

# Orange County Sanitation District Comprehensive Annual Financial Report

for the period ended June 30, 2014  
with comparative totals for June 30, 2013



Orange County, California

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

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  
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 With Comparative Totals for the Year Ended June 30, 2013

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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

Yorba Linda

County of Orange

Costa Mesa  
Sanitary District

Midway City  
Sanitary District

Irvine Ranch  
Water District

October 23, 2014

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, 2014. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2014 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, 2014. 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, 2014.

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 81 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 35 million gallons (132,500 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 April 2014, the Institute for Economic and Environmental Studies 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 to the weather setbacks and the reduction of an inventory buildup in the first half of the year, and then rise to 3.1 percent in 2015.

The CSUF forecast reports that Orange County payroll employment rose by 36,000 during 2013 for a 2.5 percent increase, approximately the same amount as in 2012. The two years of solid growth comes after

a loss of 141,000 jobs during 2007-2010. Over the three-year period from 2010-2013, Orange County has regained approximately 88,000 jobs of all the total jobs lost during the devastation of the Great Recession. Job losses during the recession were concentrated in a handful of sectors with the largest decline occurring in Construction (-35,000) that shrank by an unprecedented 45 percent. In magnitude, this was followed by Manufacturing (-30,000), Professional & Business Service (-30,000), Financial Services (-24,000) and Retail Sales (-20,000). Some of these most hard-hit sectors have also rebounded over the past three years. The gains were led by Professional & Business Services (20,000), Leisure & Hospitality (19,000), Educational and Health Services (16,000), Construction (9,000), and Financial Services (9,000).

CSUF expects Orange County payroll employment to increase by 38,000, or 2.7 percent in 2014 and by 41,000, or 2.8 percent in 2015. The Orange County average annual unemployment rate is forecasted to drop slightly below 6.0 percent in 2014 and to 5.5 percent in 2015.

According to CSUF, housing construction has improved significantly but has a long way to go before getting to the pre-recession levels. Housing starts fell unexpectedly in 2013 but are showing better performance in early 2014 and are expected to continue to improve. Spending on residential and commercial developments continued to show healthy growth in 2013 and is expected to maintain that pace.

A strengthening economy and lower inventory levels have been pushing up the prices of housing. The number of foreclosures has gone down substantially and there has been little addition to the stock of housing due to relatively slow improvement in construction. The annual increase on the basis of Corelogic data for Orange County housing price for an existing single-family home was 19.3 percent for 2013 to a level of \$625,000. CSUF expects a 7-9 percent increase in 2014 and a 5-7 percent increase in 2015.

## MAJOR INITIATIVES

Following are the District's current major initiatives as outlined in the General Manager's work plan for FY 2015-15:

1. **Safety and Security** – Prioritize and implement measures to reduce risk and provide a secure and safe workplace for our employees, as well as protecting our regional infrastructure. Complete Administrative or Engineering Controls for high priority items identified in the Safety Study (SP-145) by December 31, 2014. Develop an Implementation Plan for the standard Administration and Engineering Controls identified in the Safety Study by June 30, 2015. Complete a Vulnerability Self-Assessment and identify security improvements by December 31, 2014.
2. **Future Water Recycling** – Work with Orange County Water District (OCWD) to jointly study improvements needed to support the Groundwater Replenishment System Final Expansion. Determine partnerships, needs, strategies, benefits and costs associated with recycling any remaining flows from Plant No. 2 effluent water. Issue Request for Proposals for SP-173 Effluent Reuse Study by January 2015 and update agreement with OCWD by June 2015.
3. **Infrastructure Stability** – Expand the current asset management program to enhance the maintenance of civil assets (concrete, structures, steel, etc.). Develop by June 30, 2015 a civil asset management plan including goals, implementation tasks and resource needs.
4. **Operational Optimization** – Continue to evaluate and optimize operations at the Sanitation District focusing on:
  - Efficiency – Effective Utility Management Model – Complete the review and self-assessment by December 31, 2014.



- Cost Savings – By June 30, 2015, continue stakeholder outreach efforts, submit request to re-open ocean discharge permit, negotiate removal of disinfection requirements, and discontinue use of disinfection chemicals for effluent discharge through the long outfall, realizing an annual cost savings of \$425,000.
  - Best Management Practices – Develop business work flows for implementing best practices for planning and scheduling maintenance, conduct training, and go-live with Maximo, the new computerized maintenance management system (CMMS) by June 30, 2015.
  - Shared Services – Explore and determine areas where shared services can improve performance and reduce costs for OCSD rate payers by consolidating functions.
5. **Communication Strategy** – Prepare a recommendation by June 30, 2015 for the Board of Directors on OCSD’s corporate identity and the possibility of moving OCSD’s brand from “wastewater” to a “resource recovery facility”.
  6. **Capital Budget Expenditure** – Target 90 percent expenditure on major Engineering Capital Projects for FY 14/15.
  7. **Workforce Planning and Workforce Development** – Improve, increase, and implement tools to expand labor force capacity and staff skill levels by June 30, 2015.
  8. **Administrative Facilities** – Prepare and present an Implementation Plan for the replacement of Plant No. 1 administrative facilities to the Board of Directors by June 30, 2015.
  9. **Operational Resiliency** – By June 30, 2015 complete a comprehensive review of the Integrated Emergency Response Plan with three table top drills exercises, complete a risk register and develop a scope of work for a business continuity plan to ensure OCSD is prepared to continue operations in the event of a significant event.
  10. **Odor Control Master Plan** – Develop a recommendation on odor treatment technologies and levels of service goals for both plant facilities. Issue a request for proposal for SP-166, Plant Odor Control Master Plan by January 31, 2015.
  11. **Research** – Finalize fuel cell research project and present findings with recommendations to the Board of Directors by December 31, 2014. Identify and propose two research opportunities to the Board of Directors by June 30, 2015.
  12. **Energy Efficiency** – Evaluate OCSD facilities, through an energy audit, to identify energy savings strategies that are economically and operationally feasible. Present findings and recommendations to the Board of Directors by June 30, 2015.

### **Strategic Planning**

In November 2013, the Board of Directors approved the annual 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:

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.

### **SERVICE EFFORTS AND ACCOMPLISHMENTS**

In January 2014, the Sanitation District and with the Orange County Water District were named the recipients of the 2014 U.S. Water Prize for the Ground Water Replenishment System by the U.S. Water Alliance. This award goes to those agencies that best promote the value of water and the power of innovating and integrating water sustainability.

In February 2014, the Sanitation District received the Wastewater Treatment Project of the Year Award from the American Society of Civil Engineers, the Engineering Project of the Year Award from the Orange County Engineering Council, and the Project Achievement Award for Projects Over \$100 million from the Construction Management Association of America for the Plant No. 2 Headworks Replacement Project.

In March 2014, the Sanitation District received the 2014 Plant Safety Award (for plants requiring 76 or more employees) from the California Water Environment Association.

In March 2014, the Sanitation District received the award for the Best Marketing/Communications Campaign from the California Association of Public Information Officers.

In May 2014, the Sanitation District received the 2014 American In-house Design Award from Graphic Design USA for the Fats, Oils and Grease residential campaign.

### **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, 2014 was \$45.3 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 \$131 million at June 30, 2014.

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, 2014, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$673 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	\$189 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	296 million
Designated For Debt Service Requirements	<u>131 million</u>
 Total Designated Cash and Investments	 <u>\$ 673 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, 2013. 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,



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, 2013**

Executive Director/CEO

**ORANGE COUNTY SANITATION DISTRICT**

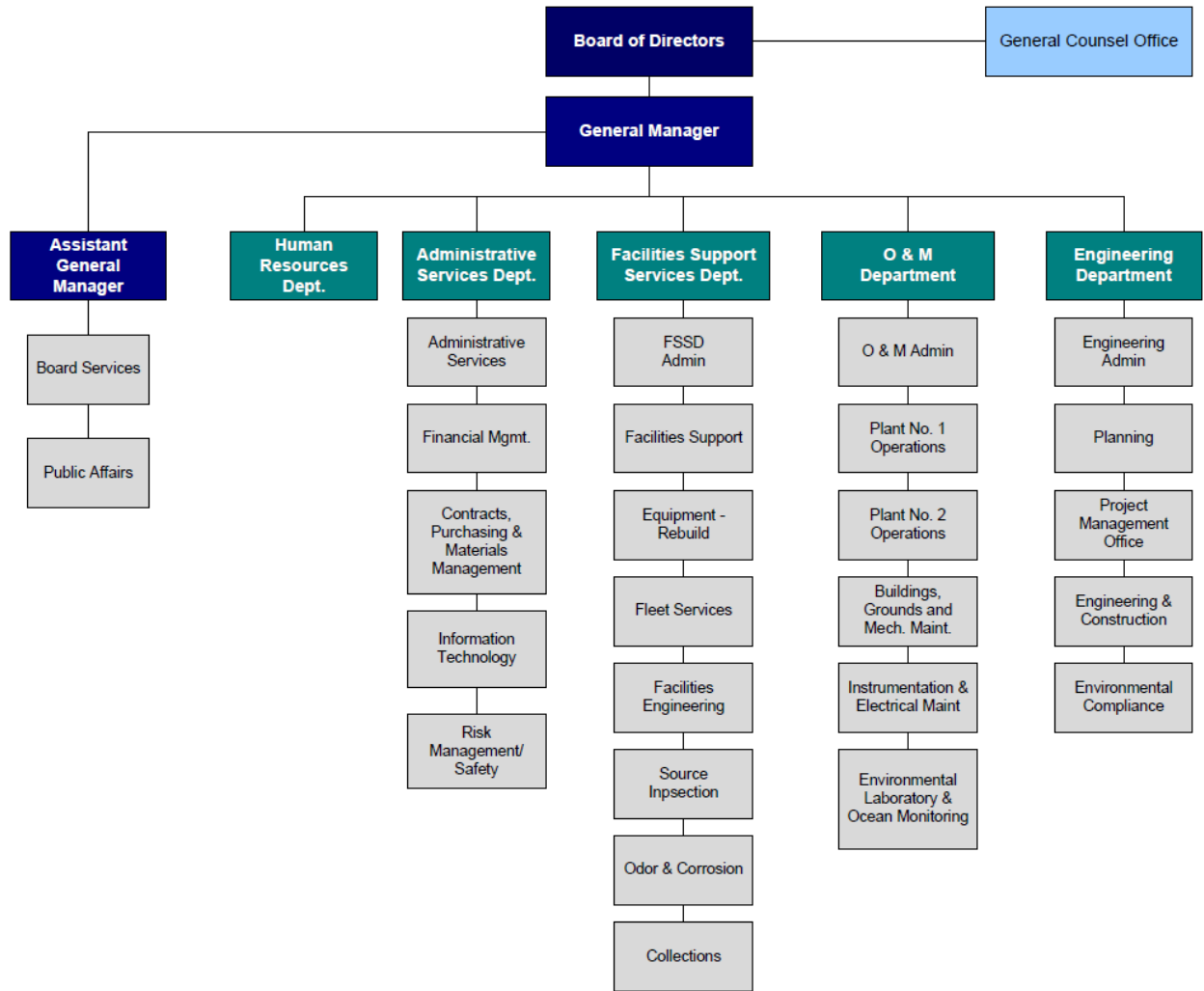
Board of Directors  
As of June 30, 2014

<u>Agency</u>	<u>Active Director</u>	<u>Alternate Director</u>
Cities:		
Anaheim	Lucille Kring	Jordan Brandman
Brea	Brett Murdock	Roy Moore
Buena Park	Fred Smith	Steve Berry
Cypress	Prakash Narain	Doug Bailey
Fountain Valley	Steve Nagel	Michael Vo
Fullerton	Gregory Sebourn	Jan Flory
Garden Grove	Steve Jones	Kris Beard
Huntington Beach	Joe Carchio	Dave Sullivan
Irvine	Steven Choi	Christina Shea
La Habra	Tom Beamish	Rose Espinoza
La Palma	Peter Kim	Gerard Goedhart
Los Alamitos	Troy Edgar	Richard Murphy
Newport Beach	Keith Curry	Rush Hill
Orange	Teresa Smith	Mark Murphy
Placentia	Scott Nelson	Constance Underhill
Santa Ana	David Benavides	Sal Tinajero
Seal Beach	Michael Levitt	Gordon Shanks
Stanton	David Shawver	Carol Warren
Tustin	John Nielsen	Allan Bernstein
Villa Park	Brad Reese	Greg Mills
Yorba Linda	Gene Hernandez	John Anderson
Sanitary Water Districts:		
Costa Mesa Sanitary District	James M. Ferryman	Robert Ooten
Midway City Sanitary District	Tyler Diep	Allan P. Krippner
Irvine Ranch Water District	John Withers	Douglas Reinhart
County Areas:		
Member of the Board of Supervisors	Janet Nguyen	Shawn Nelson

# ORANGE COUNTY SANITATION DISTRICT

## Organizational Chart

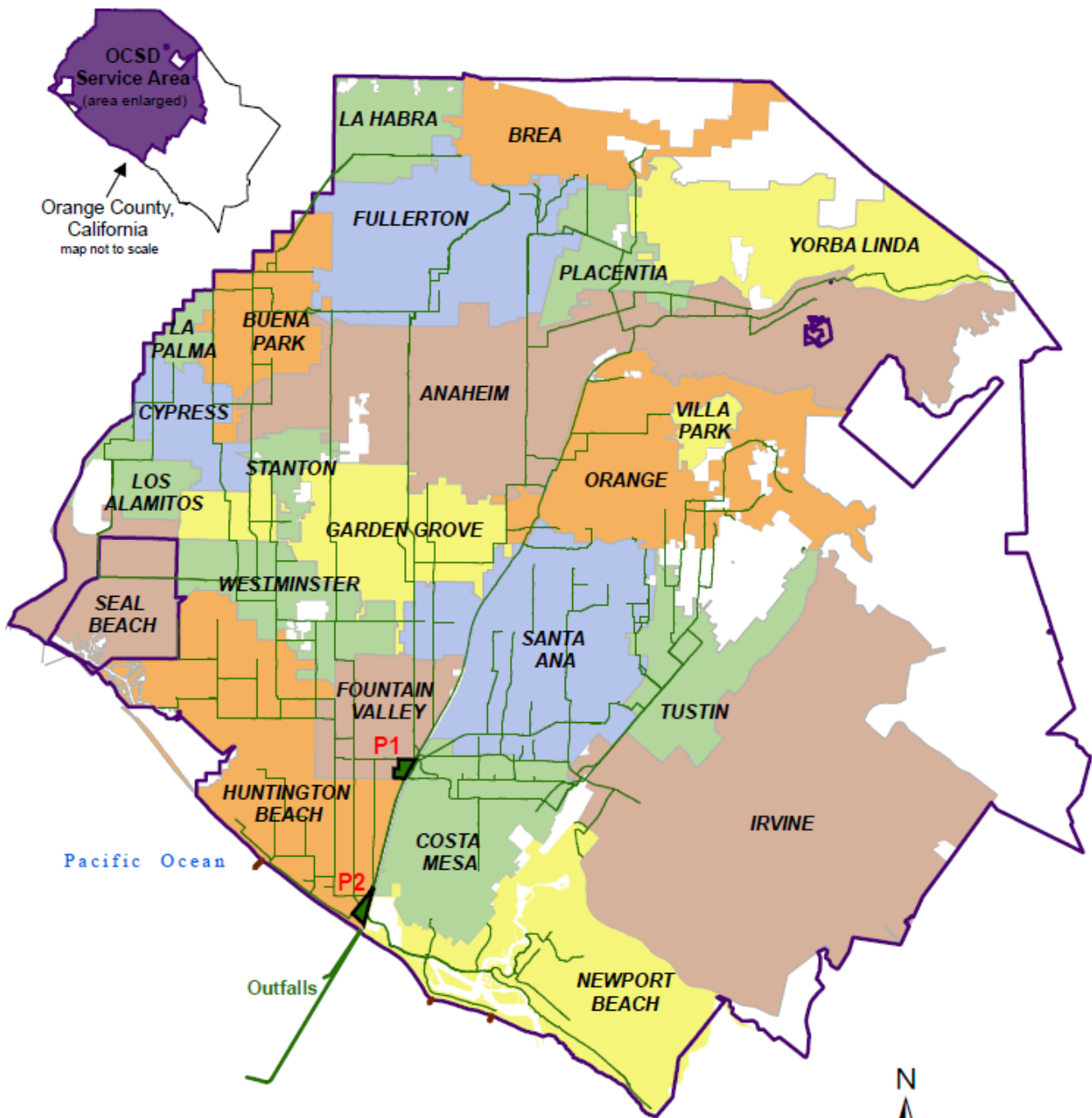
As of June 30, 2014








# ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2014



-  Service Area Boundary
-  Reclamation Plant No. 1 (P1)
-  Treatment Plant No. 2 (P2)
-  Unincorporated Orange County (white areas)
-  Sewer pipelines

DISCLAIMER: Map prepared by the Orange County Sanitation District. This map is intended for graphical representation only. No level of accuracy is claimed. Portions of this derived product contain geographical information copyrighted by Rand McNally 2013. All Rights Reserved.

