was determined as part of the July 1, 2013 actuarial valuation using the Projected Unit Credit cost method. The actuarial assumptions include a 4.0% investment rate of return, an annual rate of inflation of 2.5%, and an annual healthcare cost trend rate of 8.0%. The UAAL is being amortized ratably over 30 years. Inflation assumptions are included as part of the healthcare cost trend. No benefit increase is anticipated and the benefit is unaffected by changes in salary.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

(7) Transactions with Irvine Ranch Water District – Revenue Area No. 14

Formation of Revenue Area No. 14 & Excess Purchase Price Over Book Value of Acquired Assets

On July 1, 1985, Revenue Area No. 14 was formed as an independent special district as a result of a negotiated agreement between OCSD and Irvine Ranch Water District (IRWD). At the time of Revenue Area 14's creation, OCSD consisted of eight independent special districts (see Note 1 – Reporting Entity). The eight existing districts sold a portion of the joint treatment facilities and land to the newly created district and recorded capacity rights revenue at the time of the sale.

In accordance with the negotiated agreement between OCSD and IRWD, IRWD paid OCSD \$34,532,000 for an initial 15,000,000 gallons per day capacity in OCSD's joint treatment facilities (with an ultimate collection capacity of 32,000,000 gallons per day) and for a pro-rata interest in real property (based on flow of 32,000,000 gallons per day). The book value of the assets acquired was determined to be \$14,553,000 as of June 30, 1986; these assets were recorded at book value in Revenue Area 14. The excess of the purchase price over the assets' book value was \$19,979,000 and was recorded as an intangible asset in Revenue Area 14. The excess of the purchase price over the assets' book value is being amortized over the remainder of the useful lives of the original assets acquired. As of June 30, 2015, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$905,439.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 on January 1, 1986 whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, for which contributions of \$3,168,402 were recorded during the fiscal year ended June 30, 2015. IRWD also agreed to fund the annual integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD. Integration contributions of \$5,386,575 to Revenue Area 14 were recognized and reported as contributions from other government during the fiscal year ended June 30, 2015. This amount included an integration contributions adjustment of \$7,663,397 from a true-up of estimated flow calculation of the Irvine Business Complex area resulting in a reduction of due to other governmental agency. These capital contributions received from or credited to IRWD for their agreed-upon share of capital assets and equity share in OCSD's Joint Works Treatment Facilities are calculated as prescribed in the agreements.

In addition, a separate agreement for transfer of IRWD's wastewater solids residuals to OCSD was entered on April 28, 2010. IRWD agreed to pay OCSD a charge for interim solids handling charge which include annual capital and quarterly operating expense components designed to compensate OCSD for IRWD's share of the cost of operating and maintaining the existing facilities for the treatment of solids. As a result, \$308,449 in annual solids capital handling charges were reported as operating revenue in Consolidated Revenue Area, and \$7,929,083 in solids quarterly operating and maintenance charges were reported as operating revenue in Revenue Area No. 14 during the fiscal year ended June 30, 2015.

Any amounts credited to IRWD are not refunded in cash but are held as a credit to satisfy future contributions required of IRWD resulting in a balance due to other governmental agency of \$2,869,329 as of June 30, 2015.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2015

### Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2015; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$9.3 million. This cash reserve requirement is recognized as a liability to IRWD.

### (8) Commitments, Due From Other Governmental Agency, and Contingencies

Relocation of the Santa Ana Regional Interceptor: On June 29, 2010, OCSD entered into an agreement to lend the Orange County Flood Control District (OCFCD) 60 percent of the amount of the contract awarded to design and construct the relocation of the Santa Ana Regional Interceptor, but not to exceed \$72 million. On December 18, 2012, a new agreement was executed that superseded the prior agreement and reduced OCSD's maximum loan obligation to \$59,036,400 based on lower than expected construction costs. OCFCD agrees to repay the loan from any subvention funds received by OCFCD, with the total balance repaid by no later than July 1, 2022. Repayment installments will be made within 30 days equal to 60 percent of any subvention funds received by OCFCD. Interest shall accrue on the unpaid balance from July 1, 2018 at an annual interest rate of two percent until the unpaid balance has been repaid. During the fiscal year ended June 30, 2015, OCSD received loan repayments totaling \$9,542,217, leaving an outstanding loan receivable balance of \$31,080,935.

Local Sewer Facilities Transfer: On February 27, 2014, OCSD entered into an agreement to transfer 174 linear miles of local sewer facilities in the unincorporated area of Area 7 and in the City of Tustin, to East Orange County Water District (EOCWD). The transfer is contingent upon receiving Orange County Local Agency Formation Commission (OC LAFCO) approval of EOCWD's request to activate EOCWD's latent powers to provide wastewater services and to slightly adjust EOCWD's boundary, solely for local sewer service, which is not currently within EOCWD's water service area.

The agreement was amended on April 22, 2015 to extend the timeframes and term of the original agreement, to provide for a single disbursement of accumulated capital repair and replacement funds, and to prohibit the diversion of wastewater flows away from OCSD. If approved by OC LAFCO, the proposed transfer may then proceed. In addition to the transfer of the sewer facilities, the amended agreement provides for the one-time transfer of \$25,000,000 of accumulated capital repair and replacement reserve funds from OCSD to EOCWD payable within five days following OC LAFCO's approval of EOCWD's request. As of June 30, 2015, no transactions have occurred.

Pollution Remediation: An Underground Storage Tank (UST) at Plant No. 1 failed the pressure test to ensure its tank integrity. As a result of the test failure, OCSD voluntarily took this UST out of service and tested the immediate surrounding area and determined that both gasoline and diesel were present. During the fiscal year ended June 30, 2015, OCSD approved the initiation of a project to develop a remediation plan for the contaminated soil. No liability has been recorded as of June 30, 2015, because the cost to complete the pollution remediation cannot be estimated at this time.

Litigation: Certain claims involving disputed construction costs have arisen in the ordinary course of business. Additionally, OCSD is a defendant in lawsuits. Although the outcome of these matters is not presently determinable, management does not expect that the resolution of these matters will have a material adverse impact on the financial condition of OCSD.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2015

(9) Restatement- Adoption of New Accounting Standard

During the year ended June 30, 2015, OCSD implemented GASB Statements Nos. 68 and 71. The implementation of GASB Statement No. 68 required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources and unfunded pension obligations related to pensions for its proportionate share of collective pension expenses and collective deferred outflows and inflows for resources. The net position was not restated for deferred inflows and deferred outflows because they were not determinable at the time of implementation of GASB 68 and 71. The retroactive effect of implementing this change in reporting pension costs resulted in a restatement of the beginning net position. The following is a summary of the effect of this adjustment:

Beginning net position as previously reported at June 30, 2014	\$1,822,294,724
Net pension liability (measurement date as of December 31, 2014)	(202,747,516)
Deferred outflows of net pension liability - District contributions made during January through June 2014	<u>8,246,101</u>
Total adjustment	<u>(194,501,415)</u>
Net position as restated, July 1, 2014	<u>\$1,627,793,309</u>

An amount of \$6,029,544 represents Revenue Area 14's proportionate share of the restatement of the beginning net position and is included in the total restatement at June 30, 2015. The amount is calculated based on Revenue Area 14's average proportionate share of the total salaries and benefits costs over a 15 years period.

(10) Subsequent Events

In May 2015, the OCSD Board of Directors approved the pay down on OCSD's unfunded actuarial accrued liability within the Orange County Employee's Retirement System (OCERS) in the amount of \$50 million. This payment was made on September 3, 2015.

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**ORANGE COUNTY SANITATION DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY SANITATION DISTRICT**  
 Proportionate Share of the Net Pension Liability  
 OCERS Pension Plan  
 Last 10 fiscal Years (1)

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
District's proportion of the net pension liability	3.83%	1.13%
District's proportionate share of the net pension liability	\$ 202,747,516	\$ 57,418,760
District's covered-employee payroll	\$ 60,856,218	\$ 61,295,869
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	333.16%	93.67%
OCERS' fiduciary net position as a percentage of the total pension liability	63.14%	89.61%

(1) The amounts presented for each fiscal year were determined as of December 31. Data for fiscal years ended June 30, 2006 through 2013 is not available in a comparable format.

**ORANGE COUNTY SANITATION DISTRICT**

Schedule of District Contributions

OCERS Pension Plan

Last 10 fiscal Years (1)

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 18,920,212	\$ 17,201,569
Contributions in relation to the contractually required contribution	<u>\$ (18,920,212)</u>	<u>\$ (17,201,569)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 60,856,218	\$ 61,295,869
Contributions as a percentage of covered-employee payroll	(31.09%)	(28.06%)

(1) The amounts presented for each fiscal year were determined as of December 31. Data for fiscal years ended June 30, 2006 through 2013 is not available in a comparable format.

**ORANGE COUNTY SANITATION DISTRICT**  
Schedule of Funding Progress  
Last Three Actuarial Valuations

The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of the plan asset is increasing or decreasing due time relative to the actuarial accrued liabilities for benefits.

**Additional Retiree Benefit Account (ARBA)**

Actuarial Valuation Date*	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	8,904,499	-	8,904,499	0.0%	57,681,058	15.4%
7/1/2011	10,753,718	-	10,753,718	0.0%	59,787,560	18.0%
7/1/2013	13,735,277	-	13,735,277	0.0%	59,832,408	23.0%

\* Based on most recent actuarial valuation available.

**Other Postemployment Benefits (OPEB)**

Actuarial Valuation Date*	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	8,799,624	-	8,799,624	0.0%	57,681,058	15.3%
7/1/2011	10,706,789	-	10,706,789	0.0%	59,787,560	17.9%
7/1/2013	10,650,711	-	10,650,711	0.0%	59,832,408	17.8%

\* Based on most recent actuarial valuation available.

**ORANGE COUNTY SANITATION DISTRICT  
SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY SANITATION DISTRICT**  
Combining Area Schedule of Net Position  
June 30, 2015

	Revenue Area No. 14	Consolidated Revenue Area	Totals 2015
<b>Current assets:</b>			
Cash and cash equivalents	\$ 527,717	\$ 57,806,633	\$ 58,334,350
Investments	4,211,889	461,374,190	465,586,079
Accounts receivable, net of allowance for uncollectibles \$32,844	-	4,538,036	4,538,036
Accrued interest receivable	-	1,251,757	1,251,757
Connection fees receivable	-	618,742	618,742
Property tax receivable	-	1,121,558	1,121,558
Inventories	-	6,722,734	6,722,734
Prepaid expenses	-	1,217,084	1,217,084
Total current assets	<u>4,739,606</u>	<u>534,650,734</u>	<u>539,390,340</u>
<b>Noncurrent assets:</b>			
Restricted:			
Cash and cash equivalents	-	16,028,848	16,028,848
Investments	-	16,940,965	16,940,965
Accrued interest receivable	-	218,852	218,852
Unrestricted:			
Non-depreciable capital assets	7,530,132	400,638,652	408,168,784
Depreciable capital assets, net of accumulated depreciation	53,705,955	2,043,105,555	2,096,811,510
Prepaid insurance on outstanding debt payable	-	217,772	217,772
Due from other governmental agency	-	31,080,935	31,080,935
Net OPEB asset	-	116,600	116,600
Other noncurrent assets, net	-	10,344	10,344
Total noncurrent assets	<u>61,236,087</u>	<u>2,508,358,523</u>	<u>2,569,594,610</u>
Total assets	<u>65,975,693</u>	<u>3,043,009,257</u>	<u>3,108,984,950</u>
<b>Deferred outflow of resources:</b>			
Deferred charges on defeasances	-	30,355,758	30,355,758
Deferred outflows of net pension liability	700,381	21,892,565	22,592,946
Total deferred outflow of resources	<u>700,381</u>	<u>52,248,323</u>	<u>52,948,704</u>
Total assets and deferred outflow of resources	<u>66,676,074</u>	<u>3,095,257,580</u>	<u>3,161,933,654</u>
<b>Current liabilities:</b>			
Accounts payable	-	19,459,022	19,459,022
Accrued expenses	-	9,370,551	9,370,551
Retentions payable	-	4,238,495	4,238,495
Interest payable	-	20,059,050	20,059,050
Due to other governmental agency	2,869,329	-	2,869,329
Current portion of long-term obligations	-	49,034,185	49,034,185
Total current liabilities	<u>2,869,329</u>	<u>102,161,303</u>	<u>105,030,632</u>
<b>Noncurrent liabilities:</b>			
Noncurrent portion of long-term obligations	-	1,212,134,124	1,212,134,124
Net pension liability	1,779,982	55,638,778	57,418,760
Total noncurrent liabilities	<u>1,779,982</u>	<u>1,267,772,902</u>	<u>1,269,552,884</u>
Total liabilities	<u>4,649,311</u>	<u>1,369,934,205</u>	<u>1,374,583,516</u>
<b>Deferred inflow of resources:</b>			
Deferred inflows of net pension liability	790,676	24,715,008	25,505,684
Total liabilities and deferred inflow of resources	<u>5,439,987</u>	<u>1,394,649,213</u>	<u>1,400,089,200</u>
<b>Net position:</b>			
Net investment in capital assets:			
Collection system	18,373,476	479,493,097	497,866,573
Treatment and disposal -Land	406,846	4,068,905	4,475,751
Treatment and disposal system	42,455,765	1,960,182,205	2,002,637,970
Capital assets related debt	-	(1,177,595,934)	(1,177,595,934)
Subtotal	<u>61,236,087</u>	<u>1,266,148,273</u>	<u>1,327,384,360</u>
Unrestricted	-	434,460,094	434,460,094
Total net position	<u>\$ 61,236,087</u>	<u>\$ 1,700,608,367</u>	<u>\$ 1,761,844,454</u>

