



Orange County Sanitation District
**Comprehensive Annual
Financial Report**

for the year ended June 30, 2016



Orange County, California

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

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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Serving:

Orange County Sanitation District

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Anaheim

Brea

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Los Alamitos

Newport Beach

Orange

Placentia

Santa Ana

Seal Beach

Stanton

Tustin

Villa Park

County of Orange

Costa Mesa
Sanitary District

Midway City
Sanitary District

Irvine Ranch
Water District

Yorba Linda
Water District

October 31, 2016

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, 2016. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2016 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 changes in the financial position 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 Macias Gini & O'Connell LLP to perform the audit for the year ended June 30, 2016. 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, 2016.

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 2.6 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

*Our Mission: To protect public health and the environment by
providing effective wastewater collection, treatment, and recycling.*



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

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

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

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

ECONOMIC CONDITIONS AND OUTLOOK

Chapman University's June 2016 Economic & Business Review forecasts that the real U.S. gross domestic product will grow 2.1 percent in 2016 as compared to 2.4 percent in 2015. The declines forecasted in consumer and investment spending growth overwhelm the relatively smaller positive effects from government and international trade.

According to the California Employment Development Department (EDD), Orange County generated an increase of approximately 2.5 percent in payroll jobs from August 2015 to August 2016. During this same time period, unemployment in Orange County decreased to 4.4 percent from 4.6 percent while the unemployment in California as a whole decreased to 5.6 percent from 6.1 percent. Chapman University's June 2016 forecast also calls for Orange County's unemployment rate to decrease from to 4.0 percent by

the end of 2016. The county's economy is expected to add 40,600 payroll jobs in 2016, an increase of 2.6 percent.

According to Chapman University, residential permit valuation in the County is forecasted to decrease from 11.2 percent growth in 2015 to 4.5 percent growth in 2016. Continued positive, albeit slower, growth will bring residential valuation in 2016 above the \$3 billion level for the first time ever.

Low mortgage rates and higher median family income coupled with a tight housing supply will keep upward pressure on housing prices. Housing appreciation in Orange County is forecasted to increase from 2.7 percent in 2015 to 4.6 percent in 2016. Since the beginning of the recession-recovery period, the County's housing prices have increased 4.3 percent as compared with a decrease of 5.3 percent in California and an increase of 5.8 percent in the nation. However, Chapman University further notes that the current average price of \$712,883 in Orange County compares to the significant lower average prices of \$465,187 in California and \$217,600 in the U.S..

MAJOR INITIATIVES

Following are the District's current major initiatives as outlined in the General Manager's work plan for FY 2016-17:

1. Safety and Security

- **Cyber Security** – Address the top ten longer-term cyber security items/projects.
- **Safety Engineering Solutions and Physical Site Security** – Retain a contractor to begin addressing the 75 high priority items identified in the Safety Study. Implement outstanding high priority physical site security improvements and conduct training for all employees.
- **Voluntary Protection Plan (VPP) Certification** – Implement the recommendations from the feasibility analysis report for obtaining VPP certification from California OSHA.

2. Succession Planning

- **Labor Negotiations** – Complete negotiations with all represented bargaining units and develop a performance based pay structure for unrepresented employees.
- **Employee Engagement** – Conduct follow-up actions to address issues identified during the employee engagement survey and the 2015 EMT/manager leadership training.
- **Workforce Planning and Development** – Address key vulnerabilities identified in the workforce vulnerability and talent readiness assessments conducted during 2015-16 by implementing focused job shadowing, job assignments, training and mentoring. Implement streamlined policies and procedures to more quickly fill vacancies and ensure adequate staffing levels.

3. Resource Recovery

- **Water Recycling** – Execute a new agreement with Orange County Water District (OCWD) for the ultimate expansion of the Groundwater Replenishment System. Work with OCWD to secure grant funding and complete preliminary engineering and environmental work on the expanded facilities to recycle effluent from OCSD's Treatment Plant No. 2.
- **Research** – Present findings and recommendations on Super Critical Water Oxidation to the Board of Directors.

- **Monitoring Program** – Evaluate the nature and frequency of all of OCSD's current environmental monitoring for the protection of OCSD's collection system and treatment plants; water recycling; ocean discharge; and biosolids recycling. Prepare a plan based on the future monitoring needs of OCSD.

4. Reliability

- **Planned Maintenance** – Complete a gap analysis and implement measures to fully deploy planned maintenance using Maximo and process improvements to improve reliability.
- **Civil Assets Maintenance** – Implement the operational housekeeping program, and develop a multi-year program for condition assessment and maintenance of civil assets.
- **Operational Resiliency** – Present the results of the business continuity plan to the Board of Directors. Identify the most critical functions to keep OCSD operating in the event of a major event.
- **Seismic** – Conduct an updated study of the seismic safety needs of OCSD's Plant Facilities.