Revised: 06/2014



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## Independent Auditor's Report

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

### 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, 2014, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2014, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

### *Report on Summarized Comparative Information*

We have previously audited the District's June 30, 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McGladrey LLP*

Irvine, CA  
October 23, 2014

## **Management Discussion and Analysis June 30, 2014**

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, 2014. 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, 2014, the assets and deferred outflows of the District exceeded its liabilities by \$1,822.3 million (net position). Of this amount, \$617.6 million represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased \$121.6 million, or 7.1 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, decreased \$12.2 million, or 0.5 percent over the prior year.
- Net investment in capital assets increased \$24.4 million, or 2.1 percent.
- Unrestricted Net Assets increased \$97.2 million, or 18.7 percent from the prior year.
- The District's total outstanding bonded debt decreased by \$416.7 million over the prior year to \$1.233 billion.

### **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 and liabilities; 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.

### **Net Position**

As previously noted, net position increased \$121.6 million, or 7.1 percent over the net position for FY 2012-13, to \$1,822.3 million in Fiscal Year 2013-14. In comparison, net position increased \$103.1 million, or 6.5 percent in FY 2012-13 over Fiscal Year 2011-12, to \$1,700.7 million.

(Dollars in thousands)

	June 30, 2014	June 30, 2013	Increase (Decrease)	Percentage Increase (Decrease)
<b>Assets and deferred outflow of resources</b>				
<b>Assets</b>				
Current and other assets	\$ 755,807	\$ 691,853	\$ 63,954	9.2%
Net Capital assets	2,420,005	2,432,214	(12,209)	-0.5%
<b>Total assets</b>	<b>3,175,812</b>	<b>3,124,067</b>	<b>51,745</b>	<b>1.7%</b>
<b>Deferred outflow of resources</b>	18,173	20,723	(2,550)	-12.3%
<b>Total Assets and deferred outflow of resources</b>	<b>3,193,985</b>	<b>3,144,790</b>	<b>49,195</b>	<b>1.6%</b>
<b>Liabilities</b>				
Current liabilities	113,987	278,265	(164,278)	-59.0%
Noncurrent liabilities	1,257,703	1,165,800	91,903	7.9%
<b>Total liabilities</b>	<b>1,371,690</b>	<b>1,444,065</b>	<b>(72,375)</b>	<b>-5.0%</b>
<b>Net position:</b>				
Net investment in capital assets	1,204,706	1,180,298	24,408	2.1%
Unrestricted	617,589	520,427	97,162	18.7%
<b>Total net position</b>	<b>\$ 1,822,295</b>	<b>\$ 1,700,725</b>	<b>\$ 121,570</b>	<b>7.1%</b>

Current and other assets increased \$64.0 million, or 9.2 percent, due primarily to net cash provided by operations of \$134.6 million, proceeds from property taxes of \$75.1 million, receipt of capital facilities capacity charges of \$12.5 million, and other government repayments of \$10.7 million offset by capital outlays of \$75.3 million, interest expense of \$53.4 million, and bonded debt retirements of \$39.3 million.

Net Capital assets decreased \$12.2 million, or 0.5 percent, due mostly to the ongoing capital improvement program construction in progress additions of \$87.5 million less depreciation of \$98.8 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 2013-14, the District incurred project costs of \$21.9 million bringing the total cost-to-date to \$48.6 million. 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 2013-14, \$15.1 million of the total project budget of \$48.1 million was incurred bringing the cost-to-date to \$32.5 million with completion in FY 2017-18.

Two large collection system projects; Dover Drive Trunk Sewer Relief, with total project budget of \$13.8 million; and Balboa Trunk Sewer Rehabilitation, with a total project budget of \$8.1 million; incurred significant outlays in FY 2013-14. The Dover Drive project is being built to increase the hydraulic capacity for 7,300 lineal feet of existing 15-inch to 18-inch sewer line located in the City of Newport Beach. In FY 2013-14, the District incurred project costs of \$7.8 million bringing the total cost-to-date to \$10.6 million. The Balboa project consists of the rehabilitation of the existing Balboa Trunk Sewer, also in the City of Newport Beach, that includes a new protective lining in approximately 12,000 feet of sewer pipeline. In

FY 2013-14, the District incurred project costs of \$5.0 million bringing the total cost-to-date to \$6.7 million. See page 7 for the Schedule of Capital Assets and listing of other major capital additions for FY 2013-14.

*Current Liabilities* decreased \$164.3 million, or 59.0 percent over the prior year due primarily to the refunding of the \$129.6 million Certificates of Anticipation Notes (CANs) Series 2013A, maturing in October 2014, and being replaced with the non-current two-year \$120.9 million CANs Series 2014B.

*Net Investment in capital assets* increased \$24.4 million, or 2.1 percent over the prior year primarily as a result of the net reduction in capital assets of \$12.3 million offset by the \$36.6 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.

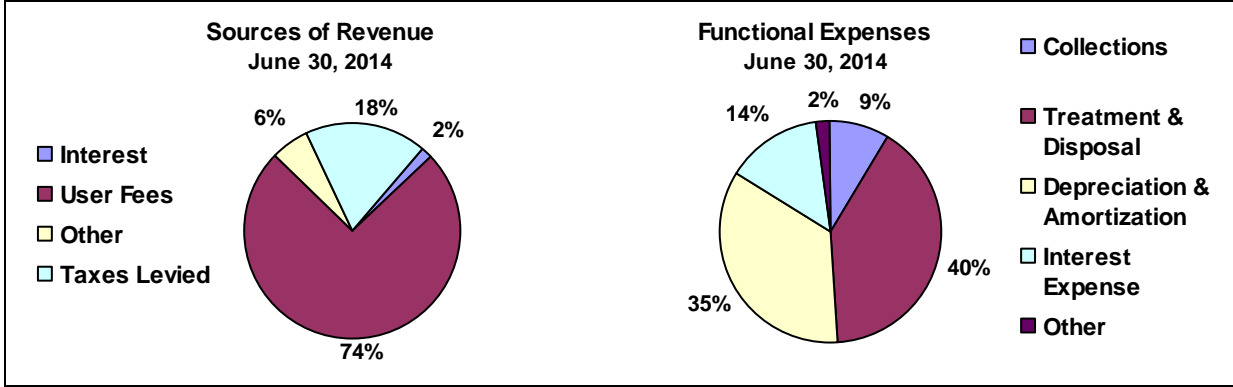
*Unrestricted net position* increased \$97.2 million, or 18.7 percent due to the overall increase in net position of \$121.6 million offset by the increase in net investment in capital assets of \$24.4 million.

### Changes in Net Position

Net position increased \$121.6 million in FY 2013-14, a 7.1 percent increase over the prior year.

*(Dollars in thousands)*

	June 30, 2014	June 30, 2013	Increase (Decrease)	Percentage Increase (Decrease)
<b>Revenues:</b>				
Operating revenues				
Service Charges	\$ 300,611	\$ 303,400	\$ (2,789)	-0.9%
Permit and inspection fees	848	1,176	(328)	-27.9%
Total operating revenues	301,459	304,576	(3,117)	-1.0%
Non-operating revenues				
Property taxes	74,944	79,240	(4,296)	-5.4%
Investment and interest income	6,498	(3,913)	10,411	266.1%
Contrib. from other government	11,278	2,054	9,224	449.1%
Other	1,317	1,727	(410)	-23.7%
Total non-operating revenues	94,037	79,108	14,929	18.9%
<b>Total revenues</b>	<b>395,496</b>	<b>383,684</b>	<b>11,812</b>	<b>3.1%</b>
<b>Expenses:</b>				
Operating expense other than depreciation and amortization	146,447	149,817	(3,370)	-2.2%
Depreciation and amortization	99,805	63,907	35,898	56.2%
Non-operating expense	41,767	79,650	(37,883)	-47.6%
<b>Total expenses</b>	<b>288,019</b>	<b>293,374</b>	<b>(5,355)</b>	<b>-1.8%</b>
<b>Income before capital contributions</b>	<b>107,477</b>	<b>90,310</b>	<b>17,167</b>	<b>19.0%</b>
<b>Capital facilities capacity charges</b>	<b>14,093</b>	<b>12,797</b>	<b>1,296</b>	<b>10.1%</b>
<b>Increase in net position</b>	<b>121,570</b>	<b>103,107</b>	<b>18,463</b>	<b>17.9%</b>
Beginning net position	1,700,725	1,597,618	103,107	6.5%
<b>Ending net position</b>	<b>\$ 1,822,295</b>	<b>\$ 1,700,725</b>	<b>\$ 121,570</b>	<b>7.1%</b>



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 2013-14, operating revenues decreased \$3.1 million, or 1.0 percent over the prior year that is reflective of a \$16.2 million decrease in the solids capital lease revenue from IRWD that is mostly offset by the increase in service charges from \$288.6 million in FY 2012-13 to \$302.1 million in FY 2013-14, or a \$13.5 million or 4.7 percent increase. The increase in service charges is primarily due to the 4.8 percent increase in the average sewer user fee rate over the prior year. The decrease in solids capital lease revenue is mostly due to the adjustments made to the estimated solids capital lease revenue previously recorded for the past three years against the final reconciliation when all relevant construction and laboratory data became available.

The \$14.9 million, or 18.9 percent increase in non-operating revenues primarily consists of a \$10.4 million, or 266.1 percent increase in investment and interest income, a \$9.2 million, or 449.1 percent increase in contributions from other governments that is partially offset by a \$4.3 million, or 5.4 percent decrease in property tax revenues, and a \$0.4 million, or 23.7 percent decrease in other non-operating revenues. The increase in investment and interest income is attributable to higher yields earned on investments and higher cash and investments balances. Yields earned on investments increased from a 0.6 percent loss in FY 2012-13 to a gain of 1.1 percent in FY 2013-14 while cash and investment balances increased from \$600 million to \$673 million. The increase in contributions from other governments is reflective of the increase in capital contributions from IRWD. The decrease in property tax revenue is primarily the result of the receipt of \$8.7 million in one-time redevelopment dissolution proceeds in the prior year. Discounting this one-time receipt, property taxes increased 4.4 percent over the prior year, approximating the year-to-year increase in total assessed valuations of 4.1 percent. The decrease in other non-operating revenues is mostly reflective of the \$500,000 earned from a State grant in the prior year.

Operating expense before depreciation and amortization decreased \$3.4 million or 2.2 percent over the prior year. The majority of this decrease is attributable to the \$5.2 million decrease in feasibility studies conducted in FY 2013-14 over the prior year. In addition, supplies, repairs and maintenance decreased \$0.8 million, or 3.3 percent due to reductions in disinfection chemicals of \$0.4 million, or 56.0 percent, and in chemical coagulants of \$0.3 million, or 5.3 percent, due primarily to decreased disinfection requirements and optimization of chemical dosing. Contractual services also decreased \$0.6 million or 2.2 percent, as research and monitoring costs were lowered by \$0.4 million, or 38.1 percent, due to planned streamlining on these efforts during the FY 2013-14 budget process, and legal costs decreased

\$0.3 million, or 18.5 percent, as legal arbitration costs of the prior year did not exist for fiscal year 2013-14.

These decreases were partially offset by the increase in operating salaries and benefits of \$2.3 million to \$79.2 million, a 3.0 percent increase over the prior year. The operating salaries and benefits costs are part of the overall increase of \$1.3 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 \$91.9 million, a 1.4 percent increase over the prior year total of \$90.6 million. This increase is mostly attributable to the \$1.9 million, or 6.6 percent increase in benefits, as salaries and wages alone decreased \$0.6 million, or 1.0 percent. Meetings and training expenses also increased \$0.2 million, or 29.5 percent primarily due to expanded efforts being placed towards safety and electrical maintenance training.

Non-operating expense decreased \$37.9 million, or 47.6 percent, and is primarily reflective of the decrease in capital distribution back to the Irvine Ranch Water District (IRWD) as none was owed in FY 2013-14 but \$26.6 million of capital distribution was owed back to IRWD in FY 2012-13. The decline in FY 2013-14 was reflective of the decline in IRWD's equity share ownership based on decreased flows discharged to the District. The flow level in FY 2013-14 had leveled out from the large decreases in prior years. In addition, the loss on asset disposal of assets declined \$9.4 million, or 49.1 percent from the prior year primarily due to the write-off of the obsolete odor master plan and design totaling \$8.1 million in the prior year. A new odor master plan and project designs are currently underway.

Capital Facility Capacity Charges increased \$1.3 million, or 10.1 percent over the prior year due to the rebound in the economy and the increase activity in construction as total the total building permit valuation in Orange County increased 21.8 percent in Fiscal Year 2013-14 over the prior year.

### Capital Assets

At June 30, 2014, the District had a net investment of \$2.420 billion in capital assets. This represents a net decrease (including additions and deletions) of \$12.2 million or 0.5 percent over the prior year.

*(Dollars in thousands)*

	June 30, 2014	June 30, 2013	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 15,960	\$ 15,960	\$ -	0.0%
Construction in Progress	258,019	1,197,777	(939,758)	-78.5%
Sewage collection facilities	453,824	351,731	102,093	29.0%
Sewage treatment facilities	1,568,340	738,893	829,447	112.3%
Effluent disposal facilities	39,314	40,902	(1,588)	-3.9%
Solids disposal facilities	326	336	(10)	-3.0%
General and administrative facilities	82,659	84,394	(1,735)	-2.1%
Assets acquired in excess of book value	1,563	2,221	(658)	-29.6%
<b>Capital assets, net</b>	<b>\$ 2,420,005</b>	<b>\$ 2,432,214</b>	<b>\$ (12,209)</b>	<b>-0.5%</b>

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

- \$21.9 million – Sludge Dewatering and Odor Control at Plant No. 1
- \$15.1 million – Solids Thickening and Processing Upgrades at Plant No. 2
- \$ 7.8 million – Dover Drive Trunk Sewer Relief
- \$ 7.7 million – Sludge Digester Rehabilitation at Plant No. 1
- \$ 5.0 million – Replacement of the Bitter Point Pump Station



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, 2014, the District had \$1.275 billion outstanding in COP debt, a net decrease of \$42.0 million, or 3.3 percent over the prior year. This reduction consisted of the accumulation of principal payments made in accordance with the schedule of debt service payments. In addition, Revenue Refunding Certificate Anticipation Notes, Series 2013A Certificates of Anticipation Notes (CANs) fixed rate debt was issued in the amount of \$129.6 million in October 2013 to refund the \$131.7 million outstanding principal balance of the CANs Series 2012C fixed rate debt.