**ORANGE COUNTY SANITATION DISTRICT**  
Combining Area Schedule of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2015

	Revenue Area No. 14	Consolidated Revenue Area	Totals 2015
Operating revenues:			
Service charges	\$ 17,461,992	\$ 284,086,339	\$ 301,548,331
Permit and inspection fees	12,071	890,193	902,264
Total operating revenues	<u>17,474,063</u>	<u>284,976,532</u>	<u>302,450,595</u>
Operating expenses other than depreciation and amortization:			
Salaries and benefits	\$ 2,805,683	\$ 76,851,498	79,657,181
Utilities	324,483	6,921,664	7,246,147
Supplies, repairs and maintenance	1,468,494	23,100,894	24,569,388
Contractual services	8,529,275	18,148,696	26,677,971
Directors' fees	4,339	151,744	156,083
Meetings and training	28,976	814,509	843,485
Feasibility studies	205,355	5,838,030	6,043,385
Other	341,478	3,691,532	4,033,010
Total operating expenses other than depreciation and amortization	<u>13,708,083</u>	<u>135,518,567</u>	<u>149,226,650</u>
Operating income before depreciation and amortization	3,765,980	149,457,965	153,223,945
Depreciation and amortization	<u>3,252,765</u>	<u>90,932,774</u>	<u>94,185,539</u>
Operating income	<u>513,215</u>	<u>58,525,191</u>	<u>59,038,406</u>
Non-operating revenues:			
Property taxes	2,201,655	77,633,079	79,834,734
Investment and interest income	54,055	4,752,252	4,806,307
Contributions from other government	8,554,977	-	8,554,977
Other	28,630	1,411,890	1,440,520
Total non-operating revenues	<u>10,839,317</u>	<u>83,797,221</u>	<u>94,636,538</u>
Non-operating expenses:			
Interest	-	34,111,685	34,111,685
Other	1,650	62,960	64,610
Loss on disposal of assets	51,870	3,051,991	3,103,861
Total non-operating expenses	<u>53,520</u>	<u>37,226,636</u>	<u>37,280,156</u>
Income before capital contributions	11,299,012	105,095,776	116,394,788
Capital Contributions:			
Capital facilities capacity charges	-	17,656,357	17,656,357
Change in net position	11,299,012	122,752,133	134,051,145
Total net position - beginning, as restated	<u>49,937,075</u>	<u>1,577,856,234</u>	<u>1,627,793,309</u>
Total net position - ending	<u>\$ 61,236,087</u>	<u>\$ 1,700,608,367</u>	<u>\$ 1,761,844,454</u>

**ORANGE COUNTY SANITATION DISTRICT**

Combining Area Schedule of Cash Flows

For the Year Ended June 30, 2015

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals 2015
<b>Cash flows from operating activities:</b>				
Receipts from (refunds to) customers and users	\$ (8,763,879)	\$ 288,265,101	\$ -	\$ 279,501,222
Payments to employees	(6,969,289)	(207,370,173)	-	(214,339,462)
Payments to suppliers	(10,898,061)	(34,939,653)	-	(45,837,714)
Net cash provided by (used in) operations	<u>(26,631,229)</u>	<u>45,955,275</u>	<u>-</u>	<u>19,324,046</u>
<b>Cash flows from noncapital financing activities:</b>				
Proceeds from property taxes	2,201,655	77,717,834	-	79,919,489
Proceeds from various resources	13,306	1,348,930	-	1,362,236
Net cash provided by noncapital financing activities	<u>2,214,961</u>	<u>79,066,764</u>	<u>-</u>	<u>81,281,725</u>
<b>Cash flows from capital and related financing activities:</b>				
Capital facilities capacity charges	-	20,242,080	-	20,242,080
Additions to capital assets	(8,560,429)	(155,539,827)	7,426,692	(156,673,564)
Disposal of capital assets	-	(1,128,285)	1,128,285	-
Interest paid	-	(54,850,314)	-	(54,850,314)
Principal payments on debt obligation	-	(27,875,000)	-	(27,875,000)
Proceeds released to escrow account on defeased debts	-	(376,545,000)	-	(376,545,000)
Proceeds from debt issuances	-	365,566,949	-	365,566,949
Debt issuance costs	-	(1,295,923)	-	(1,295,923)
Contribution from other government	8,554,977	-	(8,554,977)	-
Net cash used in capital and related financing activities	<u>(5,452)</u>	<u>(231,425,320)</u>	<u>-</u>	<u>(231,430,772)</u>
<b>Cash flows from investing activities:</b>				
Proceeds from the sale of investments	86,288,404	6,997,862,171	-	7,084,150,575
Purchases of investments	(71,402,731)	(7,068,870,361)	-	(7,140,273,092)
SARI project payments	-	9,542,217	-	9,542,217
Interest received	81,282	8,029,405	-	8,110,687
Net cash provided by (used in) investing activities	<u>14,966,955</u>	<u>(53,436,568)</u>	<u>-</u>	<u>(38,469,613)</u>
Net decrease in cash and cash equivalents	(9,454,765)	(159,839,849)	-	(169,294,614)
Cash and cash equivalents, beginning of year	9,982,482	233,675,330	-	243,657,812
Cash and cash equivalents, end of year	<u>\$ 527,717</u>	<u>\$ 73,835,481</u>	<u>\$ -</u>	<u>\$ 74,363,198</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income	\$ 513,215	\$ 58,525,191	\$ -	\$ 59,038,406
Adjustments to reconcile operating income (loss) to net cash provided by operations:				
Depreciation and amortization	3,252,765	90,932,774	-	94,185,539
Bad debt expense (Net recoveries)	-	3,392	-	3,392
(Increase)/decrease in operating assets:				
Accounts receivable	-	3,288,569	-	3,288,569
Inventories	-	(1,722,873)	-	(1,722,873)
Prepaid and other assets	-	19,603,792	-	19,603,792
Increase/(decrease) in operating liabilities:				
Accounts payable	-	2,274,913	-	2,274,913
Accrued expenses	-	2,074,890	-	2,074,890
Due to other governmental agency	(26,237,942)	-	-	(26,237,942)
Net pension liability	(4,159,267)	(130,010,650)	-	(134,169,917)
ARBA/OPEB/Catastrophe leave payable	-	251,161	-	251,161
Compensated absences	-	14,483	-	14,483
Other payable	-	65,188	-	65,188
Claims and judgments	-	654,445	-	654,445
Net cash provided by operations	<u>\$ (26,631,229)</u>	<u>\$ 45,955,275</u>	<u>\$ -</u>	<u>\$ 19,324,046</u>
<b>Noncash Activities:</b>				
Unrealized (loss) on the fair value of investments	\$ (27,227)	(2,982,520)		\$ (3,009,747)
Receivable from non-operating activities	-	2,592,167		2,592,167
Capital assets acquired through accounts payable	-	5,262,051		5,262,051

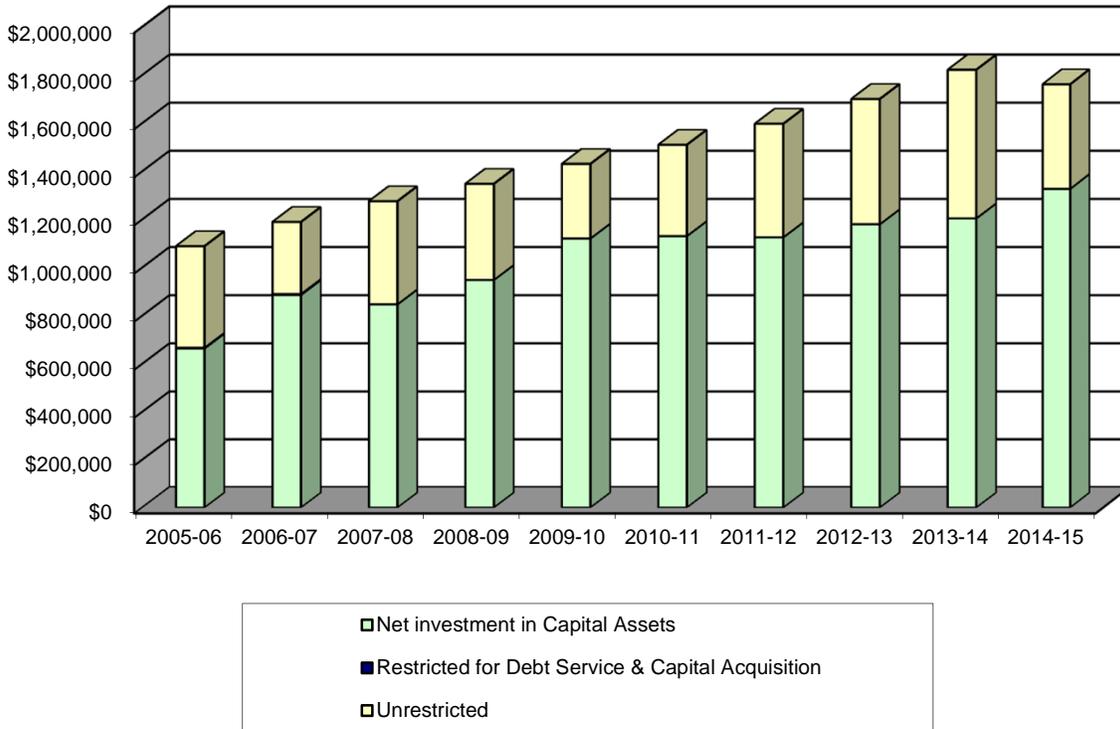
**ORANGE COUNTY SANITATION DISTRICT  
STATISTICAL SECTION**

This part of the comprehensive annual financial report of the Orange County Sanitation District (OCSD) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about OCSD's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Position and Trends These schedules contain current and trend information to help the reader understand OCSD's financial position and how OCSD's financial performance and well-being have changed over time.	54 - 58
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	59 - 61
Debt Capacity These schedules present information to help the reader assess the affordability of OCSD's current levels of outstanding debt and OCSD's ability to issue additional debt in the future. All of OCSD's debt is recorded in a proprietary fund; consequently, many of the schedules which are applicable to governmental funds are not presented.	62 - 65
Operating Information  These schedules contain data to help the reader understand how the information in OCSD's financial report relates to the services it provides and the activities it performs.	66 - 69
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	70 - 73