5. Operational Optimization

- **Rates** – Conduct planning studies including the Odor Control, Biosolids, and Facilities Master Plans to develop updated 20 year cost projections. The outcomes of these studies will be used next fiscal year to complete a rate study to determine the proper allocation of costs among user types and a recommended future rate structure.
- **OCSD Headquarters Building** – Study site location options and make final site selection to begin preparing environmental documentation to comply with CEQA.

Strategic Planning

In December 2015, the Board of Directors approved the biennium update to the rolling five-year strategic plan. This is a comprehensive strategic plan to steer OCSD's efforts and engage the organization to envision service levels and operational needs for the next five years. This annual process begins with the General Manager's Office initiating the planning effort with the Executive Management Team, and then soliciting input and ideas from managers and supervisors. A draft of the updated five-year strategic plan is then presented to the Board of Directors during a workshop, where Board Members discuss and deliberate changes and additions to the plan.

Driven by our Mission, Vision and Core Values, the 2015 Strategic Plan update maintains the District's aggressive efforts to meet the sanitation, health, and safety needs of the 2.6 million people being served in a cost effective manner, while protecting the environment where we live.

Since implementation of the first comprehensive strategic plan in 2007, 40 strategic goals has been established and completed. In December 2015, the District updated the Five-Year Strategic Plan and, as part of the strategic planning process, reaffirmed the following goals:

- Completion of the Odor Control Master Plan;
- Development of Future Biosolids Management Options;
- Research new energy efficiency and conversion technologies;
- Complete the transfer of 174 miles of local sewers to a local agency;
- Determine partnerships, needs, strategies, benefits and costs associated with recycling of Plant No. 2 effluent water; and
- Workforce planning and development to ensure that the right people with the right skills and abilities, are in the right place, at the right time.

This Strategic Plan continues to chart a focused roadmap of success for the future of the Orange County Sanitation District. It addresses critical operations and construction issues, financial and budgeting challenges, and gives a clear and concise direction to staff, ratepayers, regulatory agencies, and the general public.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The following service efforts and accomplishments were achieved by the Sanitation District during the year ended June 30, 2016:

- **Wastewater Conveyance Project of the Year** for the Santa Ana Regional Interceptor Line by the American Society of Civil Engineers
- **Certificate of Achievement for Excellence in Finance Reporting** by the Government Finance Officers Association
- **Excellence in Environmental Engineering and Science - Environmental Sustainability Honor Award** for Central Generation Emissions Control by the American Academy of Environmental Engineers & Scientists
- **Excellence in Environmental Engineering and Science - Design Honor Award** for the Groundwater Replenishment System Initial Expansion by the American Academy of Environmental Engineers & Scientists
- **Excellence in Environmental Engineering and Science - Research Honor Award** for the Sanitation District's Critical Assessment of Process Odorants by the American Academy of Environmental Engineers & Scientists
- **Gold Peak Performance Award for Plant No. 1 and Plant No. 2 for Excellence in Permit Compliance** by the National Association of Clean Water Agencies
- **American In-House Graphic Design Award - Annual Report** by Graphic Design USA
- **Membrane Facility Award** by Membrane Technology Association/American Water Works Association
- **2015 Collection System of the Year** by the California Water Environment Association
- **Recycled Water Agency of the Year** by the Water Reuse Association
- **Golden Hub of Innovation Award** for the Newport Beach Outreach Program by the Association of California Cities - Orange County

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, 2016 was \$25.0 million. In addition, the District's Debt Service Reserve policy requires total debt service reserves to be ten percent of the total outstanding COP debt, or \$117 million at June 30, 2016.

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, 2016, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$545 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	\$181 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	190 million
Designated For Debt Service Requirements	<u>117 million</u>
 Total Designated Cash and Investments	 <u>\$ 545 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, 2015. This was the twenty-first 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, 2015