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 an additional \$1.0 billion 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 5.4 percent, a decrease from the rate of 6.1 percent a year ago.
- Inflation for Orange County in 2013 increased 1.1 percent based on the actual percentage change in the consumer price index according to the June 2014 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments increased from the -0.6 percent earnings rate in FY 2012-13 to 1.1 percent for FY 2013-14.

All of these factors were considered in preparing the District's biennium budget beginning July 1, 2014.

The District's user fee schedule was increased by 2.6 percent for FY 2014-15 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 \$8.00, from \$308.00 to \$316.00. This rate increase was necessary to finance the District's cash flow needs as capital improvement outlays alone are projected to be \$186.4 million in FY 2014-15 and are projected to total \$2.3 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and provide for 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.

**ORANGE COUNTY SANITATION DISTRICT  
BASIC FINANCIAL STATEMENTS**

**ORANGE COUNTY SANITATION DISTRICT**

Statement of Net Position

June 30, 2014

(With Comparative Data for June 30, 2013)

	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 215,296,895	\$ 208,278,072
Investments	412,473,309	339,152,573
Accounts receivable, net of allowance for uncollectibles \$29,452	7,829,997	9,757,514
Accrued interest receivable	1,396,378	1,596,362
Connection fees receivable	3,204,465	1,565,534
Property tax receivable	1,206,314	1,363,536
Inventories	5,837,424	5,689,074
Prepaid expenses	707,365	600,214
Prepaid retirement	20,113,512	17,555,710
Total current assets	<u>668,065,659</u>	<u>585,558,589</u>
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	28,360,917	36,118,018
Investments	16,940,965	16,940,965
Accrued interest receivable	224,383	230,648
Unrestricted:		
Non-depreciable capital assets	273,978,498	1,213,736,882
Depreciable capital assets, net of accumulated depreciation	2,146,026,324	1,218,477,069
Prepaid insurance on outstanding debt payable	1,582,280	1,658,521
Due from other governmental agency	40,623,151	51,336,000
Other noncurrent assets, net	10,344	10,344
Total noncurrent assets	<u>2,507,746,862</u>	<u>2,538,508,447</u>
Total assets	<u>3,175,812,521</u>	<u>3,124,067,036</u>
Deferred outflow of resources:		
Deferred charges on refunding debt	18,172,646	20,722,872
Total assets and deferred outflow of resources	<u>3,193,985,167</u>	<u>3,144,789,908</u>
Current liabilities:		
Accounts payable	11,922,059	11,485,962
Accrued expenses	7,295,661	8,123,120
Retentions payable	2,821,953	8,286,811
Interest payable	22,619,300	23,153,100
Due to other governmental agency	29,107,270	48,700,573
Current portion of long-term obligations	40,221,191	178,515,737
Total current liabilities	<u>113,987,434</u>	<u>278,265,303</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	1,257,703,009	1,165,799,690
Total liabilities	<u>1,371,690,443</u>	<u>1,444,064,993</u>
Net position:		
Net investment in capital assets	1,204,705,609	1,180,297,943
Unrestricted	617,589,115	520,426,972
Total net position	<u>\$ 1,822,294,724</u>	<u>\$ 1,700,724,915</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, 2014  
(With Comparative Data for the Year Ended June 30, 2013)

	2014	2013
Operating revenues:		
Service charges	\$ 300,611,253	\$ 303,399,529
Permit and inspection fees	848,060	1,176,106
Total operating revenues	301,459,313	304,575,635
Operating expenses other than depreciation and amortization:		
Salaries and benefits	79,178,740	76,878,551
Utilities	6,381,394	6,403,013
Supplies, repairs and maintenance	23,306,317	24,093,927
Contractual services	26,212,348	26,791,095
Directors' fees	157,715	144,713
Meetings and training	931,679	719,521
Feasibility studies	5,421,882	10,646,100
Other	4,857,006	4,140,333
Total operating expenses other than depreciation and amortization	146,447,081	149,817,253
Operating income before depreciation and amortization	155,012,232	154,758,382
Depreciation and amortization	99,804,966	63,906,848
Operating income	55,207,266	90,851,534
Non-operating revenues:		
Property taxes	74,943,941	79,239,497
Investment and interest income	6,497,653	(3,912,925)
Contributions from other government	11,278,421	2,054,154
Other	1,317,047	1,727,320
Total non-operating revenues	94,037,062	79,108,046
Non-operating expenses:		
Interest	40,450,377	42,314,928
Contributions to other government	-	26,590,533
Other	60,455	54,549
Loss on disposal of assets	1,256,400	10,689,755
Total non-operating expenses	41,767,232	79,649,765
Income before capital contributions	107,477,096	90,309,815
Capital Contributions;		
Capital facilities capacity charges	14,092,713	12,797,483
Change in net position	121,569,809	103,107,298
Total net position - beginning	1,700,724,915	1,597,617,617
Total net position - ending	\$ 1,822,294,724	\$ 1,700,724,915

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Statement of Cash Flows  
For the Year Ended June 30, 2014  
(With Comparative Data for the Year Ended June 30, 2013)

	2014	2013
Cash flows from operating activities:		
Receipts from customers and users	\$ 283,783,166	\$ 305,300,505
Payments to employees	(78,952,182)	(77,697,268)
Payments to suppliers	(72,736,404)	(68,387,501)
Net cash provided by operations	132,094,580	159,215,736
Cash flows from noncapital financing activities:		
Proceeds from property taxes	75,101,164	79,418,183
Proceeds from various resources	1,255,229	1,674,942
Net cash provided by noncapital financing activities	76,356,393	81,093,125
Cash flows from capital and related financing activities:		
Capital facilities capacity charges	12,453,782	11,879,435
Additions to capital assets	(72,852,832)	(109,353,843)
Interest paid	(53,434,264)	(51,970,472)
Principal payments on debt obligation	(171,290,000)	(259,070,000)
Proceeds from debt issuances	131,991,954	216,506,206
Debt issuance costs	(262,462)	(838,884)
Contribution from other government	651	-
Net cash used in capital and related financing activities	(153,393,171)	(192,847,558)
Cash flows from investing activities:		
Proceeds from the sale of investments	5,764,356,629	8,932,206,118
Purchases of investments	(5,828,672,603)	(8,896,971,673)
SARI project (advance)/payments	10,712,849	(20,483,710)
Interest received	(2,192,955)	10,627,896
Net cash provided by (used in) investing activities	(55,796,080)	25,378,631
Net increase (decrease) in cash and cash equivalents	(738,278)	72,839,934
Cash and cash equivalents, beginning of year	244,396,090	171,556,156
Cash and cash equivalents, end of year	\$ 243,657,812	\$ 244,396,090
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 55,207,266	\$ 90,851,534
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	99,804,966	63,906,848
Bad debt expense (Net recoveries)	10,361	11,398
Feasibility studies	-	6,058,284
(Increase)/decrease in operating assets:		
Accounts receivable	1,917,156	(316,323)
Inventories	(250,624)	(30,340)
Prepaid and other assets	(2,664,953)	(2,359,320)
Increase/(decrease) in operating liabilities:		
Accounts payable	(2,058,622)	(746,578)
Accrued expenses	(816,828)	733,795
Due to other governmental agency	(19,593,303)	1,041,192
Pension/OPEB/Catastrophe leave payable	257,493	347,732
Compensated absences	(116,222)	(136,296)
Other payable	79,774	(277,285)
Claims and judgments	318,116	131,095
Net cash provided by operations	\$ 132,094,580	\$ 159,215,736
<b>Noncash Activities:</b>		
Unrealized gain (loss) on the fair value of investments	\$ 9,004,762	\$ (14,438,658)
Contributions from (to) other government	11,277,770	(24,536,380)
Capital assets acquired through accounts payable	2,494,717	7,450,400
Feasibility studies with no cash effect	-	6,032,722

See Accompanying Notes to Basic Financial Statements.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### (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, 2014, 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.

#### Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2013, from which such partial information was derived.

### 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 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 the District 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 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.

### Accounts Receivable

Accounts receivable is shown net of the allowance for uncollectible receivables. Uncollectible receivables were \$29,452 at June 30, 2014. Unbilled sewer services through June 30, 2014 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.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### 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.

### 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, 2014, net interest costs of \$7,598,770 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 Outflows of Resources

For advance refundings resulting in defeasance of debt, the difference between the reacquisitions price and the net carrying amount of the old debts (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 debts at June 30, 2014 are \$18,172,646.



## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### Net Position

Net position represents the total of assets and deferred outflows of resources less liabilities, 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 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 the District.

### 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.

### 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.

### Capital Facilities Capacity Charges

Capital facilities capacity charges represent fees imposed at the time a structure is newly connected to the District'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.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### 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, 2014, the outstanding commitments with contractors totaled \$177,291,471.

### Self-Insurance Plans

For the year ended June 30, 2014, 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 \$250,000 per occurrence deductible (\$500,000 for employment practices liability) under the outside excess liability coverage to \$30 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, 2014.

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 amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. OCSD management believes that there are no unrecorded claims as of June 30, 2014 that would materially affect the financial position of OCSD.

### 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.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

(2) Cash and Investments

Cash and investments as of June 30, 2014 are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 215,296,895
Investments	<u>412,473,309</u>
Subtotal - current, unrestricted	<u>627,770,204</u>
Restricted:	
Cash and cash equivalents	28,360,917
Investments	<u>16,940,965</u>
Subtotal - restricted	<u>45,301,882</u>
Total cash and cash equivalents and investments	<u>\$ 673,072,086</u>

Cash and investments consist of the following as of June 30, 2014:

Cash on hand		\$ 3,000
Deposits with financial institutions		2,436,803
Managed portfolio - cash and investments		<u>625,330,401</u>
Subtotal - unrestricted cash and investments		627,770,204
Monies held by trustees:		
Cash and cash equivalents	\$ 28,360,917	
Investment contracts	<u>16,940,965</u>	
Subtotal - monies held by trustees		<u>45,301,882</u>
Grand total cash and investments		<u>\$ 673,072,086</u>

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 19–23 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.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

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 / 31 days	15% / 25% <sup>(2)</sup>	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	15% <sup>(2)</sup>	10%
Money Market Mutual Funds	Yes	N/A	15% <sup>(2)</sup>	15% <sup>(2)</sup>
Mortgage Pass-Through Securities/CMO	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>

**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.

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

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

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.

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2014.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
<b>Short-Term Portfolio:</b>			
U.S. Treasury Bills	\$ 32,498,971	0.085	1.02
U.S. Agency Securities *	30,594,140	0.158	1.90
U.S. Treasury Notes	2,000,540	0.168	2.02
Corporate Medium-Term Notes	18,235,027	0.602	7.22
Repurchase Agreements	1,800,000	0.002	0.02
Local Agency Investment Fund (LAIF)	31,231,595	0.636	7.63
Money Market Mutual Funds	558,613	0.083	1.00
Short-term portfolio subtotal	<u>\$ 116,918,886</u>	<u>0.332</u>	<u>3.98</u>
<b>Long-Term Portfolio:</b>			
U.S. Treasury Bills	\$ 99,969	0.468	5.62
U.S. Treasury Notes	125,988,566	5.680	68.16
U.S. Treasury Inflation-Protected Securities (TIPS)	18,212,525	9.141	109.69
U.S. Agency Securities	179,139,271	0.273	3.27
U.S. Govt. Backed Mortgage Pools (GNMA) *	355,315	3.464	41.57
Taxable Municipal Bonds	19,933,910	8.572	102.87
Corporate Medium-Term Notes	57,056,092	3.458	41.49
Repurchase Agreements	101,000,000	0.002	0.02
Money Market Mutual Funds	618,354	0.077	0.92
Mortgage Pass-Through Securities/CMO *	6,007,513	2.922	35.07
Long-term portfolio subtotal	<u>\$ 508,411,515</u>	<u>2.593</u>	<u>31.12</u>
<b>Total Portfolio</b>	<u>\$ 625,330,401</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, 2014.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
US Bank Cash	\$ 25	N/A
Money Market Mutual Funds:		
Blackrock Institutional Funds	42,286	45 days
US Bank Money Market Fund	64,548	N/A
Local Agency Investment Fund (LAIF)	28,254,058	232 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	7,422,965	August 1, 2016
Total Fair Value of Investments Held by Fiscal Agents	<u>\$ 45,301,857</u>	

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### 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 \$9,635,002 including \$6,007,513 of mortgage pass-through securities, \$3,272,174 of U.S. agency securities, and \$355,315 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, 2014

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	\$ 178,800,571	
U.S. Govt. Backed Mortgage Pools (GNMA)	355,315	
Subtotal		\$ 179,155,886
Investments with no legal minimum rating:		
U.S. Agency Securities (other than GNMA):		
Rating of AA+ (Standard & Poor's)	209,733,411	
Municipal Bonds:		
Rating of Aaa (Moody's)	1,397,748	
Rating of Aa1 (Moody's)	1,506,148	
Rating of Aa2 (Moody's)	1,539,473	
Rating of Aa3 (Moody's)	5,964,179	
Rating of A1 (Moody's)	1,611,779	
Rating of A (Fitch)	2,145,960	
Rating of A2 (Moody's)	404,754	
Rating of A3 (Moody's)	5,363,869	
Repurchase Agreements:		
Not rated	102,800,000	
Local Agency Investment Fund (LAIF):		
Not rated	59,485,653	
Investments with fiscal agents - Guaranteed Investment Contracts:		
Rating of A3 (Moody's)	7,422,965	
Rating of A2 (Moody's)	9,518,000	
Subtotal		408,893,939
Investments with a legal minimum rating (or its equivalent) of A:		
Corporate Medium-Term Notes:		
Rating of Aa3 (Moody's)	6,326,145	
Rating of A1 (Moody's)	3,655,306	
Rating of A (Fitch)	8,842,775	
Rating of A2 (Moody's)	9,227,026	
Rating of A3 (Moody's)*	10,049,406	
Rating of P-2 (Moody's)*	1,300,563	
Rating of Baa1 (Moody's)*	9,097,983	
Rating of BBB+ (Standard & Poor's)*	3,448,535	
Rating of Baa2 (Moody's)*	19,613,477	
Rating of BBB (Fitch)*	1,359,501	
Rating of Baa3 (Moody's)*	1,361,947	
Not rated	1,008,455	
Money Market Mutual Funds:		
Rating of Aaa (Moody's)	1,129,801	
Not rated	47,166	
Invested with fiscal agents:		
Rating of Aaa-mf (Moody's)	42,286	
Rating of P-1 (Moody's)	64,548	
Subtotal		76,574,920
Investments with a legal minimum rating (or its equivalent) of AA:		
Mortgage Pass-Through Securities/CMO:		
Rating of Aaa (Moody's)	126,035	
Rating of AA+ (Standard & Poor's)	5,482,155	
Rating of BBB (Fitch)*	399,323	
Subtotal		6,007,513
Total		\$ 670,632,258

\* 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, 2014

### 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, 2014, 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 the District. 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, 2014.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2014 is as follows:

	Balance at June 30, 2013	Additions / Transfers	Deletions / Transfers	Balance at June 30, 2014
Capital assets not depreciated:				
Cost:				
Land	\$ 15,959,559	\$ -	\$ -	\$ 15,959,559
Construction in progress	1,197,777,323	87,504,402	(1,027,262,786)	258,018,939
Total nondepreciable assets	<u>1,213,736,882</u>	<u>87,504,402</u>	<u>(1,027,262,786)</u>	<u>273,978,498</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	634,548,135	118,953,611	(365,212)	753,136,534
Sewage treatment facilities	1,315,220,114	905,616,584	(22,519)	2,220,814,179
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	219,801,240	5,107,864	(192,012)	224,717,092
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>2,290,026,545</u>	<u>1,029,678,059</u>	<u>(579,743)</u>	<u>3,319,124,861</u>
Accumulated depreciation:				
Sewage collection facilities	(282,817,318)	(16,860,467)	365,212	(299,312,573)
Sewage treatment facilities	(576,326,904)	(76,169,503)	22,519	(652,473,888)
Effluent disposal facilities	(56,112,931)	(1,588,008)	-	(57,700,939)
Solids disposal facilities	(3,127,097)	(9,719)	-	(3,136,816)
General and administrative facilities	(135,407,083)	(6,843,398)	192,012	(142,058,469)
Excess purchase price over book value on acquired assets	(17,758,143)	(657,709)	-	(18,415,852)
Subtotal	<u>(1,071,549,476)</u>	<u>(102,128,804)</u>	<u>579,743</u>	<u>(1,173,098,537)</u>
Net depreciable assets	<u>1,218,477,069</u>	<u>927,549,255</u>	<u>-</u>	<u>2,146,026,324</u>
Net capital assets	<u>\$2,432,213,951</u>	<u>\$ 1,015,053,657</u>	<u>\$ (1,027,262,786)</u>	<u>\$2,420,004,822</u>