**ORANGE COUNTY SANITATION DISTRICT**

Net Position by Component  
(Dollars in Thousands)  
Last Ten Fiscal Years



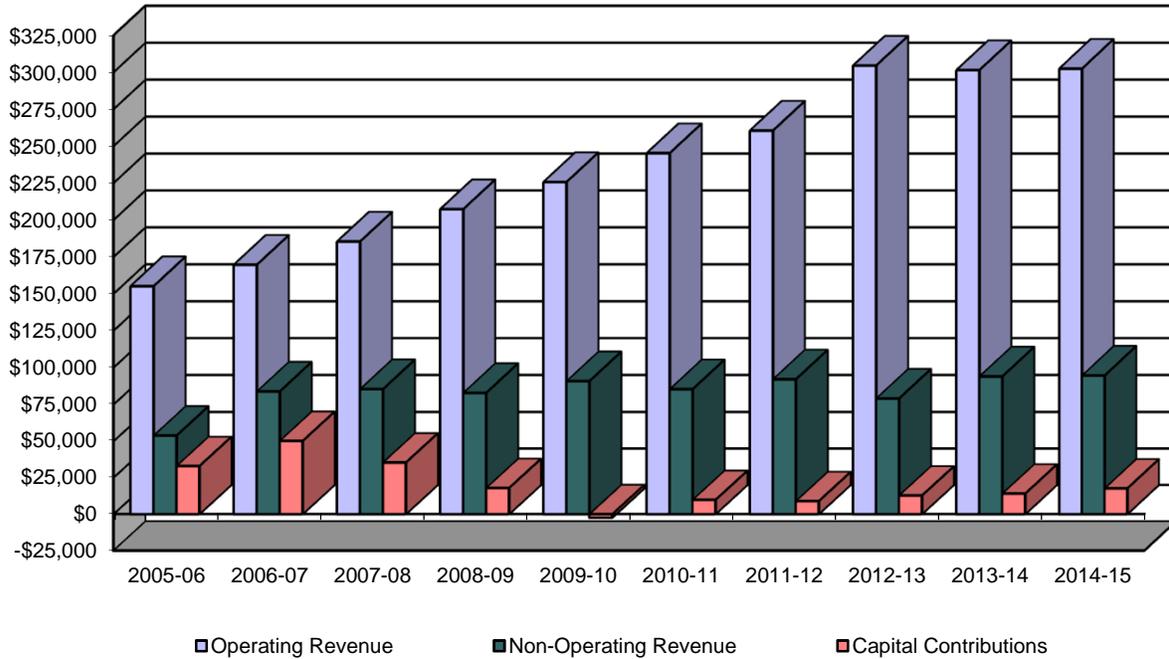
<u>Fiscal Year</u>	<u>Net investment in Capital Assets</u>	<u>Restricted for Debt Service &amp; Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2005-06	\$ 664,060	\$ 3,003	\$ 422,036	\$ 1,089,099
2006-07	886,463	3,904	299,370	1,189,737
2007-08	847,426	-	428,561	1,275,987
2008-09	948,869	-	399,452	1,348,321
2009-10	1,121,057	-	310,016	1,431,073
2010-11	1,131,063	-	379,423	1,510,486
2011-12	1,125,966	-	471,652	1,597,618 <sup>(1)</sup>
2012-13	1,180,298	-	520,427	1,700,725
2013-14	1,204,706	-	617,589	1,822,295
2014-15	1,327,384	-	434,460	1,761,844 <sup>(2)</sup>

<sup>(1)</sup> Beginning net position restated due to implementation of GASB 65.

<sup>(2)</sup> Beginning net position restated due to implementation of GASB 68.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
**Revenues and Gross Capital Contributions by Source**  
(Dollars in Thousands)  
Last Ten Fiscal Years

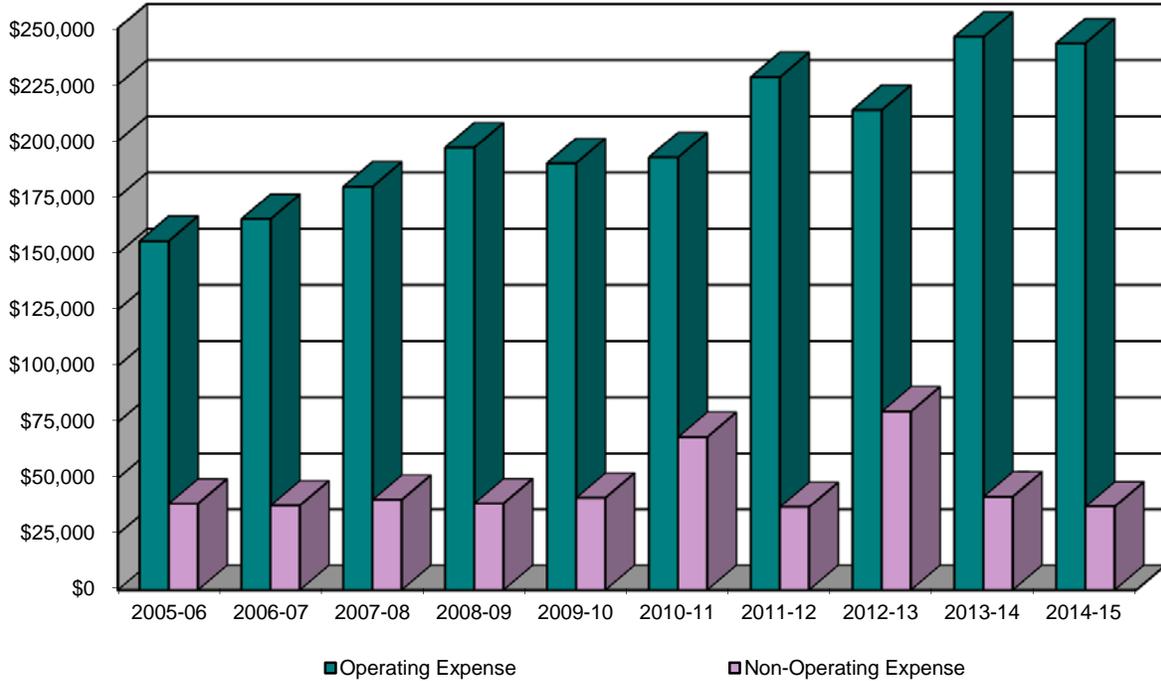


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2005-06	\$ 154,291	\$ 874	\$ 155,165	\$ 39,958	\$ 10,426	\$ 3,477	\$ 53,861	\$32,990
2006-07	167,790	1,866	169,656	60,565	22,244	1,068	83,877	50,207
2007-08	184,180	1,196	185,376	65,210	20,235	13	85,458	35,408
2008-09	206,422	895	207,317	66,427	14,836	1,634	82,897	17,937
2009-10	225,059	629	225,688	64,759	19,166	6,939	90,864	(2,406)
2010-11	244,465	784	245,249	64,307	10,092	11,015	85,414	9,800
2011-12	259,491	1,030	260,521	67,882	15,747	8,486	92,115	8,936
2012-13	303,400	1,176	304,576	79,240	(3,913)	3,781	79,108	12,797
2013-14	300,611	848	301,459	74,944	6,498	12,595	94,037	14,093
2014-15	301,548	902	302,450	79,835	4,806	9,996	94,637	17,656

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**

Expenses by Type  
(Dollars in Thousands)  
Last Ten Fiscal Years

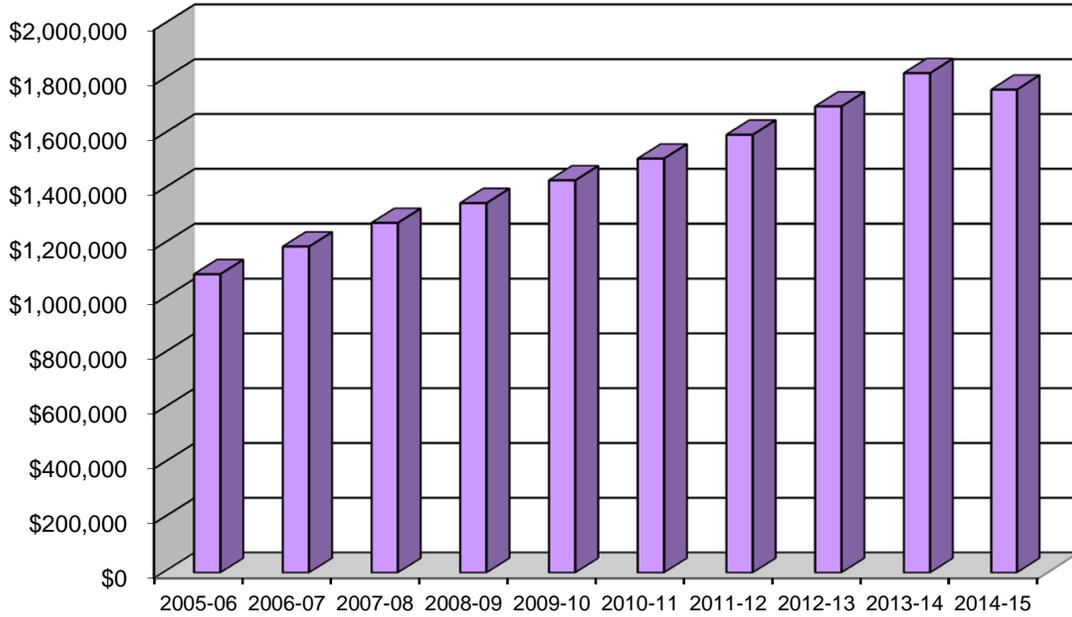


Fiscal Year	Operating Expense				Non - Operating Expense			
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort	Total Operating	Interest Expense	Other	Total Non-Operating
2005-06	\$ 53,246	\$ 7,563	\$ 44,823	\$ 49,887	\$ 155,519	\$ 20,078	\$ 18,567	\$ 38,645
2006-07	57,802	8,072	46,281	53,111	165,266	21,747	16,089	37,836
2007-08	67,629	8,092	56,169	47,767	179,657	22,517	17,818	40,335
2008-09	67,498	7,242	89,816	32,520	197,076	24,899	13,842	38,741
2009-10	69,652	6,934	61,499	52,036	190,121	27,537	13,736	41,273
2010-11	73,112	6,948	63,328	49,288	192,676	29,129	39,245	68,374
2011-12	75,642	7,405	89,272	56,051	228,370	28,700	8,433	37,133
2012-13	76,878	6,403	66,536	63,907	213,724	42,315	37,335	79,650
2013-14	79,179	6,381	60,887	99,805	246,252	40,450	1,317	41,767
2014-15	79,657	7,246	62,323	94,186	243,412	34,112	3,168	37,280

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**

Change in Net Position  
(Dollars in Thousands)  
Last Ten Fiscal Years



Ending Net Position by Fiscal Year

Fiscal Year	Total Revenues	Total Expenses	Change in Net Position	Beginning Net Position	Ending Net Position
2005-06	\$ 242,016	\$ 194,164	\$ 47,852	\$1,041,247	\$ 1,089,099
2006-07	303,740	203,102	100,638	1,089,099	1,189,737
2007-08	306,242	219,992	86,250	1,189,737	1,275,987
2008-09	308,151	235,817	72,334	1,275,987	1,348,321
2009-10	314,146	231,394	82,752	1,348,321	1,431,073
2010-11	340,463	261,050	79,413	1,431,073	1,510,486
2011-12	361,572	265,503	96,069	1,501,549 <sup>(1)</sup>	1,597,618
2012-13	396,481	293,374	103,107	1,597,618	1,700,725
2013-14	409,589	288,019	121,570	1,700,725	1,822,295
2014-15	414,743	280,692	134,051	1,627,793 <sup>(2)</sup>	1,761,844

<sup>(1)</sup> Beginning net position restated due to implementation of GASB 65.

<sup>(2)</sup> Beginning net position restated due to implementation of GASB 68.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Cash and Investment Reserve Balances  
(Dollars in Millions)  
Last Ten Fiscal Years

Fiscal Year	Cash Flow Contingency	Self- Insurance	Capital Improvement Program	Debt Service Requirements	Total
2005-06	\$ 132	\$ 57	\$ 196	\$ 105	\$ 490
2006-07	132	57	104	79	372
2007-08	149	57	219	108	533
2008-09	172	57	172	133	534
2009-10	185	57	102	129	473
2010-11	187	57	176	141	561
2011-12	196	57	186	138	577
2012-13	174	57	234	135	600
2013-14	189	57	296	131	673
2014-15	177	57	194	129	557

**Notes:**

The Cash Flow Contingency Reserve is to fund operations, maintenance, and certificates of participation debt service expenses for the first half of the fiscal year, prior to the receipt of the first installment of the property tax allocation and sewer service user fees.