Executive Director/CEO

ORANGE COUNTY SANITATION DISTRICT

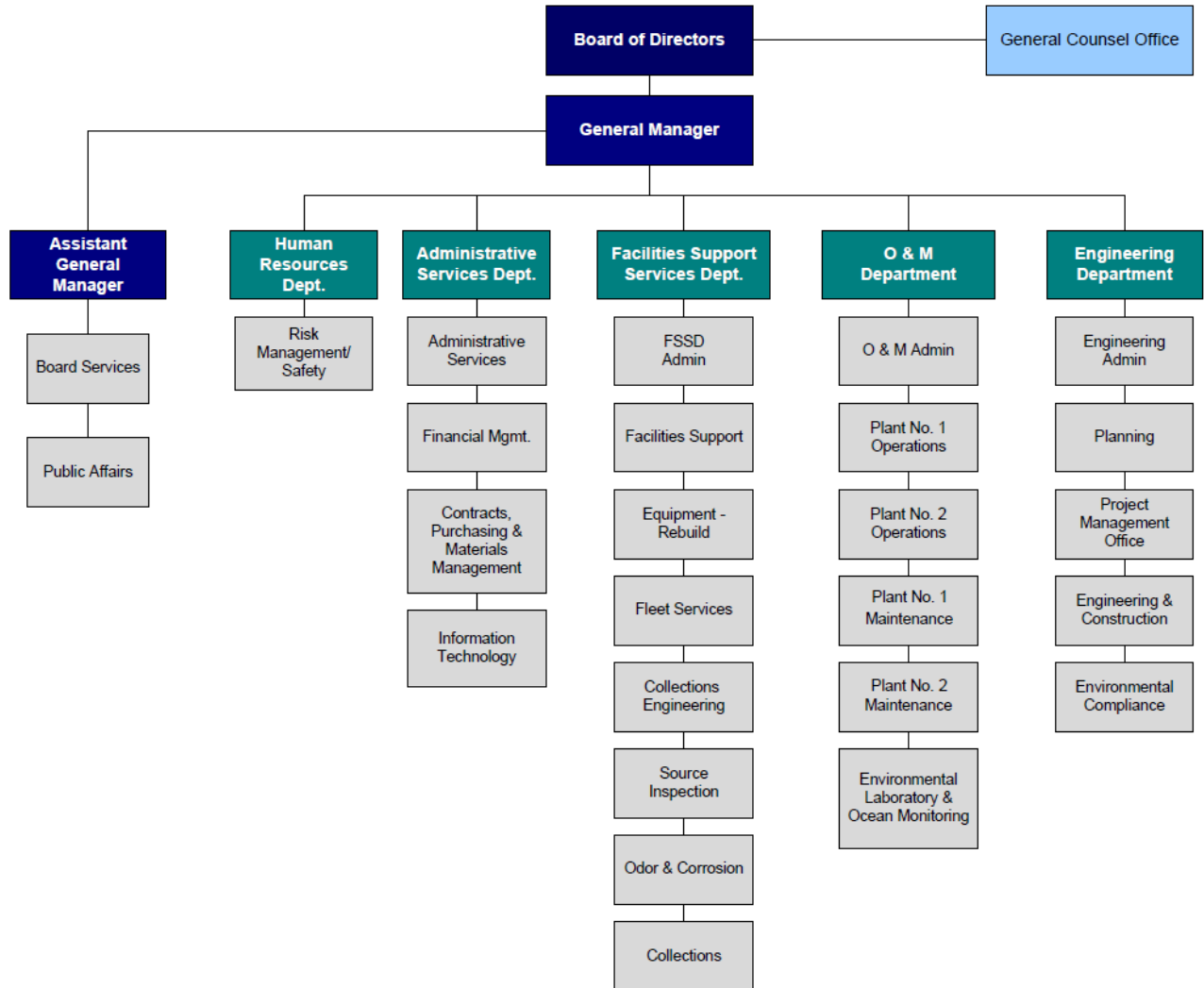
Board of Directors
As of June 30, 2016

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

ORANGE COUNTY SANITATION DISTRICT

Organizational Chart

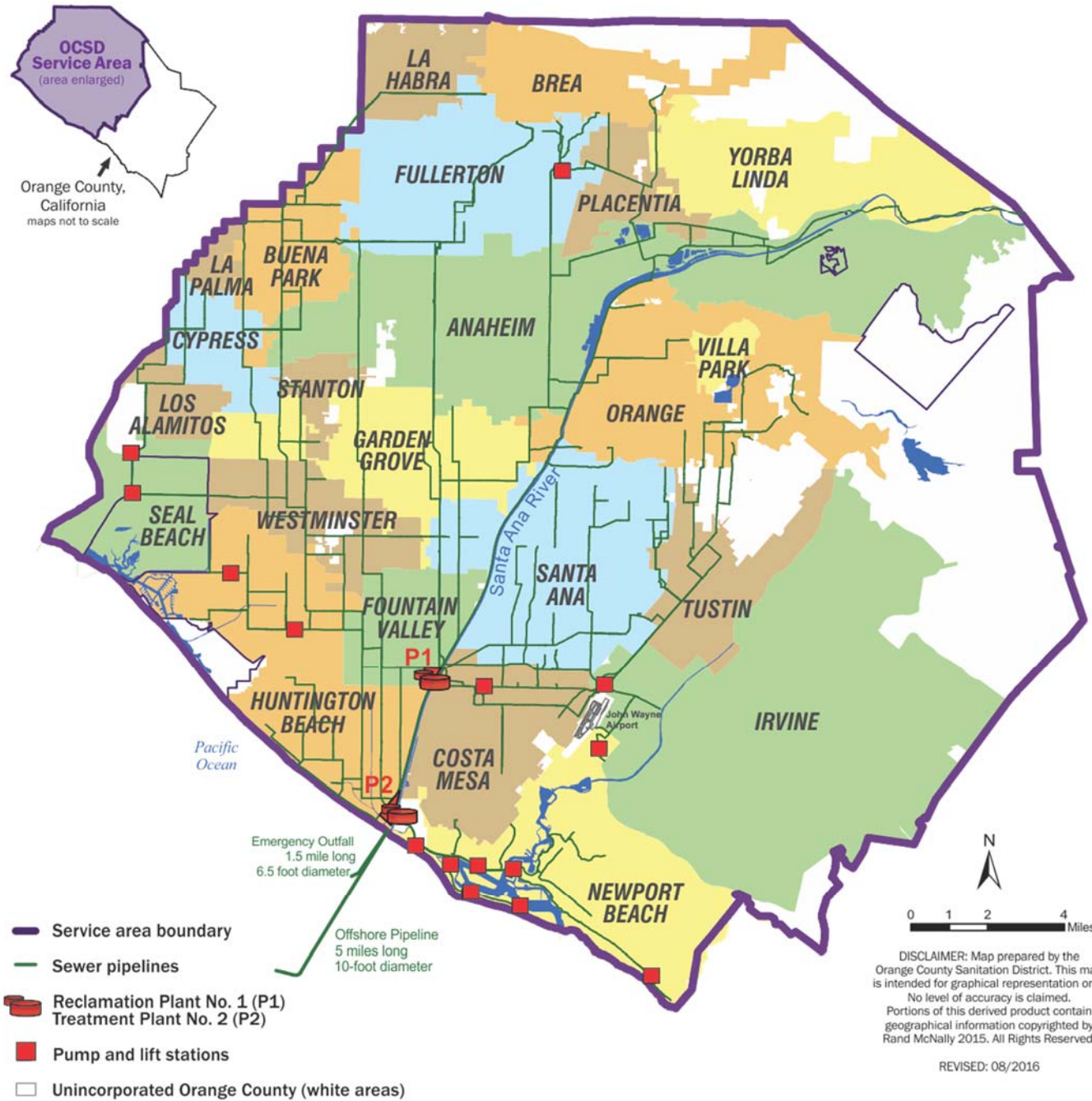
As of June 30, 2016



ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2016



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Sanitation District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No.73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, effective July 1, 2015*. The implementation of this Statement resulted in a restatement of net position as of July 1, 2015, in the amount of \$6,840,809. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other 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.

Macias Gini & O'Connell LLP

Newport Beach, California

October 31, 2016

Management Discussion and Analysis June 30, 2016

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, 2016. 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, 2016, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$1,918.6 million (net position). Of this amount, \$489.3 million represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- Total net position increased \$156.7 million, or 8.9 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$64.5 million, or 2.6 percent over the prior year.
- Net investment in capital assets increased \$101.9 million, or 7.7 percent.
- Unrestricted Net Position increased \$54.8 million, or 12.6 percent from the prior year.
- Total outstanding bonded debt decreased by \$46.3 million over the prior year to \$1.116 billion.
- The FY 2015-16 beginning net position of \$1,755.0 million has been restated from the FY 2014-15 ending net position of \$1,761.8 million due to the implementation of GASB Statements No. 73, and the recognition of an additional net pension liability of \$6.8 million as of June 30, 2015, restated.

Overview of the Basic Financial Statements

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

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

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

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

As indicated in Note 1 of the accompanying financial statements, the District implemented GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 in its financial statements for the year ended June 30, 2016 that required the reporting of an

additional net pension liability of \$6.8 million as of June 30, 2015 and the restatement of the District's net position from \$1,761.8 million to \$1,755.0 million on this date.

Net Position

As previously noted, net position increased \$156.7 million, or 8.9 percent over the net position for FY 2014-15, to \$1,918.6 million in Fiscal Year 2015-16.