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Notes to Basic Financial Statements  
For the Year Ended June 30, 2014

**(4) Long-Term Liabilities**

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2014:

	Balance, July 1	Additions	Deletions	Balance, June 30	Due within one year	Long-term amount
Arbitrage Payable	\$ 129,987	\$ 79,775	\$ -	\$ 209,762	\$ -	\$ 209,762
Compensated Absences	7,465,066	6,422,467	(6,535,758)	7,351,775	(6,787,498)	564,277
Claims and Judgments	1,578,036	989,463	(671,347)	1,896,152	(423,590)	1,472,562
Certificates of Participation / Revenue Obligations and Notes	1,274,990,000	129,625,000	(171,290,000)	1,233,325,000	(27,875,000)	1,205,450,000
Unamortized (Discount) / Premium	50,938,512	2,366,953	(7,632,341)	45,673,124	(5,135,103)	40,538,021
Net Pension Obligation	8,629,918	1,087,975	(454,120)	9,263,773	-	9,263,773
Net OPEB Obligation	583,908	744,667	(1,123,961)	204,614	-	204,614
<b>Totals</b>	<b>\$ 1,344,315,427</b>	<b>\$ 141,316,300</b>	<b>\$ (187,707,527)</b>	<b>\$ 1,297,924,200</b>	<b>\$ (40,221,191)</b>	<b>\$ 1,257,703,009</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, 2014 is \$209,762.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2014 is \$7,351,775 with an estimated \$6,787,498 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, 2014 and 2013:

	2013-14	2012-13
Claims and judgments payable at July 1	\$ 1,578,036	\$ 1,446,941
Claims incurred during the fiscal year	989,463	298,026
Payments on claims during the fiscal year	(671,347)	(166,931)
Claims and judgments payable at June 30	1,896,152	1,578,036
Less: current portion	(423,590)	(416,720)
<b>Total long-term claims and judgments payable</b>	<b>\$ 1,472,562</b>	<b>\$ 1,161,316</b>

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

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

from any source of lawfully available funds of OCSD. Certificates of participation, revenue obligations, and notes at June 30, 2014 are summarized as follows:

	Amount
2007A refunding certificates of participation	\$ 92,385,000
2007B certificates of participation	267,255,000
2008B refunding certificates of participation	25,585,000
2009A certificates of participation	184,090,000
2010A wastewater revenue obligations	80,000,000
2010C wastewater revenue obligations	157,000,000
2011A wastewater refunding revenue obligations	130,345,000
2012A wastewater refunding revenue obligations	100,645,000
2012B wastewater refunding revenue obligations	66,395,000
2013A revenue refunding certificate anticipation notes	129,625,000
Total certificates of participation, revenue obligations, and notes	<u>\$ 1,233,325,000</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, 2014, the coverage ratio for senior lien debt was 2.68.

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, 2014 reserve of \$9,518,000 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, 2037.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2014 reserve of \$19,840,045 is held by Union Bank, the trustee, and meets the reserve requirement.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### 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, 2014 reserve of \$2,781,581 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, 2014 reserve of \$13,118,005 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 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.

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For the Year Ended June 30, 2014

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.

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

### October 2013 Revenue Refunding Certificate Anticipation Notes, Series 2013A

On October 16, 2013, OCSD completed the sale of \$129,625,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$131,700,000 outstanding principal balance of the 2012 Series C revenue refunding certificate anticipation notes. The interest rate on the notes is fixed at 2.0 percent. The notes will mature on October 16, 2014. 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 \$20,000. The total future payments for the new debt provide a net present value loss of approximately \$298,000 to refund the old debt.

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

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Notes to Basic Financial Statements

For the Year Ended June 30, 2014

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation, revenue obligations, and anticipation notes as of June 30, 2014, including the Revenue Refunding Certificate Anticipation Notes, Series 2013A that currently matures in October 2014, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2015	\$ 157,500,000	\$ 51,679,980	\$ 209,179,980
2016	29,405,000	47,899,830	77,304,830
2017	35,575,000	46,530,755	82,105,755
2018	33,170,000	44,994,888	78,164,888
2019	32,735,000	43,855,263	76,590,263
2020-2024	164,955,000	194,736,813	359,691,813
2025-2029	190,270,000	153,582,322	343,852,322
2030-2034	301,655,000	101,292,106	402,947,106
2035-2039	217,975,000	40,204,384	258,179,384
2040-2044	70,085,000	6,378,600	76,463,600
Total	<u>\$ 1,233,325,000</u>	<u>\$ 731,154,940</u>	<u>\$ 1,964,479,940</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

OCSD participates in the Orange County Employee's Retirement System (OCERS), a cost-sharing multiple-employer, defined benefit pension plan which is governed and administered by a nine member Board of Retirement. OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. OCERS issues a stand-alone comprehensive annual financial report which can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92701.

*Benefits:* All OCSD employees except for interns and the Board of Directors participate in OCERS. Employees who retire at or after age 50 with five or more years of service are entitled to an annual retirement allowance. The amount of the retirement allowance is based upon the member's age at retirement, the member's "final compensation" as defined in Section 31462 of the Retirement Law of 1937, the total years of service under OCERS, and the Plan under which the employee is covered. OCERS also provides death and disability benefits.

Eligible employees are covered under one of four plans, depending on their entry date into the plan. Plans G and H provide 2.5% of final average compensation per year of service at age 55; Plan B provides 1.667% per year of service at age 57.5; Plan U provides 2.5% per year of service at age 67. Plan G members' retirement benefit are calculated using the highest single year of compensation, while Plans B and H are based on the average of the highest three consecutive years of compensation. Plan U retirement benefits are based on the highest three consecutive years of compensation, with a cap for each year equal to 120% of the maximum wages subject to Social Security Tax for that calendar year.

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Notes to Basic Financial Statements

For the Year Ended June 30, 2014

*Contributions:* As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. Employees covered by Plans B, G, H, and U are required to contribute 6.11% - 12.04%, 8.72% - 15.05%, 8.33% - 15.05%, and 6.25% - 12.25%, respectively, of their annual compensation to OCERS. OCSD is required to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees' compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. For the fiscal years ended June 30, 2014, 2013, and 2012, the "Annual Required Contribution" equaled the contributions actually made. Required contributions, which are actuarially determined, are set by OCERS.

The following table provides salary and contributions requirements for the two previous fiscal years and the current year:

	For the Fiscal Year Ending		
	June 30, 2012	June 30, 2013	June 30, 2014
Total payroll costs	\$ 62,603,878	\$ 61,878,748	\$ 61,245,924
Payroll costs of employees covered by OCERS	60,419,910	59,832,408	59,360,635
Contribution requirements:			
Contributed by employees	4,566,386	4,462,869	4,822,540
Contributed by the District on behalf of employees	2,089,868	1,923,875	1,841,851
Total employee required contribution	6,656,254	6,386,744	6,664,391
District required contribution	15,767,050	16,363,917	18,920,212
Total contribution	<u>\$ 22,423,304</u>	<u>\$ 22,750,661</u>	<u>\$ 25,584,602</u>
Total actual contribution as a percent of the "Annual Required Contribution (ARC)"	100.00%	100.00%	100.00%
Employee required contribution as a percent of covered payroll	11.02%	10.67%	11.23%
District required contribution as a percent of covered payroll	26.10%	27.35%	31.87%
Total contribution as a percent of all participating entities' contributions	3.60%	3.90%	3.80%

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 222 retirees. The plan is included in OCSD's financial statements; 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 the District 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 7 – Other Postemployment



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Notes to Basic Financial Statements

For the Year Ended June 30, 2014

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. The District's trend information follows.

Fiscal Year Ending	Annual Pension Cost		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
6/30/12	978,398	37.5%	8,082,368
6/30/13	969,200	43.5%	8,629,918
6/30/14	1,087,975	41.7%	9,263,773

The Schedule of Funding Progress shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. This schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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%

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The annual pension cost and net pension obligation for the years ended June 30, 2014, 2013 and 2012 were as follows:

	For the Fiscal Year Ending		
	June 30, 2014	June 30, 2013	June 30, 2012
Annual required contribution	\$ 1,241,847	\$ 1,090,849	\$ 1,090,849
Interest on net pension obligation	345,197	404,118	373,559
Adjustment to annual required contribution	(499,069)	(525,767)	(486,010)
Annual pension cost	1,087,975	969,200	978,398
Contributions made	(454,120)	(421,650)	(367,210)
Increase in net pension obligation	633,855	547,550	611,188
Net pension obligation, beginning of year	8,629,918	8,082,368	7,471,180
Net pension obligation, end of year	\$ 9,263,773	\$ 8,629,918	\$ 8,082,368

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 plan is included in the OCSD financial statements; 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. Premiums ranged between \$174 and \$3,256 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 the District 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 2013-14, OCSD contributed \$1,123,961 and retirees contributed \$506,811 to cover current year expenses.

*Annual OPEB Cost and Net OPEB Obligation:* The annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in

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Notes to Basic Financial Statements

For the Year Ended June 30, 2014

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.

The following OPEB cost and net OPEB obligation was determined for the years ended June 30, 2014, 2013, and 2012:

	For the Fiscal Year Ending		
	June 30, 2014	June 30, 2013	June 30, 2012
Annual required contribution	\$ 755,078	\$ 900,035	\$ 900,035
Interest on net OPEB obligation	23,356	39,260	51,784
Adjustment to annual required contribution	(33,767)	(51,078)	(67,373)
Annual OPEB cost	744,667	888,217	884,446
Contributions made	(1,123,961)	(1,089,516)	(1,134,925)
Increase (decrease) in net OPEB obligation	(379,294)	(201,299)	(250,479)
Net OPEB obligation, beginning of year	583,908	785,207	1,035,686
Net OPEB obligation, end of year	\$ 204,614	\$ 583,908	\$ 785,207

The District's annual OPEB cost contributed and the net OPEB obligation for the years ended June 30, 2014, 2013, and 2012 are shown in the following table.

Fiscal Year Ending	Annual OPEB Cost			
	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/12	884,446	1,134,925	128.3%	785,207
6/30/13	888,217	1,089,516	122.7%	583,908
6/30/14	744,667	1,123,961	150.9%	204,614

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

*Funded Status and Progress:* The funding status of the plan as of the most recent actuarial valuation dates are as follows:

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	15.26%
7/1/2011	10,706,789	-	10,706,789	0.0%	59,787,560	17.91%
7/1/2013	10,650,711	-	10,650,711	0.0%	59,832,408	17.80%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liabilities for benefits.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

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*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.

### (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, 2014, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$1,563,148.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2014

### 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, which contribution of \$5,339,376 was recorded in 2014. 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. Capital contributions of \$5,938,394 to Revenue Area 14 was recognized and reported as contributions from other government in 2014. This amount included a capital contributions adjustment of \$9,468,788 from the prior year 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, a total of \$1,475,657 in annual solids capital handling charges was reported as operating revenue in Consolidated Revenue Area, and \$9,335,455 in solids quarterly operating and maintenance charges were reported as operating revenue in Revenue Area No. 14 in 2014.

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 \$29,107,270 as of June 30, 2014.

### Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2014; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$8.2 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, the District 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 the District'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. As of June 30, 2013, \$51,336,000 had been loaned to OCFCD, leaving the District with an outstanding obligation to loan an additional amount not to exceed \$7,700,400. During the fiscal year ended June 30, 2014, the District received loan repayments totaling \$10,712,849, leaving an outstanding loan receivable balance of \$40,623,151.

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements  
For the Year Ended June 30, 2014

Local Sewer Facilities Transfer: On February 27, 2014, the District 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. If approved by OC LAFCO, the proposed transfer may then proceed. In addition to the transfer of the sewer facilities, the agreement also provides for the transfer of \$25,000,000 of accumulated capital repair and replacement reserve funds from the District to EOCWD payable in two installments. The first payment of \$15,000,000 is due within five days following OC LAFCO's approval of EOCWD's request and the remaining \$10,000,000 is due on July 1, 2018. As of June 30, 2014, no transactions have occurred.

Litigation: Certain claims involving disputed construction costs have arisen in the ordinary course of business. Additionally, the District 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 the District.

### (9) Subsequent Events

On August 7, 2014, the District issued Wastewater Refunding Revenue Obligations, Series 2014A (Series 2014A), in the amount of \$85,090,000. The obligations were issued to refund a portion of the Certificates of Participation, Series 2007B (Series 2007B). The debt was issued at a premium of \$17,161,006. The total proceeds of \$102,251,006, along with \$2,048,651 in 2007B reserves, were used to refund \$93,930,000 of the \$267,255,000 outstanding 2007B obligations. The interest rate on the Series 2014A obligations is 5.00% with a final maturity date of February 1, 2027.

On October 8, 2014, the District issued Revenue Refunding Certificate of Anticipation Notes (CANs), Series 2014B, in the amount of \$120,850,000. The notes were issued to pay off all of the CANs Series 2013A. The true interest cost on the CANs Series 2014B, maturing on November 15, 2016, is 0.411076%.

In July 2014, the OCSD Board of Directors approved the pay down on the District's unfunded actuarial accrued liability within the Orange County Employee's Retirement System (OCERS) in the amount of \$125 million. This payment is expected to be made in November 2014.