The Self-Insurance Reserve is to provide requirements for property damage including fire, flood and earthquake, general liability and workers' compensation.

The Capital Improvement Program Reserve is to fund annual increments of the capital improvement program with a target level at one half of the average annual capital improvement program through the year 2020.

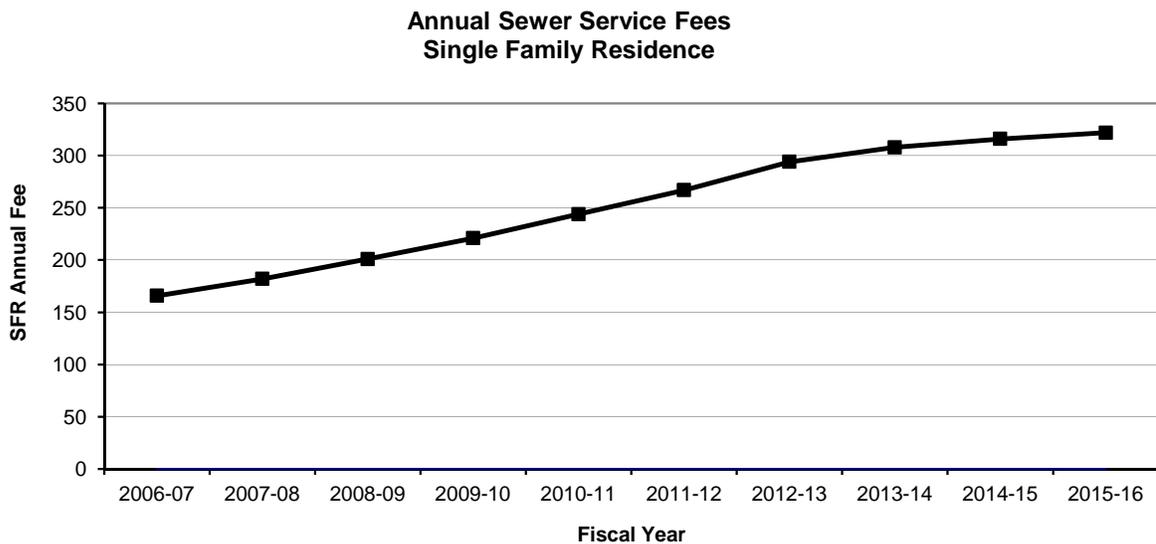
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
 Sewer Service Fees  
 Single Family Residence Rate  
 Last Nine Fiscal Years and Next Fiscal Year

Sewer service fees are comprised of three categories: residential customers, commercial customers, and industrial customers. Although the majority of sewer service fee revenues are from residential and commercial customers (see the schedule of Number of Accounts and Revenues by Customer Class), the fee paid by each residential and commercial customer is less than the individual fees paid by industrial customers. The rates for commercial and industrial customers are derived from the base sewer service fee charged for a single-family residence and are based on the type of business and the strength and volume of waste that is discharged into the sewer system. Due to the complexity of the rate structure for commercial and industrial customers and since the rates are derivatives of the single-family residence rate, only the single-family residence rate is presented within the statistical section.

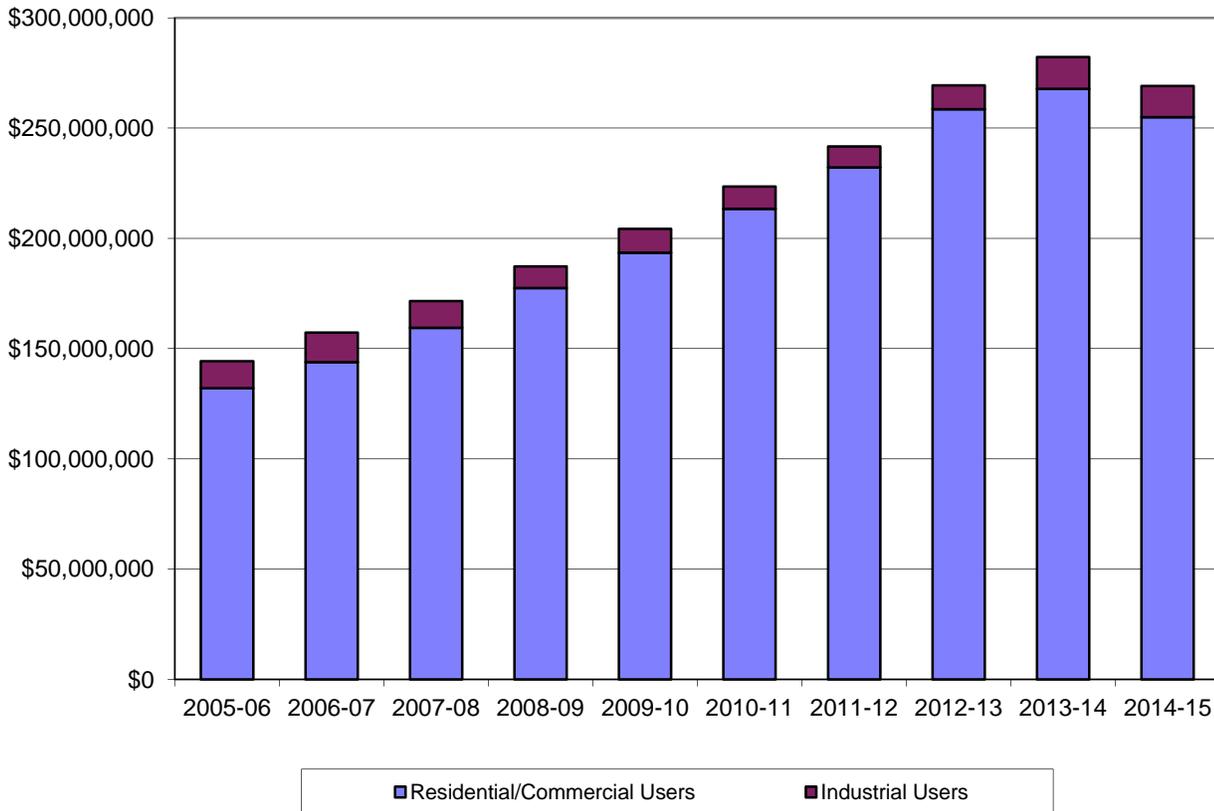
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2006-07	\$ 165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00
2012-13	294.00
2013-14	308.00
2014-15	316.00
2015-16	322.00



Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
 Number of Accounts and Revenues by Customer Class  
 (Dollars in Millions)  
 Last Ten Fiscal Years

Fiscal	Residential/Commercial			Industrial		
	Number of Equivalent Single-Family Dwellings	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues	Number of Customer Accounts	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues
2005-06	872,859	132.0	92%	557	12.2	8%
2006-07	867,035	143.8	91%	531	13.4	9%
2007-08	875,739	159.4	93%	520	12.1	7%
2008-09	882,747	177.4	95%	515	9.9	5%
2009-10	875,442	193.5	95%	487	10.8	5%
2010-11	874,130	213.3	95%	479	10.1	5%
2011-12	869,709	232.2	96%	516	9.5	4%
2012-13	879,443	258.6	96%	527	10.8	4%
2013-14	869,461	267.8	95%	489	14.4	5%
2014-15	806,585	254.9	95%	467	14.2	5%



Source: Orange County Sanitation District's Financial Management Division.

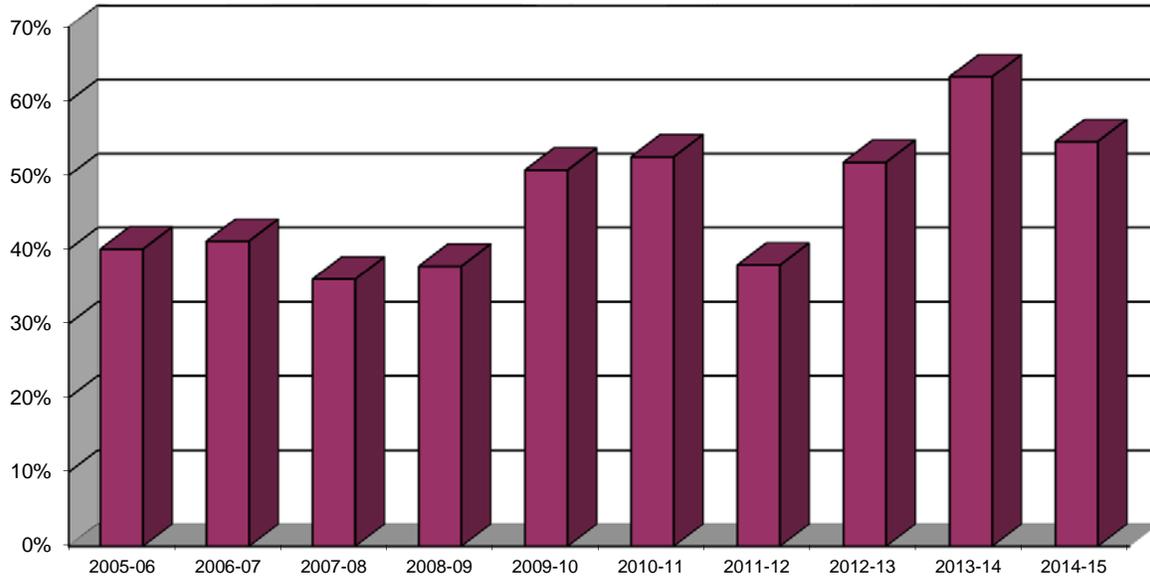
**ORANGE COUNTY SANITATION DISTRICT**  
Principal Sewer Service Customers  
For the Current Fiscal Year and Nine Years Ago

User	Fiscal Year Ended 6/30/15			Fiscal Year Ended 6/30/06		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
House Foods America Corp.	\$ 1,055,843	1	0.35%	\$ 480,413	8	0.31%
Kimberly-Clark Worldwide, Inc.	1,047,510	2	0.35%	948,680	1	0.61%
Stremicks Heritage Foods, LLC	811,061	3	0.27%	694,946	4	0.45%
MCP Foods, Inc.	738,346	4	0.24%	875,884	2	0.57%
Pulmuone Wildwood, Inc.	571,057	5	0.19%			
Jazz Semiconductor	521,890	6	0.17%			
Ameripecc Inc.	517,583	7	0.17%			
Nor-Cal Beverage Co. Inc (NCB)	461,589	8	0.15%	574,081	6	0.37%
Alta Dena Certified Dairy, LLC	457,496	9	0.15%			
Nor-Cal Beverage Co. Inc (Main)	387,579	10	0.13%			
Alstyle Apparel-Activewear Mfg.				845,474	3	0.55%
Disneyland Resort				676,876	5	0.44%
Disneyland Resort --DCA				534,899	7	0.35%
Van Law Food Products, Inc.				374,478	9	0.24%
Pepsi-Cola Bottling Group				326,180	10	0.21%
	<u>\$ 6,569,954</u>		<u>2.17%</u>	<u>\$ 6,331,911</u>		<u>4.10%</u>

Although the majority of sewer service fee revenues are from residential and commercial customers (see the schedule of Number of Accounts and Revenues by Customer Class), the fee paid by each residential and commercial customer is less than the individual fees paid by industrial customers. Consequently, this schedule shows the largest sewer service fee customers.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Ratio of Annual Debt Service to Total Expenses  
(Dollars in Thousands)  
Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Principal (1)</u>	<u>Interest</u>	<u>Total Debt Service (3)</u>	<u>Total Operating Expenses (2)</u>	<u>Ratio of Debt Service to Total Operating Expenses</u>
2005-06	\$ 12,755	\$ 29,563	\$ 42,318	\$ 105,632	40.06%
2006-07	13,465	32,673	46,138	112,155	41.14
2007-08	11,025	36,484	47,509	131,890	36.02
2008-09	21,305	40,840	62,145	164,556	37.77
2009-10	24,030	46,052	70,082	138,085	50.75
2010-11	25,895	49,426	75,321	143,388	52.53
2011-12	14,370	50,975	65,345	172,319	37.92
2012-13	23,965	53,640	77,605	149,817	51.80
2013-14	39,590	53,163	92,753	146,447	63.34
2014-15	27,875	53,586	81,461	149,226	54.59