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**ORANGE COUNTY SANITATION DISTRICT  
SUPPLEMENTARY INFORMATION**



**ORANGE COUNTY SANITATION DISTRICT**

Combining Area Schedule of Net Position

June 30, 2014

With Comparative Totals for June 30, 2013

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2014	2013
<b>Current assets:</b>				
Cash and cash equivalents	\$ 9,982,482	\$ 205,314,413	\$ 215,296,895	\$ 208,278,072
Investments	19,124,788	393,348,521	412,473,309	339,152,573
Accounts receivable, net of allowance for uncollectibles \$29,452	-	7,829,997	7,829,997	9,757,514
Accrued interest receivable	-	1,396,378	1,396,378	1,596,362
Connection fees receivable	-	3,204,465	3,204,465	1,565,534
Property tax receivable	-	1,206,314	1,206,314	1,363,536
Inventories	-	5,837,424	5,837,424	5,689,074
Prepaid expenses	-	707,365	707,365	600,214
Prepaid retirement	-	20,113,512	20,113,512	17,555,710
<b>Total current assets</b>	<b>29,107,270</b>	<b>638,958,389</b>	<b>668,065,659</b>	<b>585,558,589</b>
<b>Noncurrent assets:</b>				
<b>Restricted:</b>				
Cash and cash equivalents	-	28,360,917	28,360,917	36,118,018
Investments	-	16,940,965	16,940,965	16,940,965
Accrued interest receivable	-	224,383	224,383	230,648
<b>Unrestricted:</b>				
Non-depreciable capital assets	4,831,074	269,147,424	273,978,498	1,213,736,882
Depreciable capital assets, net of accumulated depreciation	51,135,545	2,094,890,779	2,146,026,324	1,218,477,069
Prepaid insurance on outstanding debt payable	-	1,582,280	1,582,280	1,658,521
Due from other governmental agency	-	40,623,151	40,623,151	51,336,000
Other noncurrent assets, net	-	10,344	10,344	10,344
<b>Total noncurrent assets</b>	<b>55,966,619</b>	<b>2,451,780,243</b>	<b>2,507,746,862</b>	<b>2,538,508,447</b>
<b>Total assets</b>	<b>85,073,889</b>	<b>3,090,738,632</b>	<b>3,175,812,521</b>	<b>3,124,067,036</b>
<b>Deferred outflow of resources:</b>				
Deferred charges on refunding debt	-	18,172,646	18,172,646	20,722,872
<b>Total assets and deferred outflow of resources</b>	<b>85,073,889</b>	<b>3,108,911,278</b>	<b>3,193,985,167</b>	<b>3,144,789,908</b>
<b>Current liabilities:</b>				
Accounts payable	-	11,922,059	11,922,059	11,485,962
Accrued expenses	-	7,295,661	7,295,661	8,123,120
Retentions payable	-	2,821,953	2,821,953	8,286,811
Interest payable	-	22,619,300	22,619,300	23,153,100
Due to other governmental agency	29,107,270	-	29,107,270	48,700,573
Current portion of long-term obligations	-	40,221,191	40,221,191	178,515,737
<b>Total current liabilities</b>	<b>29,107,270</b>	<b>84,880,164</b>	<b>113,987,434</b>	<b>278,265,303</b>
<b>Noncurrent liabilities:</b>				
Noncurrent portion of long-term obligations	-	1,257,703,009	1,257,703,009	1,165,799,690
<b>Total liabilities</b>	<b>29,107,270</b>	<b>1,342,583,173</b>	<b>1,371,690,443</b>	<b>1,444,064,993</b>
<b>Net position:</b>				
<b>Net investment in capital assets:</b>				
Collection system	19,388,638	440,936,358	460,324,996	508,994,825
Treatment and disposal -Land	406,846	4,068,905	4,475,751	4,475,751
Treatment and disposal system	36,171,135	1,919,032,940	1,955,204,075	1,918,743,375
Capital assets related debt	-	(1,215,299,213)	(1,215,299,213)	(1,251,916,008)
Subtotal	55,966,619	1,148,738,990	1,204,705,609	1,180,297,943
Unrestricted	-	617,589,115	617,589,115	520,426,972
<b>Total net position</b>	<b>\$ 55,966,619</b>	<b>\$ 1,766,328,105</b>	<b>\$ 1,822,294,724</b>	<b>\$ 1,700,724,915</b>

**ORANGE COUNTY SANITATION DISTRICT**  
Combining Area Schedule of Revenues, Expenses, and Changes in Net Position  
For the Year Ended June 30, 2014  
With Comparative Totals for June 30, 2013

	Revenue	Consolidated	Totals	
	Area No. 14	Revenue Area	2014	2013
Operating revenues:				
Service charges	\$ 9,826,969	\$ 290,784,284	\$ 300,611,253	\$ 303,399,529
Permit and inspection fees	5,004	843,056	848,060	1,176,106
Total operating revenues	<u>9,831,973</u>	<u>291,627,340</u>	<u>301,459,313</u>	<u>304,575,635</u>
Operating expenses other than depreciation and amortization:				
Salaries and benefits	\$ 1,096,399	\$ 78,082,341	79,178,740	76,878,551
Utilities	128,790	6,252,604	6,381,394	6,403,013
Supplies, repairs and maintenance	648,410	22,657,907	23,306,317	24,093,927
Contractual services	9,551,628	16,660,720	26,212,348	26,791,095
Directors' fees	512	157,203	157,715	144,713
Meetings and training	11,236	920,443	931,679	719,521
Feasibility studies	69,454	5,352,428	5,421,882	10,646,100
Other	815,618	4,041,388	4,857,006	4,140,333
Total operating expenses other than depreciation and amortization	<u>12,322,047</u>	<u>134,125,034</u>	<u>146,447,081</u>	<u>149,817,253</u>
Operating income (loss) before depreciation and amortization	(2,490,074)	157,502,306	155,012,232	154,758,382
Depreciation and amortization	<u>3,008,840</u>	<u>96,796,126</u>	<u>99,804,966</u>	<u>63,906,848</u>
Operating income (loss)	<u>(5,498,914)</u>	<u>60,706,180</u>	<u>55,207,266</u>	<u>90,851,534</u>
Non-operating revenues:				
Property taxes	2,135,797	72,808,144	74,943,941	79,239,497
Investment and interest income	346,535	6,151,118	6,497,653	(3,912,925)
Contributions from other government	11,277,770	651	11,278,421	2,054,154
Other	8,670	1,308,377	1,317,047	1,727,320
Total non-operating revenues	<u>13,768,772</u>	<u>80,268,290</u>	<u>94,037,062</u>	<u>79,108,046</u>
Non-operating expenses:				
Interest	-	40,450,377	40,450,377	42,314,928
Contributions to other government	-	-	-	26,590,533
Other	743	59,712	60,455	54,549
Loss on disposal of assets	21,843	1,234,557	1,256,400	10,689,755
Total non-operating expenses	<u>22,586</u>	<u>41,744,646</u>	<u>41,767,232</u>	<u>79,649,765</u>
Income before capital contributions	8,247,272	99,229,824	107,477,096	90,309,815
Capital Contributions:				
Capital facilities capacity charges	-	14,092,713	14,092,713	12,797,483
Change in net position	<u>8,247,272</u>	<u>113,322,537</u>	<u>121,569,809</u>	<u>103,107,298</u>
Total net position - beginning	<u>47,719,347</u>	<u>1,653,005,568</u>	<u>1,700,724,915</u>	<u>1,597,617,617</u>
Total net position - ending	<u>\$ 55,966,619</u>	<u>\$ 1,766,328,105</u>	<u>\$ 1,822,294,724</u>	<u>\$ 1,700,724,915</u>

**ORANGE COUNTY SANITATION DISTRICT**  
Combining Area Schedule of Cash Flows  
For the Year Ended June 30, 2014  
With Comparative Totals for June 30, 2013

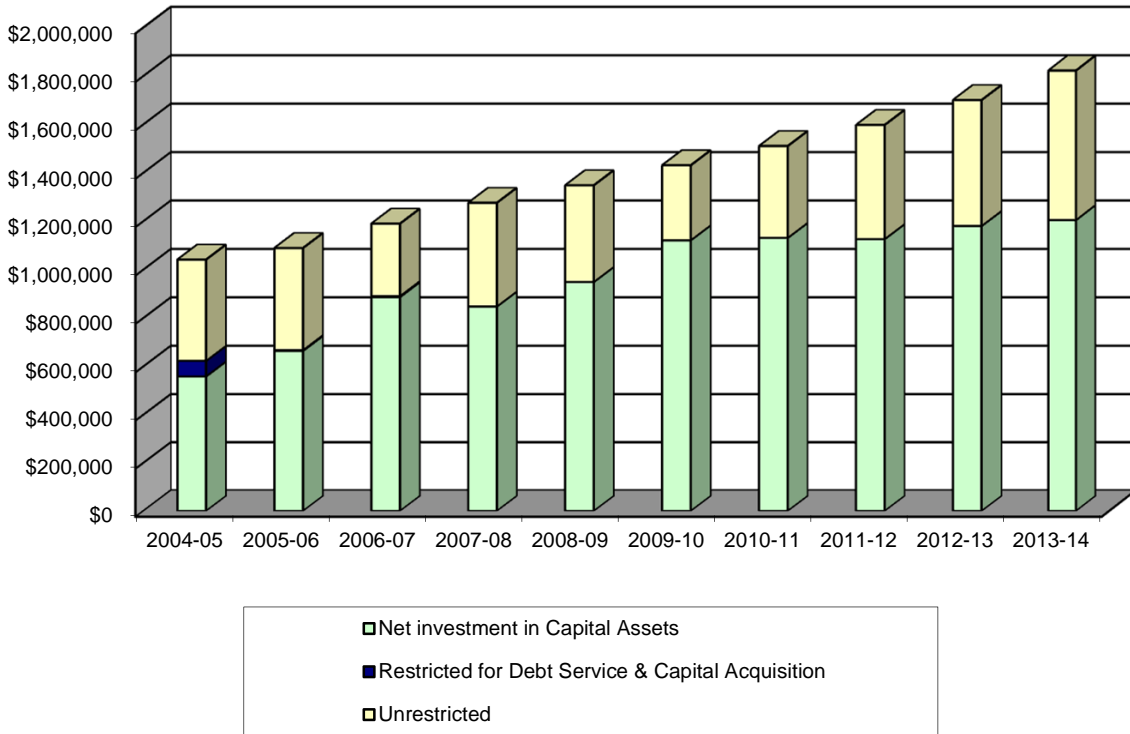
	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals	
				2014	2013
<b>Cash flows from operating activities:</b>					
Receipts from (refunds to) customers and users	\$ (9,761,330)	\$ 293,544,496	\$ -	\$ 283,783,166	\$ 305,300,505
Payments to employees	(1,096,911)	(77,855,271)	-	(78,952,182)	(77,697,268)
Payments to suppliers	(11,225,136)	(61,511,268)	-	(72,736,404)	(68,387,501)
Net cash provided by operations	(22,083,377)	154,177,957	-	132,094,580	159,215,736
<b>Cash flows from noncapital financing activities:</b>					
Proceeds from property taxes	2,135,797	72,965,367	-	75,101,164	79,418,183
Proceeds from various resources	6,566	1,248,663	-	1,255,229	1,674,942
Net cash provided by noncapital financing activities	2,142,363	74,214,030	-	76,356,393	81,093,125
<b>Cash flows from capital and related financing activities:</b>					
Capital facilities capacity charges	-	12,453,782	-	12,453,782	11,879,435
Additions to capital assets	(11,276,594)	(81,041,794)	19,465,556	(72,852,832)	(109,353,843)
Disposal of capital assets	-	8,187,786	(8,187,786)	-	-
Interest paid	-	(53,434,264)	-	(53,434,264)	(51,970,472)
Principal payments on debt obligation	-	(171,290,000)	-	(171,290,000)	(259,070,000)
Proceeds from debt issuances	-	131,991,954	-	131,991,954	216,506,206
Debt issuance costs	-	(262,462)	-	(262,462)	(838,884)
Contribution from other government	11,277,770	651	(11,277,770)	651	-
Net cash used in capital and related financing activities	1,176	(153,394,347)	-	(153,393,171)	(192,847,558)
<b>Cash flows from investing activities:</b>					
Proceeds from the sale of investments	302,898,079	5,461,458,550	-	5,764,356,629	8,932,206,118
Purchases of investments	(291,433,630)	(5,537,238,973)	-	(5,828,672,603)	(8,896,971,673)
SARI project (advance)/payments	-	10,712,849	-	10,712,849	(20,483,710)
Interest received	(70,981)	(2,121,974)	-	(2,192,955)	10,627,896
Net cash provided by (used in) investing activities	11,393,468	(67,189,548)	-	(55,796,080)	25,378,631
Net increase (decrease) in cash and cash equivalents	(8,546,370)	7,808,092	-	(738,278)	72,839,934
Cash and cash equivalents, beginning of year	18,528,852	225,867,238	-	244,396,090	171,556,156
Cash and cash equivalents, end of year	\$ 9,982,482	\$ 233,675,330	\$ -	\$ 243,657,812	\$ 244,396,090
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (5,498,914)	\$ 60,706,180	\$ -	\$ 55,207,266	\$ 90,851,534
Adjustments to reconcile operating income (loss) to net cash provided by operations:					
Depreciation and amortization	3,008,840	96,796,126	-	99,804,966	63,906,848
Bad debt expense (Net recoveries)	-	10,361	-	10,361	11,398
Feasibility studies	-	-	-	-	6,058,284
(Increase)/decrease in operating assets:					
Accounts receivable	-	1,917,156	-	1,917,156	(316,323)
Inventories	-	(250,624)	-	(250,624)	(30,340)
Prepaid and other assets	-	(2,664,953)	-	(2,664,953)	(2,359,320)
Increase/(decrease) in operating liabilities:					
Accounts payable	-	(2,058,622)	-	(2,058,622)	(746,578)
Accrued expenses	-	(816,828)	-	(816,828)	733,795
Due to other governmental agency	(19,593,303)	-	-	(19,593,303)	1,041,192
Pension/OPEB/Catastrophe leave payable	-	257,493	-	257,493	347,732
Compensated absences	-	(116,222)	-	(116,222)	(136,296)
Other payable	-	79,774	-	79,774	(277,285)
Claims and judgments	-	318,116	-	318,116	131,095
Net cash provided by operations	\$ (22,083,377)	\$ 154,177,957	\$ -	\$ 132,094,580	\$ 159,215,736
<b>Noncash Activities:</b>					
Unrealized gain (loss) on the fair value of investments	\$ 417,516	8,587,246		\$ 9,004,762	\$ (14,438,658)
Contributions from (to) other government	11,277,770	-		11,277,770	(24,536,380)
Capital assets acquired through accounts payable	-	2,494,717		2,494,717	7,450,400
Feasibility studies with no cash effect	-	-		-	6,032,722

**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.	44 - 48
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	49 - 51
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.	52 - 55
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.	56 - 59
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	60 - 63

**ORANGE COUNTY SANITATION DISTRICT**  
 Net Position by Component  
 (Dollars in Thousands)  
 Last Ten Fiscal Years

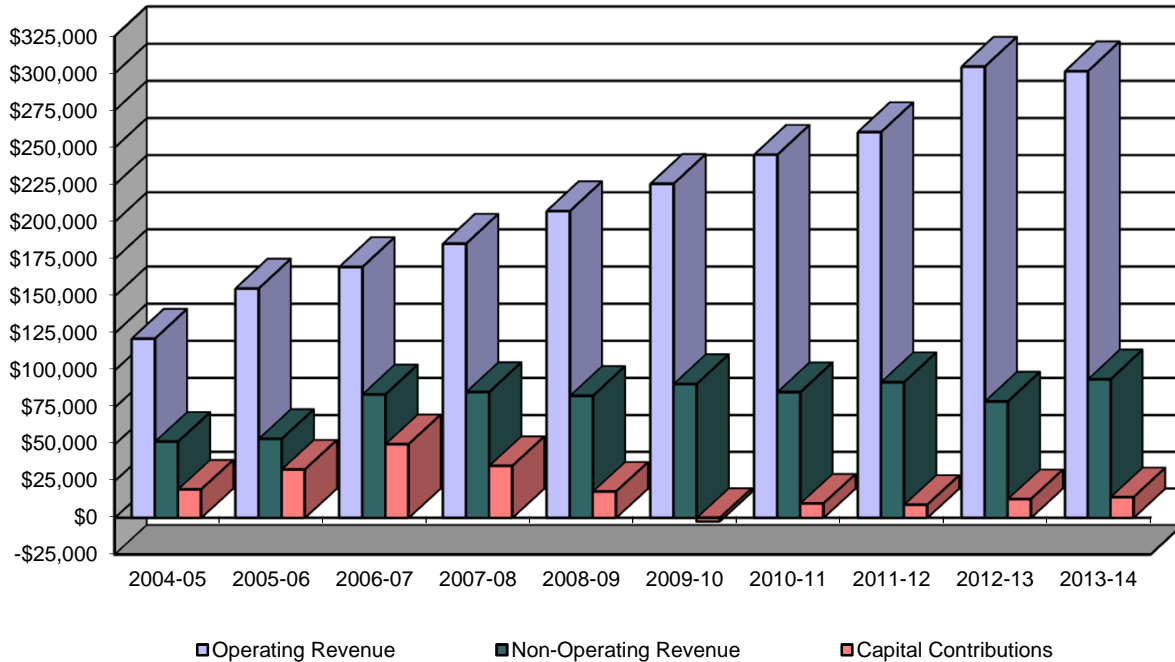


<u>Fiscal Year</u>	<u>Net investment in Capital Assets</u>	<u>Restricted for Debt Service &amp; Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2004-05	\$ 558,391	\$ 64,514	\$ 418,342	\$ 1,041,247
2005-06	664,060	3,003	422,036	1,089,099
2006-07	886,463	3,904	299,370	1,189,737
2007-08	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	-	471,651	1,597,617 (1)
2012-13	1,180,298	-	520,427	1,700,725
2013-14	1,204,706	-	617,589	1,822,295

(1) Beginning net position restated due to implementation of GASB 65.

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

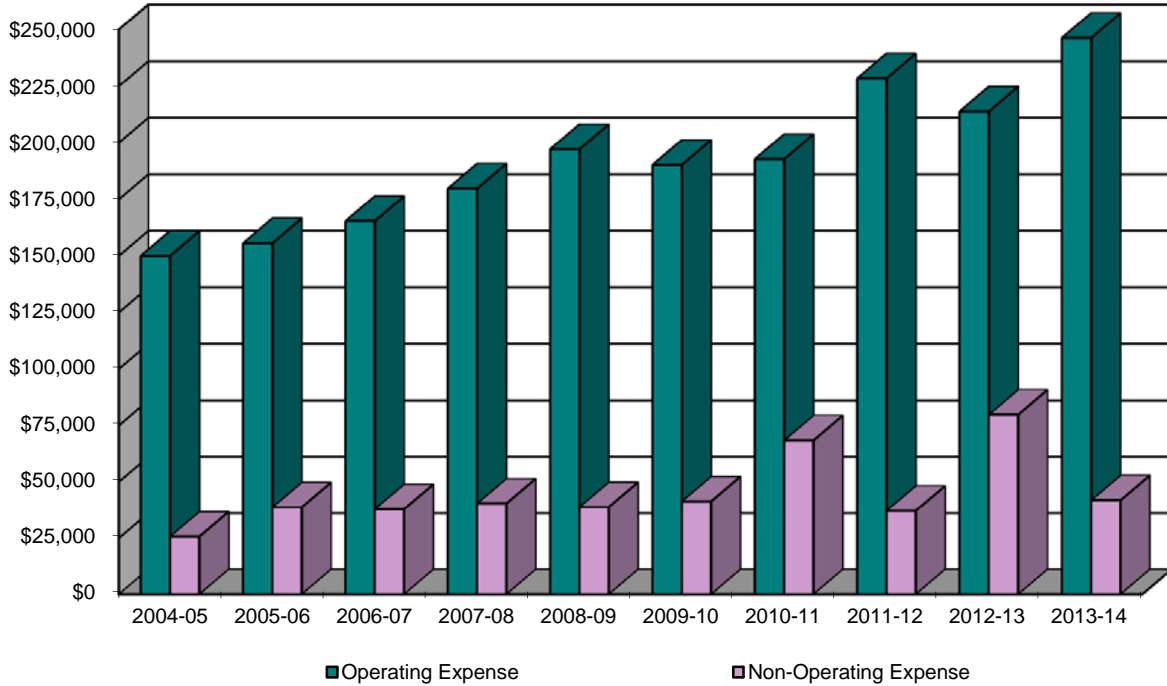


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2004-05	\$ 120,917	\$ 498	\$ 121,415	\$ 35,764	\$ 15,118	\$ 1,051	\$ 51,933	\$19,350
2005-06	154,291	874	155,165	39,958	10,426	3,477	53,861	32,990
2006-07	167,790	1,866	169,656	60,565	22,243	1,068	83,876	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

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

**ORANGE COUNTY SANITATION DISTRICT**

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



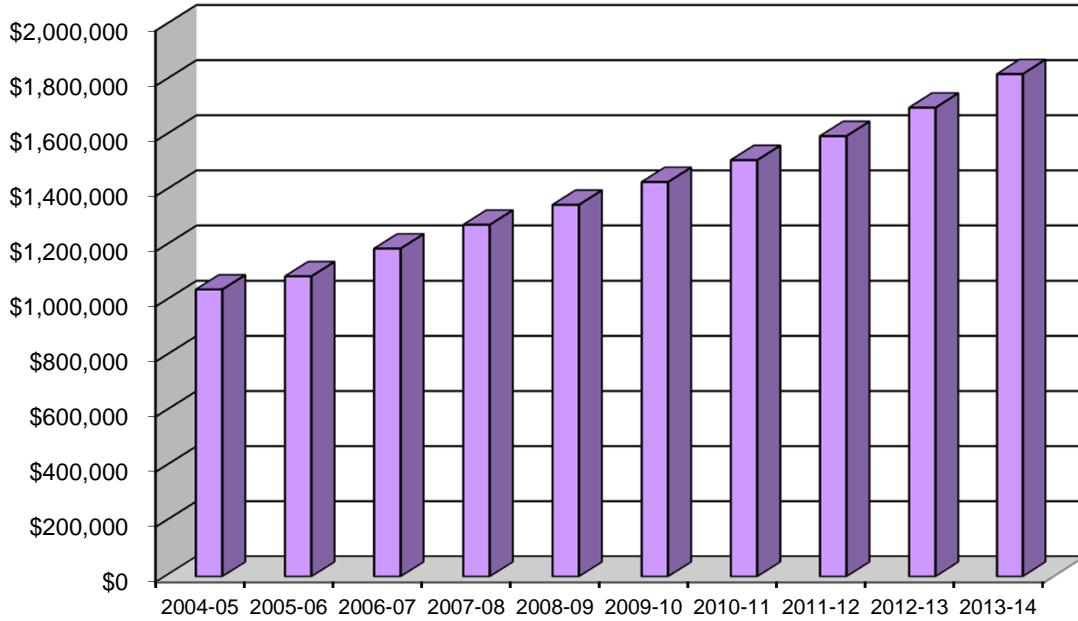
Fiscal Year	Operating Expense				Non - Operating Expense			
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort	Total Operating	Interest Expense	Other	Total Non-Operating
2004-05	\$ 53,048	\$ 6,473	\$ 42,325	\$ 48,095	\$ 149,941	\$ 17,470	\$ 8,172	\$ 25,642
2005-06	53,246	7,563	44,823	49,887	155,519	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 <sup>(1)</sup>
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

<sup>(1)</sup> Non-operating expense restated due to implementation of GASB 65.

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

<b>Fiscal Year</b>	<b>Total Revenues</b>	<b>Total Expenses</b>	<b>Change in Net Position</b>	<b>Beginning Net Position</b>	<b>Ending Net Position</b>
2004-05	\$ 192,698	\$ 175,583	\$ 17,115	\$1,024,133	\$ 1,041,248
2005-06	242,016	194,164	47,852	1,041,248	1,089,100
2006-07	303,739	203,102	100,637	1,089,100	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

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

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
2004-05	\$ 71	\$ 57	\$ 242	\$ 65	\$ 472
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

**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.

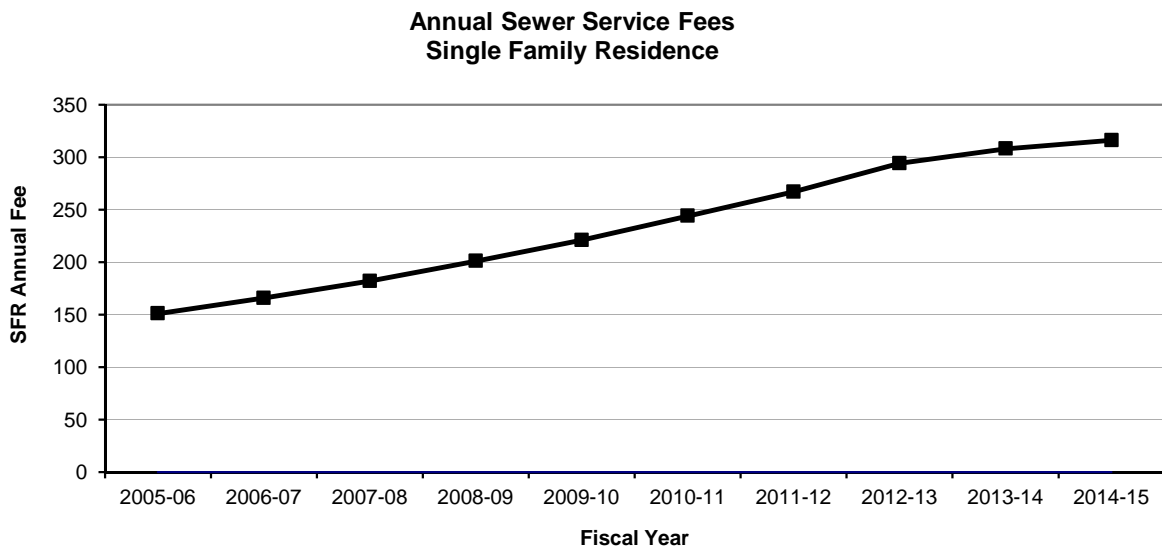
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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.

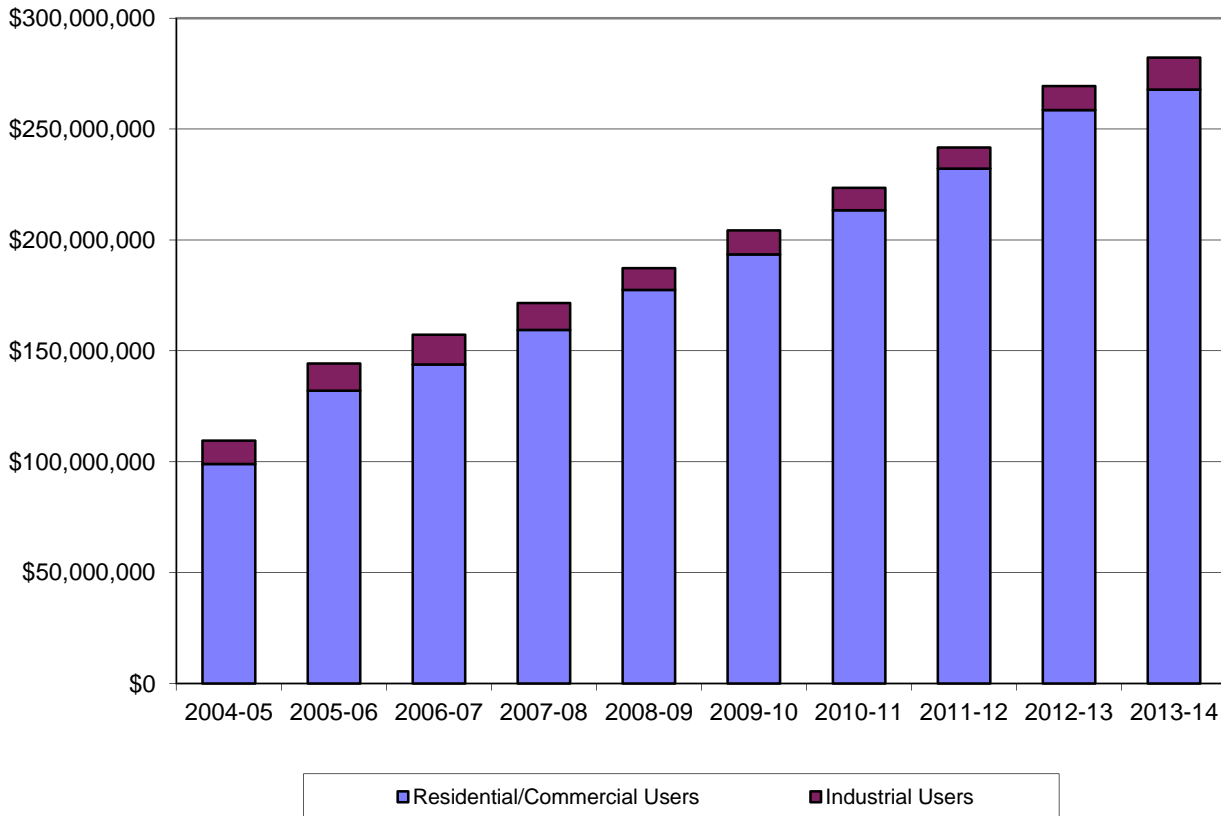
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2005-06	\$ 151.00
2006-07	165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00
2012-13	294.00
2013-14	308.00
2014-15	316.00



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
2004-05	860,634	99.0	90%	568	10.5	10%
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%



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

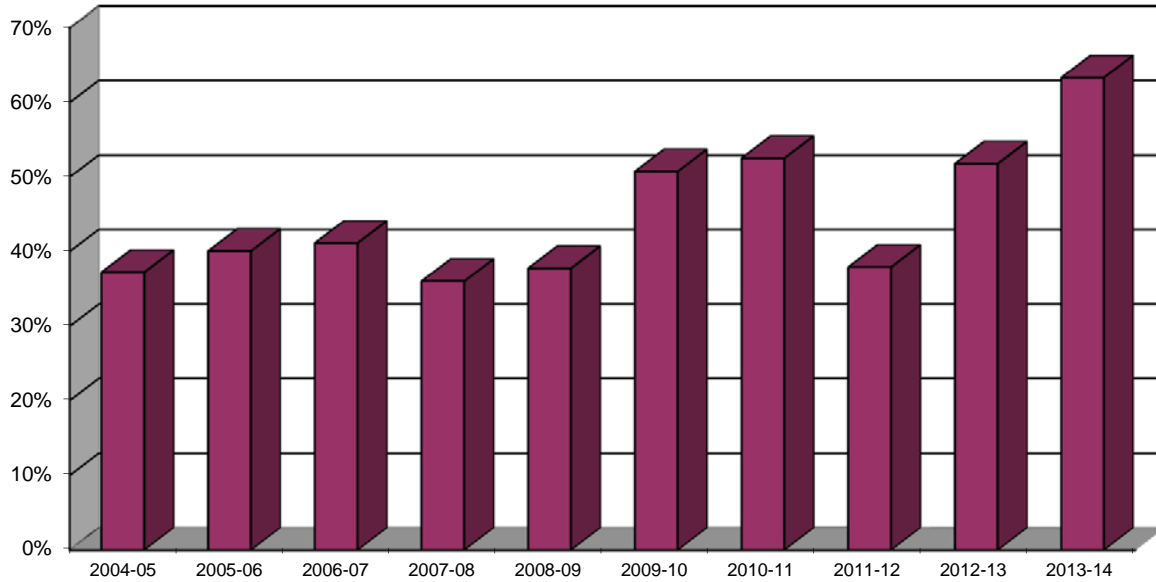
**ORANGE COUNTY SANITATION DISTRICT**  
Principal Sewer Service Customers  
For the Current Fiscal Year and Nine Years Ago

User	Fiscal Year Ended 6/30/14			Fiscal Year Ended 6/30/05		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
House Foods America Corp.	\$ 1,096,791	1	0.36%	\$ 540,548	6	0.45%
Kimberly-Clark Worldwide, Inc.	1,059,850	2	0.35%	727,318	3	0.60%
Stremicks Heritage Foods, LLC	971,832	3	0.32%	591,308	4	0.49%
MCP Foods, Inc.	898,925	4	0.30%	881,089	1	0.73%
Dean Foods Co. of CA Inc.	585,374	5	0.19%			
Nor-Cal Beverage Co. Inc (NCB)	577,261	6	0.19%			
Jazz Semiconductor	475,299	7	0.16%			
Ameripecc Inc.	420,365	8	0.14%			
Pepsi-Cola Bottling Group	402,513	9	0.13%			
Pulmuone Wildwood, Inc.	383,365	10	0.13%			
Alstyle Apparel-Activewear Mfg.				793,035	2	0.66%
Disneyland Resort				569,661	5	0.47%
Disneyland Resort --DCA				411,368	7	0.34%
Van Law Food Products, Inc.				359,771	8	0.30%
Seven-Up Bottling Company				235,146	9	0.19%
Expo-Dyeing & Finishing, Inc.				218,959	10	0.18%
	<u>\$ 6,871,575</u>		<u>2.27%</u>	<u>\$ 5,328,203</u>		<u>4.41%</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