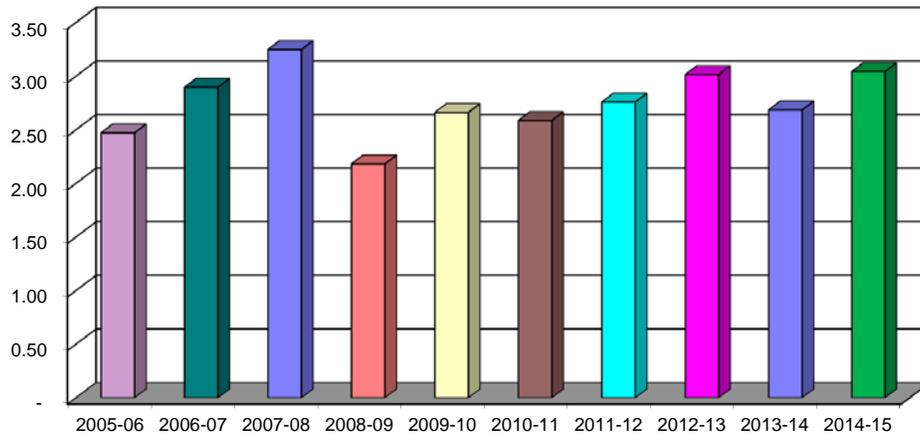
**Notes**

- (1) - Excludes principal reductions due to advanced refunding.
- (2) - Excludes depreciation and amortization expense.
- (3) - Debt consists of certificates of participation, revenue obligations, and anticipation notes.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Debt Coverage Ratios  
(Dollars in Millions)  
Last Ten Fiscal Years

The Orange County Sanitation District has no legal debt limits as imposed by State legislation. The District does have contractual covenants within the existing Certificates of Participation indenture agreements which require minimum coverage ratios of 1.25. The coverage ratio is calculated as the ratio of net annual revenues available for debt service payments to total annual debt service requirements.



	Fiscal Year Ending June 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Operating &amp; Non-operating Revenues:</b>										
Service Charges, Net of Refunds-Regional	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5	\$ 213.3	\$ 232.2	\$ 258.6	\$ 267.8	\$ 254.9
Service Charges, Net of Refunds-Local	-	-	-	5.6	5.6	5.7	5.7	5.8	5.7	5.5
Industrial Sewer Service Charges	12.2	13.4	12.1	9.9	10.8	10.1	9.5	10.8	14.4	14.2
Revenue Area No. 14 Fees	5.3	5.2	7.1	10.3	10.2	21.4	18.0	12.5	23.6	28.3
Ad Valorem Taxes	40.0	60.6	65.2	66.4	64.8	64.3	67.9	77.3	72.8	77.6
Interest Earnings	10.4	22.2	20.2	14.8	19.2	10.1	15.7	(3.6)	6.1	4.8
Other Revenues	9.2	8.3	6.9	5.8	12.5	5.7	3.6	22.3	5.1	11.8
<b>Total Revenues</b>	<b>209.1</b>	<b>253.5</b>	<b>270.9</b>	<b>290.2</b>	<b>316.6</b>	<b>330.6</b>	<b>352.6</b>	<b>383.7</b>	<b>395.5</b>	<b>397.1</b>
Operating Expenses (1)	105.6	112.2	131.9	164.6	138.1	143.4	172.3	149.8	146.4	149.2
<b>Net Revenues</b>	<b>\$ 103.5</b>	<b>\$ 141.3</b>	<b>\$ 139.0</b>	<b>\$ 125.6</b>	<b>\$ 178.5</b>	<b>\$ 187.2</b>	<b>\$ 180.3</b>	<b>\$ 233.9</b>	<b>\$ 249.1</b>	<b>\$ 247.9</b>
<b>Debt Service Requirements</b>										
Principal Payments	12.8	13.5	11.0	21.3	24.0	25.9	14.4	24.0	39.6	27.9
Interest Payments	29.1	35.3	31.8	36.3	43.1	46.5	51.0	53.6	53.2	53.6
<b>Total Debt Service Requirements</b>	<b>\$ 41.9</b>	<b>\$ 48.8</b>	<b>\$ 42.8</b>	<b>\$ 57.6</b>	<b>\$ 67.1</b>	<b>\$ 72.4</b>	<b>\$ 65.4</b>	<b>\$ 77.6</b>	<b>\$ 92.8</b>	<b>\$ 81.5</b>
<b>Coverage Ratios</b>	<b>2.47</b>	<b>2.90</b>	<b>3.25</b>	<b>2.18</b>	<b>2.66</b>	<b>2.59</b>	<b>2.76</b>	<b>3.01</b>	<b>2.68</b>	<b>3.04</b>
<b>Ending Reserves (2)</b>	<b>\$ 385.0</b>	<b>\$ 293.0</b>	<b>\$ 425.0</b>	<b>\$ 401.0</b>	<b>\$ 344.0</b>	<b>\$ 420.0</b>	<b>\$ 439.0</b>	<b>\$ 465.0</b>	<b>\$ 542.0</b>	<b>\$ 428.0</b>

**Notes**

- (1) - Operating expenses exclude depreciation and amortization expenses.
- (2) - Excludes debt service reserves in accordance with the District's reserve policy.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
**Computation of Direct and Overlapping Debt**  
**June 30, 2015**

	<b>Total Debt 6/30/2015</b>	<b>% Applicable (1)</b>	<b>District's Share of Debt 6/30/15</b>
<b><u>OVERLAPPING TAX AND ASSESSMENT DEBT (Based on all property assessed valuation of \$354,056,945,332):</u></b>			
Metropolitan Water District of Southern California	\$ 110,420,000	15.278%	\$ 16,869,968
Coast Community College District	471,788,867	99.374	468,835,469
North Orange County Joint Community College District	187,039,001	97.464	182,295,692
Rancho Santiago Community College District	347,875,443	98.993 & 100.000	345,083,128
Brea-Olinda and Laguna Beach Unified School Districts	45,424,029	99.982 & 14.777	22,133,586
Garden Grove Unified School District	243,995,160	100.000	243,995,160
Los Alamitos Unified School District School Facilities Improvement District No. 1	100,560,124	96.727	97,268,791
Newport Mesa Unified School District	231,244,150	100.000	231,244,150
Placentia-Yorba Linda Unified School District	252,627,133	98.977	250,042,757
Rowland Unified School District	268,486,907	0.134	359,772
Saddleback Valley Unified School District	122,240,000	11.981	14,645,574
Santa Ana Unified School District	282,043,547	100.000	282,043,547
Tustin Unified School District School Facilities Improvement District No. 2002-1	49,798,788	99.964	49,780,860
Tustin Unified School District School Facilities Improvement District No. 2008-1	70,495,000	99.962	70,468,212
Tustin Unified School District School Facilities Improvement District No. 2012-1	32,535,000	99.975	32,526,866
Anaheim Union High School District	151,308,955	100.000	151,308,955
Fullerton Joint Union High School District	48,387,910	91.591	44,318,971
Huntington Beach Union High School District	202,489,998	99.012	200,489,397
School Districts	442,662,890	97.408-100.000	442,058,090
City of Anaheim	1,360,000	99.206	1,349,202
Irvine Ranch Water District Improvement Districts	502,073,000	Various	444,005,793
Rossmoor Community Services District Special Tax Obligations	225,000	100.000	225,000
Bonita Canyon Community Facilities District No. 98-1	34,890,000	100.000	34,890,000
Irvine Unified School District Community Facilities Districts	591,093,358	100.000	591,093,358
Tustin Unified School District Community Facilities Districts	245,080,000	100.000	245,080,000
City of Tustin Community Facilities Districts	75,890,000	100.000	75,890,000
Other Community Facilities Districts	371,230,640	99.822-100.000	371,229,252
Orange County Assessment Districts	78,315,000	100.000	78,315,000
City of Irvine 1915 Act Bonds	806,209,000	100.000	806,209,000
Other 1915 Act bonds	13,716,762	100.000	<u>13,716,762</u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$5,807,772,312</b>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
Orange County General Fund Obligations	\$ 98,906,000	75.146%	\$ 74,323,903
Orange County Pension Obligation Bonds	366,854,623	75.146	275,676,575
Orange County Board of Education Certificates of Participation	15,190,000	75.146	11,414,677
Brea-Olinda Unified School District Certificates of Participation	21,550,000	99.982	21,546,121
Orange Unified School District Certificates of Participation and Benefit Obligations	115,579,699	97.893	113,144,434
Placentia-Yorba Linda Unified School District Certificates of Participation	106,310,670	98.977	105,223,112
Santa Ana Unified School District Certificates of Participation	73,662,130	100.000	73,662,130
Other Unified School District Certificates of Participation	58,966,874	Various	52,609,378
Union High School District Certificates of Participation	117,424,185	Various	114,963,014
School District Certificates of Participation	72,123,666	Various	71,696,478
City of Anaheim General Fund Obligations	699,187,465	99.206	693,635,917
City of Costa Mesa General Fund Obligations	25,740,000	100.000	25,740,000
City of Garden Grove General Fund Obligations	17,210,000	100.000	17,210,000
City of Huntington Beach General Fund and Judgment Obligation Bonds	56,324,000	98.741	55,614,881
City of La Habra General Fund Obligations	17,830,000	100.000	17,830,000
City of Santa Ana General Fund Obligations	76,210,000	100.000	76,210,000
Other City General Fund Obligations	195,323,192	Various	176,087,540
<b>Orange County Sanitation District</b>	<b>0</b>	<b>100.000</b>	<b>0 (2)</b>
Municipal Water District of Orange County Water Facilities Corporation	5,360,000	70.362	<u>3,771,403</u>
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,980,359,563</b>
Less: City of Anaheim self-supporting obligations			693,635,917
Other City self-supporting obligations			555,000
MWDOC Water Facilities Corporation (100% supported)			<u>3,771,403</u>
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,282,397,243</b>
<b><u>OVERLAPPING TAX INCREMENT DEBT:</u></b>	<b>\$1,121,417,672</b>	<b>99.018-100.000%</b>	<b>\$1,121,380,948</b>
<b>TOTAL DIRECT DEBT</b>			<b>\$0</b>
<b>GROSS OVERLAPPING &amp; COMBINED TOTAL DEBT</b>			<b>\$8,909,512,823 (3)</b>
<b>NET OVERLAPPING &amp; COMBINED TOTAL DEBT</b>			<b>\$8,211,550,503</b>

- (1) The percentage of overlapping debt applicable to the district is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the sanitation district divided by the district's total taxable assessed value.
- (2) Excludes wastewater revenue certificates of participation. Previously classified certificates of participation have been reclassified as district revenue supported issues and are no longer included as direct debt in the debt statement.
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

<b>Ratios to:</b>	<b>Total Overlapping Tax and Assessment Debt</b>	<b>Gross Combined Total Debt</b>	<b>Net Combined Total Debt</b>	<b>Total Overlapping Tax Increment Debt</b>
Land and Improvement Assessed Valuation (\$350,480,673,301)	1.66%	2.54%	2.34%	
All Property Assessed Valuation (\$354,056,945,332)		2.52%	2.32%	
Redevelopment Incremental Valuation (\$45,654,442,524)				2.46%

**ORANGE COUNTY SANITATION DISTRICT**

Ratios of Outstanding Debt  
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>(5) Total Outstanding Debt</u>	<u>(3) Median Family Income (1)</u>	<u>Debt as a Percentage of Median Family Income</u>	<u>(4) Population Estimate (2)</u>	<u>Debt per Capita</u>
2004-05	\$ 620,520,145	\$ 75,700	0.012%	2,467,850	251.44
2005-06	\$ 807,809,704	\$ 78,300	0.010%	2,481,540	325.53
2006-07	801,389,769	78,700	0.010%	2,505,180	319.89
2007-08	1,096,049,542	84,100	0.008%	2,522,820	434.45
2008-09	1,262,936,747	86,100	0.007%	2,539,990	497.22
2009-10	1,306,255,753	87,200	0.007%	2,563,170	509.63
2010-11	1,427,792,453	84,200	0.006%	2,457,571	580.98
2011-12	1,376,404,782	85,300	0.006%	2,472,122	556.77
2012-13	1,325,928,512	84,100	0.006%	2,491,268	532.23
2013-14	1,278,998,124	84,900	0.007%	2,521,803	507.18
2014-15	1,241,140,357	85,900	0.007%	2,548,745	486.96

**Notes & Data Sources**

**(1)** - Data is for the entire County of Orange.

**(2)** - Data is for the estimated population served by the Orange County Sanitation District.

**(3)** - Data Source: U.S. Department of Housing and Urban Development.

**(4)** - Data Source: Demographic Research Unit, California Department of Finance.

**(5)** - Data Source: Orange County Sanitation District. Debt includes certificates of participation, revenue obligations, and anticipation notes and is presented net of original issuance discounts and premiums.