<b>Fiscal Year</b>	<b>Principal (1)</b>	<b>Interest</b>	<b>Total Debt Service (3)</b>	<b>Total Operating Expenses (2)</b>	<b>Ratio of Debt Service to Total Operating Expenses</b>
2004-05	\$ 12,040	\$ 25,871	\$ 37,911	\$ 101,846	37.22%
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

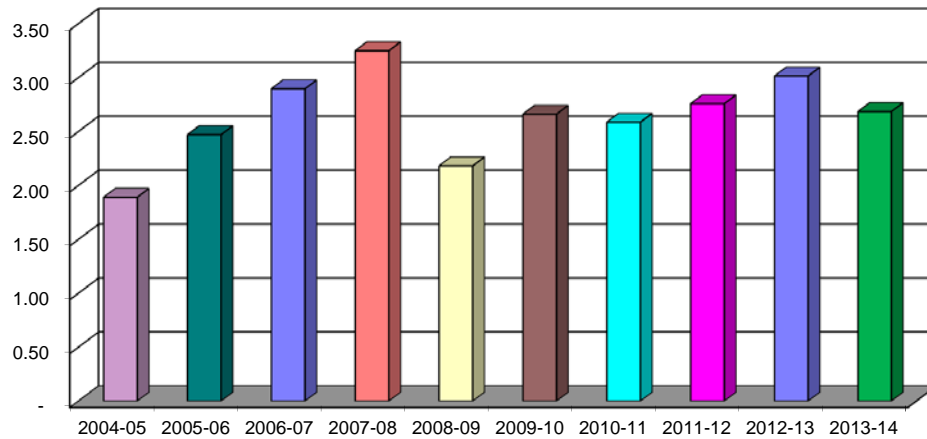
**Notes**

- (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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Operating &amp; Non-operating Revenues:</b>										
Service Charges, Net of Refunds-Regional	\$ 99.0	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5	\$ 213.3	\$ 232.2	\$ 258.6	\$ 267.8
Service Charges, Net of Refunds-Local	-	-	-	-	5.6	5.6	5.7	5.7	5.8	5.7
Industrial Sewer Service Charges	10.5	12.2	13.4	12.1	9.9	10.8	10.1	9.5	10.8	14.4
Revenue Area No. 14 Fees	6.9	5.3	5.2	7.1	10.3	10.2	21.4	18.0	12.5	23.6
Ad Valorem Taxes	35.8	40.0	60.6	65.2	66.4	64.8	64.3	67.9	77.3	72.8
Interest Earnings	15.1	10.4	22.2	20.2	14.8	19.2	10.1	15.7	(3.6)	6.1
Other Revenues	6.1	9.2	8.3	6.9	5.8	12.5	5.7	3.6	22.3	5.1
Total Revenues	173.4	209.1	253.5	270.9	290.2	316.6	330.6	352.6	383.7	395.5
Operating Expenses (1)	101.8	105.6	112.2	131.9	164.6	138.1	143.4	172.3	149.8	146.4
Net Revenues	\$ 71.6	\$ 103.5	\$ 141.3	\$ 139.0	\$ 125.6	\$ 178.5	\$ 187.2	\$ 180.3	\$ 233.9	\$ 249.1
<b>Debt Service Requirements</b>										
Principal Payments	12.0	12.8	13.5	11.0	21.3	24.0	25.9	14.4	24.0	39.6
Interest Payments	25.9	29.1	35.3	31.8	36.3	43.1	46.5	51.0	53.6	53.2
Total Debt Service Requirements	\$ 37.9	\$ 41.9	\$ 48.8	\$ 42.8	\$ 57.6	\$ 67.1	\$ 72.4	\$ 65.4	\$ 77.6	\$ 92.8
Coverage Ratios	1.89	2.47	2.90	3.25	2.18	2.66	2.59	2.76	3.01	2.68
Ending Reserves (2)	\$ 407.0	\$ 385.0	\$ 293.0	\$ 425.0	\$ 401.0	\$ 344.0	\$ 420.0	\$ 439.0	\$ 465.0	\$ 542.0

**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, 2014**

2013-14 Assessed Valuation (Land & Improvements Only): \$329,285,498,672

OVERLAPPING TAX AND ASSESSMENT DEBT (Based on all property assessed valuation of \$332,843,667,456):

	<b>Total Debt 6/30/14</b>	<b>% Applicable (1)</b>	<b>District's Share of Debt 6/30/14</b>
Metropolitan Water District of Southern California	\$132,275,000	15.220%	\$ 20,132,255
Coast Community College District	632,413,698	99.354	628,328,306
North Orange County Joint Community College District	201,239,001	97.432	196,071,183
Rancho Santiago Community College District	285,430,201	98.996	282,564,482
Brea-Olinda and Laguna Beach Unified School Districts	47,834,029	99.979 & 15.204	23,688,542
Garden Grove Unified School District	244,995,160	100.000	244,995,160
Los Alamitos Unified School District School Facilities Improvement District No. 1	100,990,124	96.554	97,510,004
Newport Mesa Unified School District	236,854,150	100.000	236,854,150
Placentia-Yorba Linda Unified School District	257,071,375	98.948	254,366,984
Rowland Unified School District	208,566,229	0.135	281,564
Saddleback Valley Unified School District	126,840,000	11.890	15,081,276
Santa Ana Unified School District	289,561,562	100.000	289,561,562
Tustin Unified School District School Facilities Improvement District No. 2002-1	53,319,645	99.961	53,298,850
Tustin Unified School District School Facilities Improvement District No. 2008-1	72,135,000	99.960	72,106,146
Tustin Unified School District School Facilities Improvement District No. 2012-1	35,000,000	99.974	34,990,900
Anaheim Union High School District	100,323,955	100.000	100,323,955
Fullerton Joint Union High School District	50,237,910	91.479	45,957,138
Huntington Beach Union High School District	206,874,998	98.991	204,787,629
School Districts	425,492,392	97.339-100.000	424,808,789
City of Anaheim	1,995,000	99.209	1,979,220
Irvine Ranch Water District Improvement Districts	509,537,480	Various	509,536,259
Rossmoor Community Services District Special Tax Obligations	290,000	100.000	290,000
Bonita Canyon Community Facilities District No. 98-1	36,355,000	100.000	36,355,000
Irvine Unified School District Community Facilities Districts	411,492,332	100.000	411,492,332
Tustin Unified School District Community Facilities Districts	244,707,675	100.000	244,707,675
City of Tustin Community Facilities Districts	77,170,000	100.000	77,170,000
Other Community Facilities Districts	315,853,077	99.822-100.000	315,808,143
Orange County Assessment Districts	83,815,000	100.000	83,815,000
City of Irvine 1915 Act Bonds	831,924,000	100.000	831,924,000
Other 1915 Act bonds	15,796,670	100.000	15,796,670
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$5,754,583,174</b>
<b><u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u></b>			
Orange County General Fund Obligations	\$145,476,000	75.230%	\$ 109,441,595
Orange County Pension Obligations	32,195,288	75.230	24,220,515
Orange County Board of Education Certificates of Participation	15,500,000	75.230	11,660,650
Brea-Olinda Unified School District Certificates of Participation	22,965,000	99.979	22,960,177
Orange Unified School District Certificates of Participation and Benefit Obligations	119,856,560	97.897	117,335,976
Placentia-Yorba Linda Unified School District Certificates of Participation	107,235,670	98.948	106,107,551
Santa Ana Unified School District Certificates of Participation	76,291,353	100.000	76,291,353
Other Unified School District Certificates of Participation	60,704,923	Various	54,228,509
Union High School District Certificates of Participation	118,354,185	Various	115,853,232
School District Certificates of Participation	75,736,299	Various	75,280,056
City of Anaheim General Fund Obligations	729,677,465	99.209	723,905,716
City of Costa Mesa General Fund Obligations	28,130,000	100.000	28,130,000
City of Garden Grove General Fund Obligations	17,830,000	100.000	17,830,000
City of Huntington Beach General Fund and Judgment Obligations	45,679,000	98.721	45,094,766
City of La Habra General Fund Obligations	18,440,000	100.000	18,440,000
City of Santa Ana General Fund Obligations	82,250,000	100.000	82,250,000
Other City General Fund Obligations	221,938,253	Various	200,429,739
<b>Orange County Sanitation District</b>	<b>0</b>	<b>100.000</b>	<b>0</b> (2)
Municipal Water District of Orange County Water Facilities Corporation	7,775,000	70.418	5,475,000
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,834,934,835</b>
Less: City of Anaheim self-supporting obligations			716,484,883
Other City self-supporting obligations			18,788,613
MWDOC Water Facilities Corporation (100% self-supporting)			5,475,000
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,094,186,339</b>
<b><u>OVERLAPPING TAX INCREMENT DEBT:</u></b>	<b>\$1,184,766,565</b>	<b>56.466-100.000%</b>	<b>\$1,178,055,011</b>
<b>GROSS COMBINED TOTAL DEBT</b>			<b>\$8,767,573,020</b> (3)
<b>NET COMBINED TOTAL DEBT</b>			<b>\$8,026,824,524</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.

Ratios to:	Total Overlapping Tax and Assessment/Increment Debt	Gross Combined Total Debt	Net Combined Total Debt
Land and Improvement Assessed Valuation	1.75%	2.66%	2.44%
All Property Assessed Valuation	N/A	2.63%	2.41%
Redevelopment Incremental Valuation (\$41,626,805,716)	2.83%	N/A	N/A

Source: California Municipal Statistics

**ORANGE COUNTY SANITATION DISTRICT**

Ratios of Outstanding Debt

Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>(5) Total Outstanding Debt</b>	<b>(3) Median Family Income (1)</b>	<b>Debt as a Percentage of Median Family Income</b>	<b>(4) Population Estimate (2)</b>	<b>Debt per Capita</b>
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

**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>
2004-05	243	1,095.79	\$ 149,941	\$ 25,642	\$ 121,415	\$ 51,933
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	83,876
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

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.

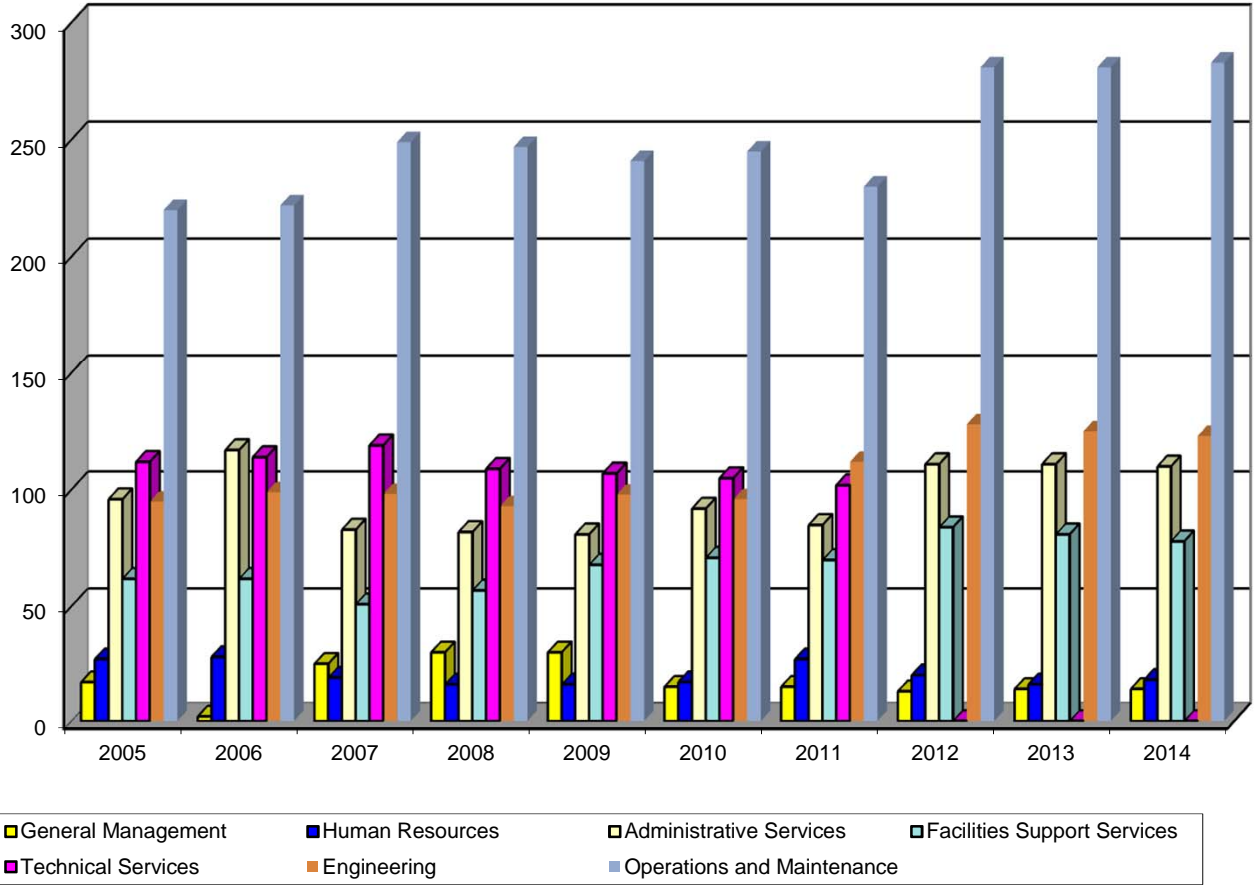
Total expenses in FY 2013-14 increased \$112.4 million, or 64.0 percent since FY 2004-05, primarily as a result of OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012.

Maintenance, chemicals, utilities, and other operating costs represent 16 percent of the increase, primarily due to the increase in the levels of treatment referred to above. Depreciation expense represents another 46 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2013-14, personnel expenses rose 3.0 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized decreased by 2 in FY 2013-14.

As depicted from the chart above, actual wastewater treatment flows have generally remained between 221 mgd and 243 mgd in the past. Due to unusually dry weather conditions during the last six years, FY 2008-09, FY 2009-10, FY 2010-11, FY 2011-12, FY 2012-13 and FY 2013-14 had flows of only 211 mgd, 196 mgd, 207 mgd, 201 mgd, 200 mgd and 198 mgd respectively.

Source: Orange County Sanitation District.

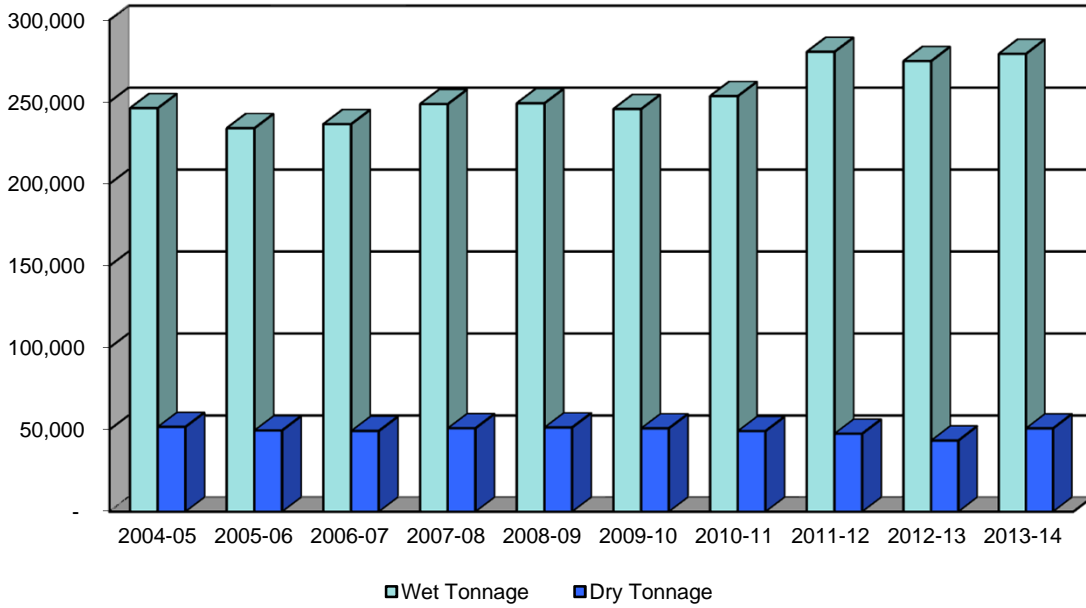
**ORANGE COUNTY SANITATION DISTRICT**  
 Authorized Full-time Equivalents by Function  
 Last Ten Fiscal Years



	Fiscal Year Ending June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Management	17	2	25	30	30	15	15	13	14	14
Human Resources	27	28	19	16	16	17	27	20	16	18
Administrative Services	96	117	83	82	81	92	85	111	111	110
Facilities Support Services	62	62	51	57	68	71	70	84	81	78
Technical Services	112	114	119	109	107	105	102	-	-	-
Engineering	95	99	98	93	98	96	112	128	125	123
Operations and Maintenance	220	222	249	247	241	245	230	281	281	283
<b>Total FTE's</b>	<b>629</b>	<b>644</b>	<b>644</b>	<b>634</b>	<b>641</b>	<b>641</b>	<b>641</b>	<b>637</b>	<b>628</b>	<b>626</b>

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>
2004-05	246,194	51,700
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

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

**ORANGE COUNTY SANITATION DISTRICT**

Capital Asset Statistics

Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Miles of Trunk &amp; Subtrunk Sewers</b>	<b>Number of Pump Stations</b>	<b>Primary Treatment Capacity (1)</b>	<b>Secondary Treatment Capacity (1)</b>
2004-05	620	18	306	170
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

**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>
2004-05	3,047,000	\$ 139,408,948 (3)	\$ 45,753	\$ 75,700	514,000	3.9%
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	161,743,800 (4)	52,927	85,300	502,195	7.9%
2012-13	3,082,000	168,778,500 (4)	54,763	84,100	501,801	6.1%
2013-14	3,114,000	177,412,900 (4),(8)	56,973	84,900	500,487	5.2%

**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, 2014

	<b>Population as of <u>January 1, 2014</u></b>
Anaheim	348,305
Brea	42,397
Buena Park	82,344
Costa Mesa	111,846
Cypress	48,886
Fountain Valley	56,702
Fullerton	140,131
Garden Grove	173,953
Huntington Beach	195,999
Irvine	242,651
La Habra	61,717
La Palma	15,896
Los Alamitos	11,729
Newport Beach	86,874
Orange	139,279
Placentia	52,094
Santa Ana	331,953
Seal Beach	24,591
Stanton	38,963
Tustin	78,360
Villa Park	5,935
Westminster	91,652
Yorba Linda	<u>67,069</u>
Subtotal Cities <sup>(1)</sup>	2,449,326
Estimated Population Served in Unincorporated Areas <sup>(2)</sup>	<u>72,477</u>
	<u><u>2,521,803</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 6/30/14</u>			<u>Fiscal Year Ended 6/30/05</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.	25,000	1	1.64%	21,000	1	1.38%
University of California, Irvine	22,253	2	1.46%	15,500	3	1.02%
County of Orange	18,035	3	1.19%	17,597	2	1.15%
St. Joseph Health System	12,062	4	0.79%	8,975	5	0.59%
Boeing Co.	6,890	5	0.45%	11,160	4	0.73%
Kaiser Permanente	6,040	6	0.40%			
Bank of America Corp.	6,000	7	0.39%			
Walmart	6,000	8	0.39%			
Memorial Care Health System	5,635	9	0.37%			
Target Corp.	5,400	10	0.36%	5,436	10	0.36%
Albertsons Inc.				8,700	6	0.57%
Tenet Healthcare Corp.				8,389	7	0.55%
YUM! Brands Inc.				6,500	8	0.43%
SBC Communications, Inc.				5,658	9	0.37%
Total	<u>113,315</u>		<u>7.44%</u>	<u>108,915</u>		<u>7.15%</u>

**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 1,520,100 as of June 2014.
- (4) - Data Source: State of California, Employment Development Department.  
- Percentage is calculated by dividing employees by total employment of 1,525,700 as of June 2005.

**ORANGE COUNTY SANITATION DISTRICT**

Operating Indicators

June 30, 2014

**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

**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>	626
<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	96	204	182
Plant 2	<u>102</u>	<u>168</u>	<u>150</u>
Total	<u>198</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, 2014

	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	\$ 104,812.50	\$ 104,812.50	\$ 47,165.63	0.01%	\$ (57,646.87)
FEDERAL HOME LOAN BANK - 1 YR OR LESS	115,999,000.00	115,980,915.54	115,980,915.54	19.52%	-
FEDERAL HOME LOAN MORTGAGES - 1 YR OR LESS	16,300,000.00	16,295,191.87	16,295,191.87	2.74%	-
FNMA ISSUES - 1 YR OR LESS	74,201,000.00	74,185,129.42	74,185,129.42	12.49%	-
OTHER BONDS - 1 YR OR LESS	1,300,000.00	1,300,563.00	1,300,563.00	0.22%	-
REPURCHASE AGREEMENTS	205,800,000.00	205,800,000.00	205,800,000.00	34.64%	-
SHORT TERM INVESTMENT FUNDS (US REGULATED)	1,129,800.27	1,129,800.27	1,129,800.27	0.19%	-
U.S. TREASURY BILLS - 1 YR OR LESS	32,600,000.00	32,598,939.99	32,598,939.99	5.49%	-
PENDING TRADES	-	(102,997,657.38)	(102,997,657.38)	-17.34%	-
<b>SUBTOTAL - CASH &amp; CASH EQUIVALENTS</b>	<b>447,434,612.77</b>	<b>344,397,695.21</b>	<b>344,340,048.34</b>	<b>57.96%</b>	<b>(57,646.87)</b>
<b>FIXED INCOME SECURITIES (U.S. DOLLAR):</b>					
ABS - HOME EQUITY	538,297.29	471,293.70	525,357.43	0.09%	54,063.73
ABS - SMALL BUSINESS ADMINISTRATION	219,338.25	219,338.25	237,444.62	0.04%	18,106.37
ABS - STUDENT LOANS	53,904.94	53,686.23	55,741.48	0.01%	2,055.25
AUTOMOBILES & COMPONENTS	5,200,000.00	5,200,000.00	5,216,692.00	0.88%	16,692.00
BANKING & FINANCE	51,463,000.00	54,278,577.39	52,902,596.41	8.90%	(1,375,980.98)
CHEMICALS	672,000.00	697,247.04	693,403.20	0.12%	(3,843.84)
COLLATERALIZED MORTGAGE OBLIGATION COMM/C	379,177.05	380,154.62	381,391.44	0.06%	1,236.82
FHLMC MULTICLASS	2,315,272.92	2,539,662.45	2,599,133.27	0.44%	59,470.82
FHLMC POOLS	2,941.59	2,869.90	2,956.59	0.00%	86.69
FNMA POOLS	2,979,767.43	3,140,865.50	3,269,199.62	0.55%	128,334.12
FNMA REMIC	1,392,415.12	1,400,469.28	1,414,384.31	0.24%	13,915.03
FOOD BEVERAGE & TOBACCO	4,750,000.00	5,092,024.00	5,057,344.75	0.85%	(34,679.25)
GNMA MULTI FAMILY POOLS	342,705.49	342,665.04	355,315.35	0.06%	12,650.31
GNMA REMIC	71,013.68	71,013.68	71,593.86	0.01%	580.18
HEALTH CARE	2,950,000.00	3,030,795.50	3,062,862.00	0.52%	32,066.50
INDUSTRIAL	2,096,000.00	2,154,855.68	2,139,911.20	0.36%	(14,944.48)
INSURANCE	800,000.00	884,844.67	889,198.00	0.15%	4,353.33
REITS	1,000,000.00	996,050.00	1,099,480.00	0.19%	103,430.00
TAXABLE MUNICIPALS	16,440,000.00	16,738,875.89	19,933,909.80	3.36%	3,195,033.91
U.S. TIPS	17,575,416.00	18,049,401.68	18,212,524.83	3.07%	163,123.15
US GOVERNMENTS	128,810,000.00	127,421,758.55	127,989,106.00	21.54%	567,347.45
UTILITY - ELECTRIC	2,727,000.00	3,013,791.51	2,929,069.65	0.49%	(84,721.86)
WHOLE LOAN - CMO - COLLATERALIZED MTG OBLIG	718,582.06	718,578.79	720,141.38	0.12%	1,562.59
<b>SUBTOTAL - FIXED INCOME SECURITIES</b>	<b>243,496,831.82</b>	<b>246,898,819.35</b>	<b>249,758,757.19</b>	<b>42.04%</b>	<b>2,859,937.84</b>
<b>TOTAL INVESTMENT PORTFOLIO</b>	<b>\$ 690,931,444.59</b>	<b>591,296,514.56</b>	<b>594,098,805.53</b>	<b>100.00%</b>	<b>\$ 2,802,290.97</b>
DEMAND DEPOSITS AND CASH ON HAND		2,439,802.78	2,439,802.78		
MONIES HELD WITH FISCAL AGENTS		45,301,882.29	45,301,882.29		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		31,222,267.53	31,231,595.48		
<b>TOTAL CASH AND INVESTMENTS</b>		<b>\$ 670,260,467.16</b>	<b>\$ 673,072,086.08</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

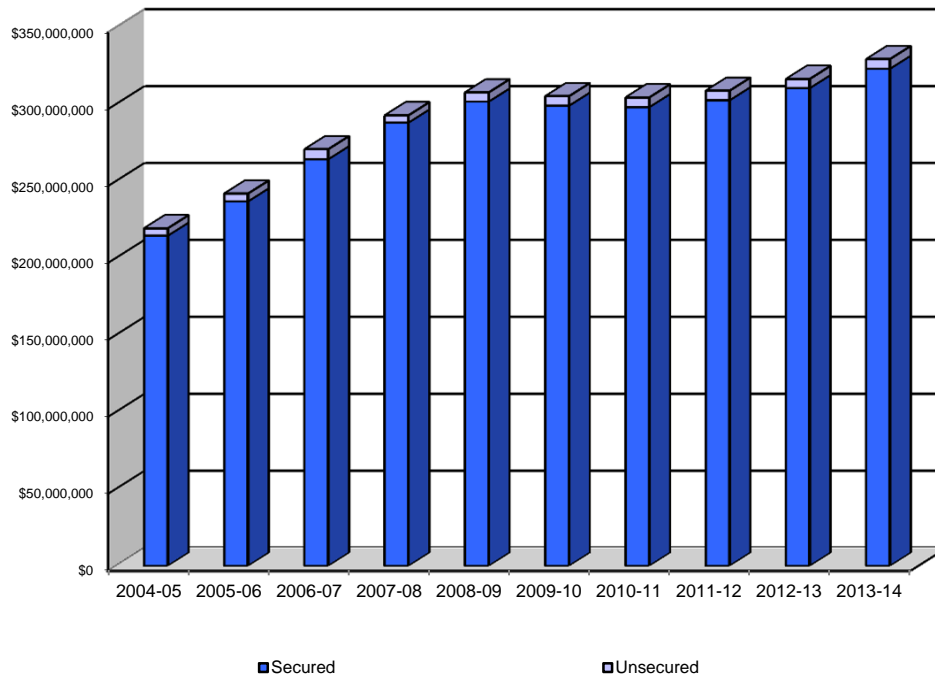
<b>Fiscal Year</b>	<b>Tax Rate</b>			<b>OCSD's Average Share of Basic Levy</b>
	<b>Basic Levy</b>	<b>OCSD 1958 General Obligation Bonds</b>	<b>Total Tax Rate</b>	
2004-05	1.00%	0.00%	1.00%	1.67%
2005-06	1.00%	0.00%	1.00%	1.65%
2006-07	1.00%	0.00%	1.00%	1.65%
2007-08	1.00%	0.00%	1.00%	1.63%
2008-09	1.00%	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%

**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

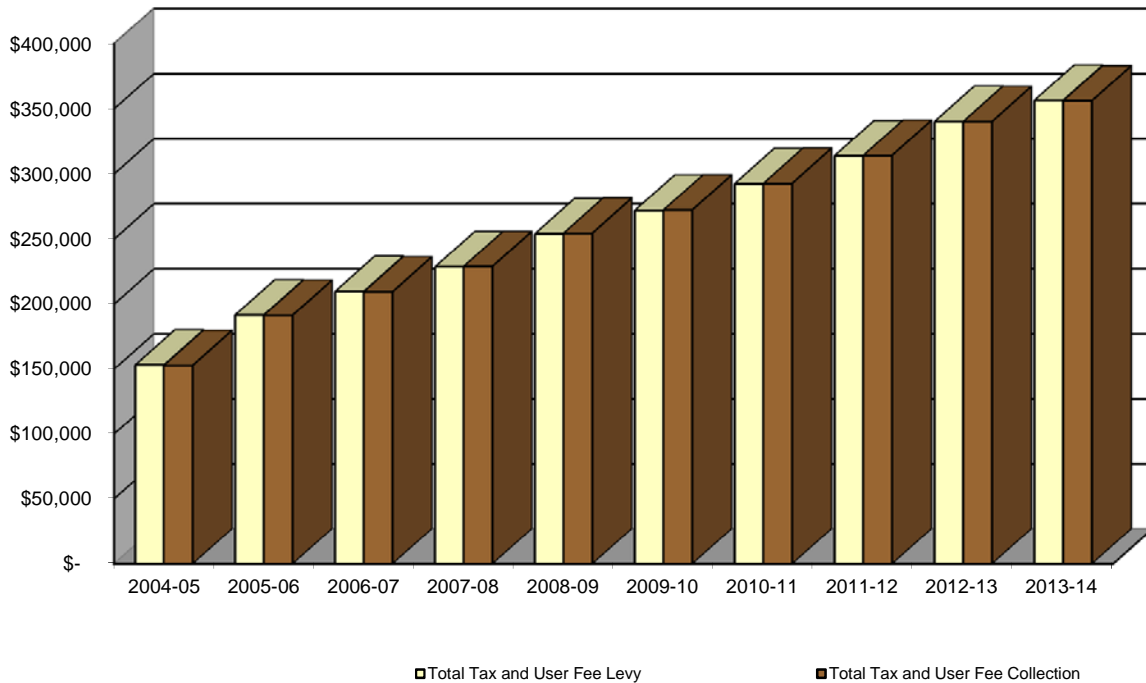


<b>Fiscal Year</b>	<b>Secured</b>	<b>Unsecured</b>	<b>Total</b>	<b>Percent Change in Assessed Value</b>
2004-05	214,529,000	4,743,000	219,272,000	8.85%
2005-06	236,826,573	5,023,423	241,849,996	10.30%
2006-07	264,241,033	6,452,111	270,693,144	11.93%
2007-08	288,051,467	4,681,838	292,733,305	8.14%
2008-09	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%

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 Tax Levy	(1) Pass-Through Payments
2004-05	\$ 153,187	\$ (16,198)	\$ 152,745	99.71	\$ 92	\$ 152,837	99.77	\$ 257	0.17	\$ -
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

**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.

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>		
2004-05	\$ 311,802,395	2005	\$ 1,494,759	7,206	\$ 2,100,436	\$ 3,595,195	
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	1,617,693	9,634	2,555,847	4,173,540 (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, 2014

<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)	\$250,000 \$500,000 for EPLI	\$30 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**

10844 Ellis Avenue

Fountain Valley, California 92708-7018

714.962.2411

[www.ocsewers.com](http://www.ocsewers.com)

06/30/14