**ORANGE COUNTY SANITATION DISTRICT**  
 Comparison of the Volume of Wastewater Treated  
 With Revenues and Expenses  
 Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Millions of Gallons of Waste-water Treated Per Day</b>	<b>Collection, Treatment &amp; Disposal Cost per Million Gallons</b>	<b>Total Operating Costs (In Thousands)</b>	<b>Total Non-Operating Costs (In Thousands)</b>	<b>Total Operating Revenues (In Thousands)</b>	<b>Total Non-Operating Revenues (In Thousands)</b>
2005-06	235	1,216.77	\$ 155,519	\$ 38,645	\$ 155,165	\$ 53,861
2006-07	229	1,268.38	165,266	37,836	169,656	83,877
2007-08	221	1,541.18	179,657	40,335	185,376	85,458
2008-09	211	1,576.67	197,076	38,741	207,317	82,897
2009-10	196	1,588.72	190,121	41,273	225,688	90,864
2010-11	207	1,816.62	192,676	68,374	245,249	85,414
2011-12	201	1,871.47	228,370	37,133	260,521	92,115
2012-13	200	1,906.01	213,724	79,650	304,576	79,108
2013-14	198	1,936.64	246,252	41,767	301,459	94,037
2014-15	187	2,070.97	243,412	37,280	302,450	94,637

A Facilities Master Plan to the year 2030 was completed in December 2009 that projects wastewater treatment flows to increase to 279 millions of gallons per day (mgd) in 2020, to 286 mgd in 2025, and to 294 mgd in the year 2030. The anticipated need to meet the projected flows is included in the overall CIP program of \$2.0 billion out to 2021-22.

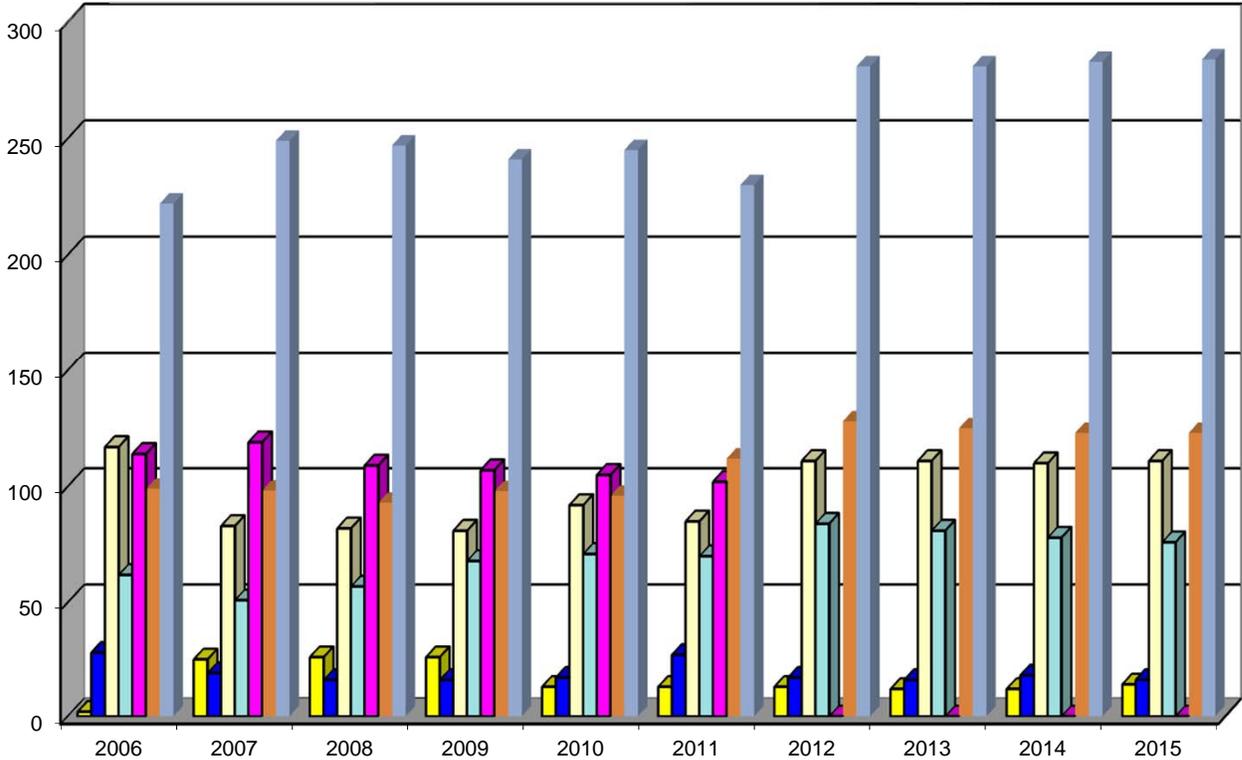
Total expenses in FY 2014-15 increased \$86.5 million, or 44.6 percent since FY 2005-06, primarily as a result of OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012.

Maintenance, chemicals, utilities, and other operating costs represent 20 percent of the increase, primarily due to the increase in the levels of treatment referred to above. Depreciation expense represents another 51 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2014-15, personnel expenses rose 0.6 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized have not changed in FY 2014-15.

As depicted from the chart above, actual wastewater treatment flows were 235 mgd in FY 2005-06. Due to unusually dry weather conditions during the last several years, FY 2014-15 had flows of only 187 mgd, a decrease of 48 mgd or 20% since FY 2005-06.

Source: Orange County Sanitation District.

**ORANGE COUNTY SANITATION DISTRICT**  
 Authorized Full-time Equivalents by Function  
 Last Ten Fiscal Years



■ General Management (1)	■ Human Resources	■ Administrative Services	■ Facilities Support Services
■ Technical Services	■ Engineering	■ Operations and Maintenance	

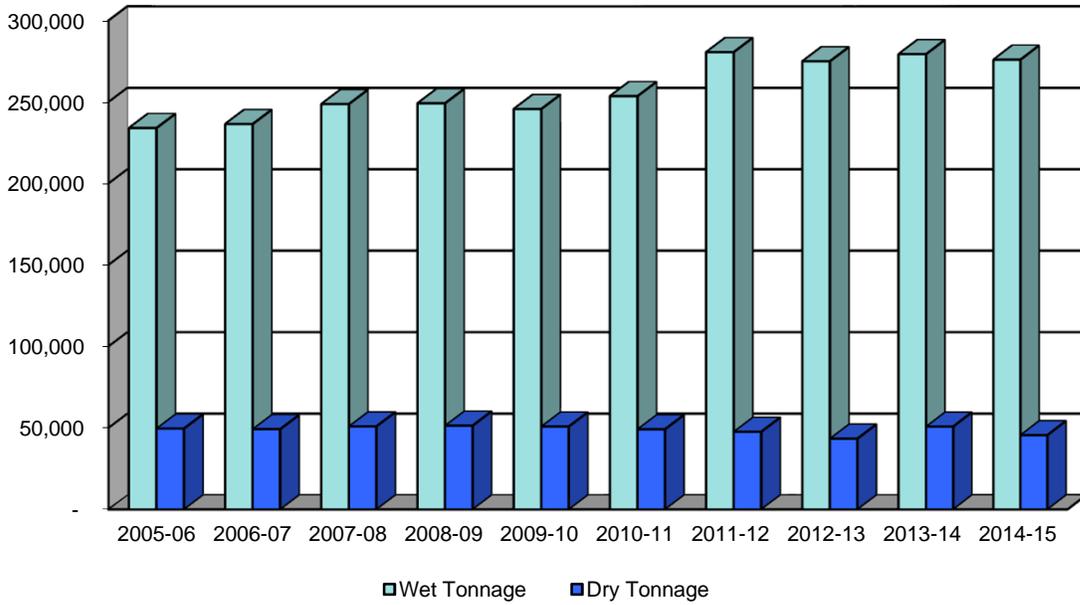
	Fiscal Year Ending June 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Management (1)	2	25	26	26	13	13	13	12	12	14
Human Resources	28	19	16	16	17	27	17	16	18	16
Administrative Services	117	83	82	81	92	85	111	111	110	111
Facilities Support Services	62	51	57	68	71	70	84	81	78	76
Technical Services	114	119	109	107	105	102	-	-	-	-
Engineering	99	98	93	98	96	112	128	125	123	123
Operations and Maintenance	222	249	247	241	245	230	281	281	283	284
<b>Total FTE's</b>	<b>644</b>	<b>644</b>	<b>630</b>	<b>637</b>	<b>639</b>	<b>639</b>	<b>634</b>	<b>626</b>	<b>624</b>	<b>624</b>

**Notes**

(1) - Management Discretion positions used on a temporary basis have been excluded from FTE count.

Source: Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
 Biosolids Produced  
 Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Wet Tonnage</u>	<u>Dry Tonnage</u>
2005-06	233,996	49,554
2006-07	236,460	49,184
2007-08	248,717	50,884
2008-09	249,202	51,342
2009-10	245,668	50,799
2010-11	253,557	49,133
2011-12	280,572	47,556
2012-13	274,957	43,365
2013-14	279,362	50,764
2014-15	275,943	45,515

Source: Orange County Sanitation District's Environmental Compliance Division.

**ORANGE COUNTY SANITATION DISTRICT**

Capital Asset Statistics

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Miles of Trunk &amp; Subtrunk Sewers</u>	<u>Number of Pump Stations</u>	<u>Primary Treatment Capacity (1)</u>	<u>Secondary Treatment Capacity (1)</u>
2005-06	584	16	366	200
2006-07	581	16	372	200
2007-08	568	17	372	200
2008-09	582	17	372	212
2009-10	579	17	372	212
2010-11	587	17	372	212
2011-12	572	17	372	332
2012-13	572	17	372	332
2013-14	580	17	372	332
2014-15	580	17	372	332

**Notes**

(1) - Capacity is presented as million gallons treated per day.

Source: Orange County Sanitation District

**ORANGE COUNTY SANITATION DISTRICT**  
Demographic Statistics  
Covering The Entire County of Orange (1)  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>(2) Population Estimates</b>	<b>Total Personal Income (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>(5) Median Family Income</b>	<b>(6) Public School Enrollment</b>	<b>(7) Unemployment Rate</b>
2005-06	3,072,000	\$ 150,598,354 (3)	\$ 49,023	\$ 78,300	510,114	3.7%
2006-07	3,090,000	153,446,641 (3)	49,659	78,700	503,955	3.9%
2007-08	3,108,000	155,925,156 (3)	50,169	84,100	503,492	5.3%
2008-09	3,135,000	145,247,447 (3)	46,331	86,100	504,136	9.3%
2009-10	3,166,000	147,138,449 (3)	46,475	87,200	502,239	9.5%
2010-11	3,030,000	154,131,535 (3)	50,868	84,200	502,903	9.2%
2011-12	3,056,000	166,634,100 (4)	54,527	85,300	502,195	7.9%
2012-13	3,082,000	169,792,800 (4)	55,092	84,100	501,801	6.1%
2013-14	3,114,000	176,636,600 (4)	56,723	84,900	500,487	5.2%
2014-15	3,148,000	185,500,000 (4),(8)	58,926	85,900	497,116	4.3%

**Notes and Data Sources**

(1) - The Orange County Sanitation District services 479 square miles or 60% of the total 799 square miles that make up the boundaries of the County of Orange.

(2) - Data Source: Demographic Research Unit, California Department of Finance.

(3) - Data Source: Bureau of Economic Analysis, U.S. Department of Commerce.

(4) - Data Source: A. Gary Anderson Center for Economic Research, Chapman University.

(5) - Data Source: U.S. Department of Housing and Urban Development.

(6) - Data Source: California Department of Education, Educational Demographics Unit.

(7) - Data Source: State of California, Employment Development Department as of June 30 of each fiscal year.

(8) - Forecasted number.

**ORANGE COUNTY SANITATION DISTRICT**

Estimated Population Served by the  
Orange County Sanitation District  
June 30, 2015

	<b>Population as of <u>January 1, 2015</u></b>
Anaheim	351,433
Brea	43,328
Buena Park	82,767
Costa Mesa	113,455
Cypress	49,184
Fountain Valley	57,021
Fullerton	141,042
Garden Grove	174,774
Huntington Beach	198,389
Irvine	250,384
La Habra	62,079
La Palma	15,965
Los Alamitos	11,779
Newport Beach	87,249
Orange	140,094
Placentia	52,427
Santa Ana	335,264
Seal Beach	24,684
Stanton	39,219
Tustin	79,601
Villa Park	5,960
Westminster	92,106
Yorba Linda	<u>67,719</u>
Subtotal Cities <sup>(1)</sup>	2,475,923
Estimated Population Served in Unincorporated Areas <sup>(2)</sup>	<u>72,822</u>
	<u><u>2,548,745</u></u>

**Data Sources:**

(1) Demographic Research Unit, State of California Department of Finance

(2) Center for Demographic Research, California State University, Fullerton.

**ORANGE COUNTY SANITATION DISTRICT**  
Principal Orange County Employers (1)  
For the Current Fiscal Year and Nine Years Ago

<u>Employers</u>	<u>Fiscal Year Ended 6/30/15</u>			<u>Fiscal Year Ended 6/30/06</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (4)</u>
Walt Disney Co.	27,000	1	1.76%	21,000	1	1.37%
University of California, Irvine	22,385	2	1.46%	16,229	3	1.06%
County of Orange	18,135	3	1.18%	18,029	2	1.18%
St. Joseph Health System	12,227	4	0.80%	9,385	5	0.61%
Kaiser Permanente	7,000	5	0.46%			
Boeing Co.	6,890	6	0.45%	12,042	4	0.79%
Walmart	6,000	7	0.39%			
Memorial Care Health System	5,650	8	0.37%			
Bank of America Corp.	5,500	9	0.36%			
Target Corp.	5,400	10	0.35%			
Yum! Brands Incorporated				6,600	6	0.43%
Ameriquest Capital Corporation				6,300	7	0.41%
California State University, Fullerton				5,256	8	0.34%
PacifiCare Health System				5,074	9	0.33%
Home Depot, Incorporated				5,000	10	0.33%
Total	116,187		7.58%	104,915		6.85%

**Notes & Data Sources**

- (1) - Data is for the entire County of Orange.
- (2) - Data Sources: Orange County Business Journal Book of Lists, County of Orange
- (3) - Data Source: State of California, Employment Development Department.  
- Percentage is calculated by dividing employees by total employment of 1,530,800 as of June 2015.
- (4) - Data Source: State of California, Employment Development Department.  
- Percentage is calculated by dividing employees by total employment of 1,533,200 as of June 2006.

**ORANGE COUNTY SANITATION DISTRICT**

Operating Indicators

June 30, 2015

**District Organization:** The Orange County Sanitation District is one consolidated district made up of two revenue areas which service unincorporated county areas and twenty-three cities and related special districts, as follows:

**Consolidated Revenue Area**

County of Orange (unincorporated areas)

Cities:

Anaheim	Huntington Beach	Santa Ana
Brea	Irvine	Seal Beach
Buena Park	La Habra	Stanton
Costa Mesa	La Palma	Tustin
Cypress	Los Alamitos	Villa Park
Fountain Valley	Newport Beach	Westminster
Fullerton	Orange	Yorba Linda
Garden Grove	Placentia	

Special Districts:

- Midway City Sanitary District
- Costa Mesa Sanitary District
- Yorba Linda Water District

**Revenue Area No. 14**

County of Orange (unincorporated areas)

Cities:

- Irvine
- Orange
- Tustin

Special District:

- Irvine Ranch Water District

<b>Governing Body:</b>	25-member Board of Directors
<b>Authorized Full-Time Equivalent Employees:</b>	624
<b>Operational Date:</b>	July 1, 1954
<b>Authority:</b>	California Health & Safety Code Section 4700 et. seq.
<b>Services:</b>	Wastewater collection, treatment, and disposal
<b>Service Area:</b>	479 square miles
<b>Population Served:</b>	2.5 million
<b>Total Miles of Sewers (including force mains):</b>	580 miles
<b>Number of Pumping Stations:</b>	17

**Wastewater System Treatment Capacities (Million Gallons per Day)**

	<u>Actual Flows</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>
Plant 1	98	204	182
Plant 2	<u>92</u>	<u>168</u>	<u>150</u>
Total	<u>190</u>	<u>372</u>	<u>332</u>

Source: Orange County Sanitation District's Financial Management Division.

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**ORANGE COUNTY SANITATION DISTRICT  
OTHER DATA & TRENDS**

Information within this section consists of other data and trends including additional annual disclosures as required by the Sanitation District's debt covenants beyond what is allowed to be reported in the Statistical Section.

**ORANGE COUNTY SANITATION DISTRICT**

Cash and Investment Portfolio

As of June 30, 2015

	Cost		Market Value	% of Total	Net Unrealized
	Shares Par	Base	Base		Gain/(Loss) Base
<b>INVESTMENT PORTFOLIO:</b>					
<b>CASH &amp; CASH EQUIVALENTS (U.S. DOLLAR):</b>					
CASH EQUIVALENTS	\$ 104,813	\$ 104,813	\$ 44,283	0.01%	\$ (60,529)
COMMERCIAL PAPER - DISCOUNT	19,000,000	18,966,404	18,966,546	4.03%	142
FEDERAL HOME LOAN BANK - 1 YR OR LESS	28,000,000	27,992,929	27,996,907	5.95%	3,978
FEDERAL HOME LOAN MORTGAGES - 1 YR OR LESS	15,000,000	14,990,503	14,996,109	3.19%	5,605
FNMA ISSUES - 1 YR OR LESS	10,000,000	9,994,233	9,998,900	2.12%	4,667
SHORT TERM INVESTMENT FUNDS (US REGULATED)	3,980,365	3,980,365	3,980,365	0.85%	-
PENDING TRADES	-	16	16	0.00%	-
<b>SUBTOTAL - CASH &amp; CASH EQUIVALENTS</b>	<b>76,085,178</b>	<b>76,029,263</b>	<b>75,983,126</b>	<b>16.15%</b>	<b>(46,137)</b>
<b>FIXED INCOME SECURITIES (U.S. DOLLAR):</b>					
ABS - CAR LOANS	13,595,000	13,572,581	13,584,083	2.89%	11,501
ABS - CREDIT CARDS	9,000,000	9,003,945	9,000,000	1.91%	(3,945)
ABS - EQUIPMENT	6,955,000	6,956,439	6,960,595	1.48%	4,156
ABS - HOME EQUITY	256,943	209,195	246,104	0.05%	36,909
ABS - SMALL BUSINESS ADMINISTRATION	155,329	155,330	168,598	0.04%	13,268
ABS - STUDENT LOANS	46,707	46,517	47,915	0.01%	1,398
BANKING & FINANCE	55,508,000	57,046,720	55,027,411	11.69%	(2,019,309)
CHEMICALS	1,000,000	1,001,530	1,000,950	0.21%	(580)
COLLATERALIZED MORTGAGE OBLIGATION COMM/C	116,266	116,565	116,302	0.02%	(264)
FHLMC MULTICLASS	2,130,892	2,334,335	2,379,631	0.51%	45,296
FHLMC POOLS	2,750	2,684	2,852	0.00%	169
FNMA POOLS	2,314,413	2,430,830	2,531,080	0.54%	100,250
FNMA REMIC	702,870	694,070	706,235	0.15%	12,165
FOOD BEVERAGE & TOBACCO	1,600,000	1,854,144	1,776,880	0.38%	(77,264)
GNMA MULTI FAMILY POOLS	301,726	301,725	314,172	0.07%	12,447
GNMA REMIC	54,103	54,104	54,445	0.01%	341
HEALTH CARE	5,300,000	5,327,727	5,348,195	1.14%	20,468
INSURANCE	500,000	499,630	501,405	0.11%	1,775
OIL & GAS	7,100,000	7,080,029	7,089,523	1.51%	9,494
REITS	1,000,000	996,050	1,083,370	0.23%	87,320
RETAIL	2,000,000	2,033,930	2,032,090	0.43%	(1,840)
SUPRANATIONAL ISSUES	13,000,000	13,035,120	13,027,260	2.77%	(7,860)
TAXABLE MUNICIPALS	9,040,000	9,072,384	9,991,639	2.12%	919,255
TECHNOLOGY	7,000,000	7,003,475	6,973,680	1.48%	(29,795)
U.S. TIPS	13,654,376	13,544,535	13,372,749	2.84%	(171,786)
US AGENCIES	62,500,000	62,681,638	62,683,982	13.32%	2,344
US GOVERNMENTS	176,194,000	176,127,844	176,995,782	37.61%	867,938
UTILITY - ELECTRIC	1,000,000	999,810	1,003,540	0.21%	3,730
WHOLE LOAN - CMO - COLLATERALIZED MTG OBLIG	580,388	580,386	581,485	0.12%	1,100
<b>SUBTOTAL - FIXED INCOME SECURITIES</b>	<b>392,608,763</b>	<b>394,763,272</b>	<b>394,601,953</b>	<b>83.85%</b>	<b>(161,319)</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>	<b>\$ 468,693,941</b>	<b>470,792,535</b>	<b>470,585,079</b>	<b>100.00%</b>	<b>(207,456)</b>
DEMAND DEPOSITS AND CASH ON HAND		3,404,930	3,404,930		
MONIES HELD WITH FISCAL AGENTS		32,969,813	32,969,813		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		49,911,655	49,930,420		
<b>TOTAL CASH AND INVESTMENTS</b>		<b>\$ 557,078,933</b>	<b>\$ 556,890,242</b>		

Source: BNY Mellon Trust and Orange County Sanitation District's Financial Management Division.

**ORANGE COUNTY SANITATION DISTRICT**  
Property Tax Rates - Direct and Overlapping Governments  
Last Ten Fiscal Years

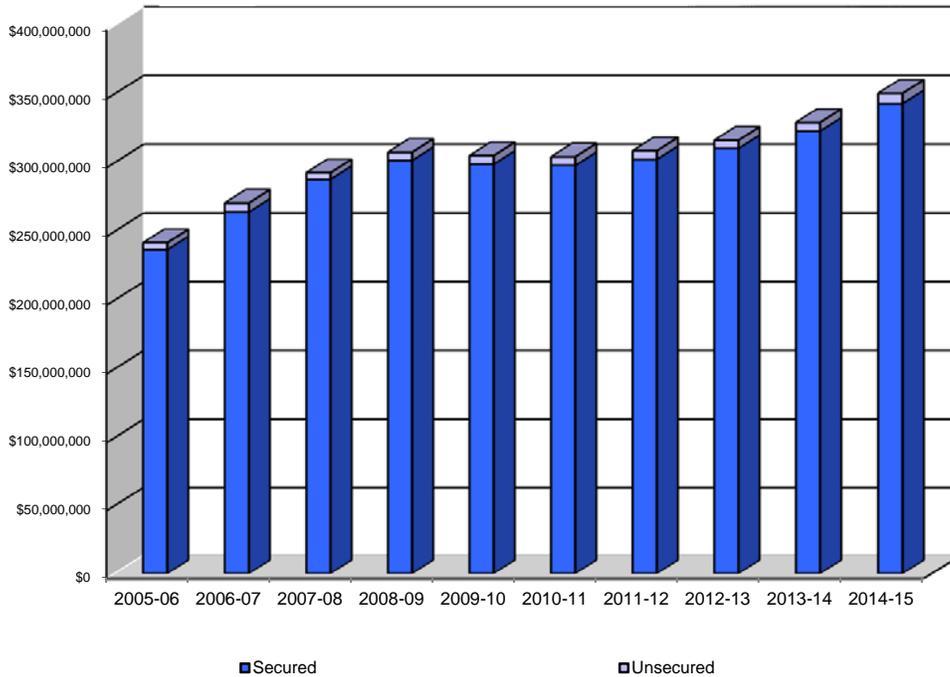
<b>Fiscal Year</b>	<b>Tax Rate</b>			<b>OCSD's Average Share of Basic Levy</b>
	<b>Basic Levy</b>	<b>OCSD 1958 General Obligation Bonds</b>	<b>Total Tax Rate</b>	
2005-06	1.00%	0.00%	1.00%	1.65%
2006-07	1.00%	0.00%	1.00%	1.65%
2007-08	1.00%	0.00%	1.00%	1.63%
2008-09	1.00%	0.00%	1.00%	1.64%
2009-10	1.00%	0.00%	1.00%	1.63%
2010-11	1.00%	0.00%	1.00%	1.64%
2011-12	1.00%	0.00%	1.00%	1.64%
2012-13	1.00%	0.00%	1.00%	1.64%
2013-14	1.00%	0.00%	1.00%	1.65%
2014-15	1.00%	0.00%	1.00%	1.63%

**Notes**

In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount of assessed value. This 1.00% is shared by all taxing agencies within which the subject property resides. In addition to the 1.00% fixed amount, property owners were charged taxes as a percentage of assessed property values for the payment of OCSD general obligation bonds (which were paid in full in fiscal year 1998-99).

Source: County of Orange Auditor-Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**  
 Assessed and Estimated Actual Value of Taxable Property  
 (Dollars In Thousands)  
 Last Ten Fiscal Years

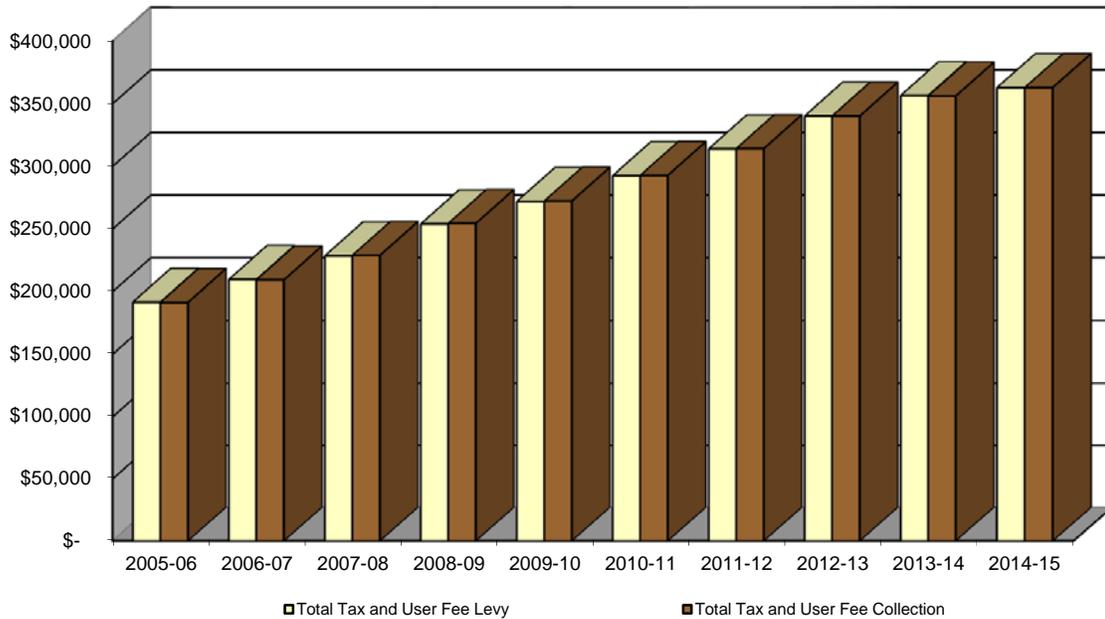


<b>Fiscal Year</b>	<b>Secured</b>	<b>Unsecured</b>	<b>Total</b>	<b>Percent Change in Assessed Value</b>
2005-06	\$ 236,826,573	\$ 5,023,423	\$ 241,849,996	10.30%
2006-07	264,241,033	6,452,111	270,693,144	11.93%
2007-08	288,051,467	4,681,838	292,733,305	8.14%
2008-09	301,717,479	5,894,003	307,611,482	5.08%
2009-10	299,038,654	6,116,530	305,155,184	-0.80%
2010-11	298,099,034	6,238,834	304,337,868	-0.27%
2011-12	302,526,970	6,163,979	308,690,949	1.43%
2012-13	310,451,986	5,901,040	316,353,026	2.48%
2013-14	323,064,994	6,220,505	329,285,499	4.09%
2014-15	343,102,030	7,378,643	350,480,673	6.44%

In 1978, the voters of the State of California passed Proposition 13 which limited property taxes to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an inflation factor which is limited to a maximum increase of 2%. With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is reassessed at the purchase price of the property sold. The assessed valuation data shown above represents the only data currently available with respect to the actual market value of taxable property and is subject to the limitations described above. Consequently, the assessed and estimated values are the same.

Source: Orange County Auditor - Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**  
Property Tax and User Fee Levies and Collections  
(Dollars in Thousands)  
Last Ten Fiscal Years



Fiscal Year	Total Tax and User Fee Levy	ERAF III Deduction	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	O/S Delinquencies	% of Delinquencies to Levy	(1) Pass-Through Payments
2005-06	\$ 191,711	\$ (16,198)	\$ 191,290	99.78	\$ 122	\$ 191,412	99.84	\$ 421	0.22	\$ -
2006-07	209,766	-	209,206	99.73	215	209,421	99.84	560	0.27	-
2007-08	228,622	-	228,635	100.01	329	228,964	100.15	(13)	(0.01)	-
2008-09	254,092	-	254,106	100.01	395	254,501	100.16	(14)	(0.01)	-
2009-10	272,050	-	272,110	100.02	226	272,336	100.11	(60)	(0.02)	-
2010-11	292,646	-	292,689	100.01	120	292,809	100.06	(43)	(0.01)	-
2011-12	314,077	-	314,133	100.02	121	314,254	100.06	(56)	(0.02)	3,116
2012-13	340,298	-	340,156	99.96	64	340,220	99.98	142	0.04	14,687
2013-14	356,607	-	356,108	99.86	76	356,184	99.88	499	0.14	7,274
2014-15	362,978	-	362,927	99.99	108	363,035	100.02	51	0.01	8,447 (2)

**Notes**

(1) Upon dissolution of California redevelopment agencies during fiscal year 2011-12, property tax increment formerly remitted to OCSD by its member city redevelopment agencies was instead deposited into the newly formed Redevelopment Property Tax Trust Fund (RPTTF) from which the Auditor/Controller makes disbursements on behalf of the successor agencies. There is no tax levy associated with these collections; thus, they have been excluded from the "% of Total Collection to Levy" calculation.

(2) Beginning with fiscal year 2014-15, the County no longer bills user fees for wholly exempt agencies not subject to property taxes, which are now billed and collected by OCSD. Only tax and user fees included on County property tax billings are shown in this schedule. In fiscal year 2014-15, user fees of \$5 million billed to wholly exempt agencies have been excluded from the levy and collection amounts above.

Source: Orange County Auditor - Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**

Property Value and Construction  
 Covering The Entire County of Orange (1)  
 (Dollars In Thousands)  
 Last Ten Fiscal Years

<u>Assessed Property Value (2)</u>		<u>Calendar Year</u>	<u>Non- Residential Construction (3)</u>		<u>Residential Construction (3)</u>		<u>Total Construction Value (3)</u>
<u>Fiscal Year</u>	<u>Value</u>		<u>Value</u>	<u>No. of Units</u>	<u>Value</u>		
2005-06	\$ 342,576,859	2006	\$ 2,400,569	8,371	\$ 2,316,948	\$ 4,717,517	
2006-07	381,007,391	2007	2,005,198	7,072	1,792,270	3,797,468	
2007-08	412,669,779	2008	1,439,120	3,159	1,037,713	2,476,833	
2008-09	428,809,224	2009	952,480	2,200	855,193	1,807,673	
2009-10	422,965,596	2010	1,151,929	3,091	1,029,407	2,181,336	
2010-11	420,751,575	2011	1,300,019	4,807	1,236,973	2,536,992	
2011-12	424,769,642	2012	1,265,430	6,163	1,560,509	2,825,939	
2012-13	432,902,274	2013	1,521,280	10,453	2,653,728	4,175,008	
2013-14	447,749,156	2014	1,924,009	10,533	2,559,430	4,483,439	
2014-15	476,303,290	2015	2,030,989	11,282	2,699,953	4,730,942 (4)	

**Notes and Data Sources**

(1) - The Orange County Sanitation District services 479 square miles or 60% of the total 799 square miles that make up the boundaries of the County of Orange.

(2) - Data Source: Orange County Auditor-Controller's Office.

(3) - Data Source: A. Gary Anderson Center for Economic Research, Chapman University.

(4) - Forecasted numbers.

**ORANGE COUNTY SANITATION DISTRICT**

Insurance in Force  
As of June 30, 2015

<u>Type</u>	<u>Insurer</u>	<u>Deductible</u>	<u>Limit</u>
<b><u>All-Risk Property</u></b>			
Fire and Other Perils	Public Entity Property Insurance Program (Lexington and others)	\$250,000 per occurrence	\$1 billion/occurrence
Flood	Public Entity Property Insurance Program	\$100,000 per occurrence	\$300 million/occurrence
Earthquake	Not Applicable	Not Applicable	Self-insured
<b><u>Boiler &amp; Machinery</u></b>			
	Public Entity Property Insurance Program (Lexington and others)	\$25,000 to \$350,000	\$100 million/occurrence
<b><u>Crime Insurance</u></b>			
	National Union Fire	\$25,000	\$5 million
<b><u>Excess General Liability</u></b>			
	Security National Insurance (first \$10 million layer); Berkley National (\$20 million layer excess \$10 million) Great American (\$10 million layer excess \$30 million)	\$500,000	\$40 million/occurrence and annual aggregate
<b><u>Travel &amp; Accident</u></b>			
	Chubb Group of Insurance Companies	None	Accidental Death & Dismemberment: Class 1: Elected Officials, \$500,000 per occurrence Class 2: Employees, 10X annual salary, up to \$500,000 per occur.
<b><u>Excess Workers' Compensation</u></b>			
	CSAC Excess Insurance Authority Program	\$750,000 Each Accident	Unlimited statutory coverage each accident, each employee \$4.25 million employer's liability
<b><u>Pollution Liability</u></b>			
	CSAC Excess Insurance Authority Program	\$100,000	\$10,000,000 per loss
<b><u>Watercraft</u></b>			
Liability	Atlantic Specialty	\$15,000	\$10 million
Hull & Machinery	Atlantic Specialty	\$15,000	\$1.3 million
Pollution Liability	Great American Ins. Co,	None	\$5 million
<b><u>OCIP Main Basket</u></b> ("OCIP" = Owner Controlled Ins. Program for Construction)			
Workers Comp.	Liberty Mutual	\$250,000/occur.	Unlimited statutory coverage
General Liability	Liberty Mutual	\$250,000/occur.	\$2 million/occurrence; \$4 million agg.
<b><u>OCIP Excess Liability</u></b>			
	AIG	\$10,000	\$100 million
<b><u>OCIP Pollution Liability</u></b>			
	Liberty Surplus	\$250,000	\$10 million

Source: Orange County Sanitation District's Risk Management Office.

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**ORANGE COUNTY SANITATION DISTRICT  
FINANCIAL MANAGEMENT DIVISION**

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06/30/15