(Dollars in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percentage Increase (Decrease)
Assets and deferred outflow of resources				
Assets				
Current and other assets	\$ 609,676	\$ 604,005	\$ 5,671	0.9%
Net Capital assets	2,569,440	2,504,980	64,460	2.6%
Total assets	3,179,116	3,108,985	70,131	2.3%
Deferred outflows of resources	90,762	52,949	37,813	71.4%
Total Assets and deferred outflows of resources	3,269,878	3,161,934	107,944	3.4%
Liabilities				
Current liabilities	102,319	105,031	(2,712)	-2.6%
Noncurrent liabilities	1,225,948	1,269,553	(43,605)	-3.4%
Total liabilities	1,328,267	1,374,584	(46,317)	-3.4%
Deferred inflows of resources	23,039	25,506	(2,467)	-9.7%
Total Liabilities and deferred inflows of resources	1,351,306	1,400,090	(48,784)	-3.5%
Net position:				
Net investment in capital assets	1,429,269	1,327,384	101,885	7.7%
Unrestricted	489,303	434,460	54,843	12.6%
Total net position	\$ 1,918,572	\$ 1,761,844	\$ 156,728	8.9%

Current and other assets increased \$5.7 million, or 0.9 percent, due primarily to net cash provided by operations of \$89.3 million, proceeds from property taxes of \$84.5 million, receipt of capital facilities capacity charges of \$15.6 million, contributions from other governments of \$13.1 million, investment income of \$9.2 million, and other government repayments of \$6.4 million offset by capital outlays of \$123.0 million, interest expense of \$51.5 million, and bonded debt retirements of \$37.5 million.

Net Capital assets increased \$64.5 million, or 2.6 percent, due mostly to the ongoing capital improvement program construction in progress additions of \$153.4 million less depreciation of \$90.5 million. Included in total capital outlay additions is the Sludge Dewatering and Odor Control Project at Plant No. 1 and Plant No. 2 with total project budgets of \$172.0 million and \$86.5 million, respectively. These projects

construct 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 2015-16, the District incurred project costs of \$44.7 million at Plant No. 1 and \$10.2 million at Plant No. 2 bringing the total cost-to-date to \$152.1 million and \$26.0 million, respectively, with completion scheduled in FY 2017-18. Another solids handling project underway is the Solids Thickening and Processing Upgrades at Plant No. 2. This project consists of the rehabilitation and upgrades to the four existing dissolved air flotation thickeners (DAFTs) to treat the current activated sludge plant solids as well as the additional solids that will be generated from the new secondary trickling filter/solids contractor process. In FY 2015-16, \$5.7 million of the total project budget of \$51.2 million was incurred bringing the cost-to-date to \$46.8 million with completion scheduled in FY 2017-18.

One large collection system project, Newport Force Main Rehabilitation, with total project budget of \$64.0 million, incurred outlays of \$15.2 million in FY 2015-16. This project will rehabilitate approximately 28,000 feet of the Newport Force Main system located on Pacific Coast Highway in Newport Beach between the Bitter Point Pump Station and Dover Drive. The force main system consists of two parallel, interconnected pipelines, varying in size from 22 to 36 inches. More than half of the force main system will be rehabilitated rather than replaced to minimize impacts to the community, businesses, tourism, and the environment with completion scheduled for FY 2016-17. See page 8 for the Schedule of Capital Assets and listing of other major capital additions for FY 2015-16.

Deferred Outflows of Resources increased \$37.8 million, or 71.4 percent over the prior year primarily due to pension investment earnings underperforming the actuarial valuation projection by \$26.7 million and the difference between the acquisition price of Certificates of Participation (COP) Series 2016A and carrying amount of the retired debt, COP Series 2009A, in the amount of \$14.9 million.

Deferred Inflows of Resources decreased \$2.5 million, or 9.7 percent over the prior year is primarily due to the decrease in pension expense resulting from the change in actuarial assumptions.

Net Investment in capital assets increased \$101.9 million, or 7.7 percent over the prior year primarily as a result of the net increase in capital assets of \$64.5 million coupled with the \$37.4 million decrease in related debt. The net increase in capital assets consists mostly of the \$153.4 million increase in construction in progress offset by capital asset depreciation for the year of \$90.5 million.

Unrestricted net position increased \$54.8 million, or 12.6 percent due to the overall increase in net position of \$156.7 million offset by the increase in net investment in capital assets of \$101.9 million.

Changes in Net Position

Net position increased \$156.7 million in FY 2015-16, or 8.9 percent over the prior year.

(Dollars in thousands)

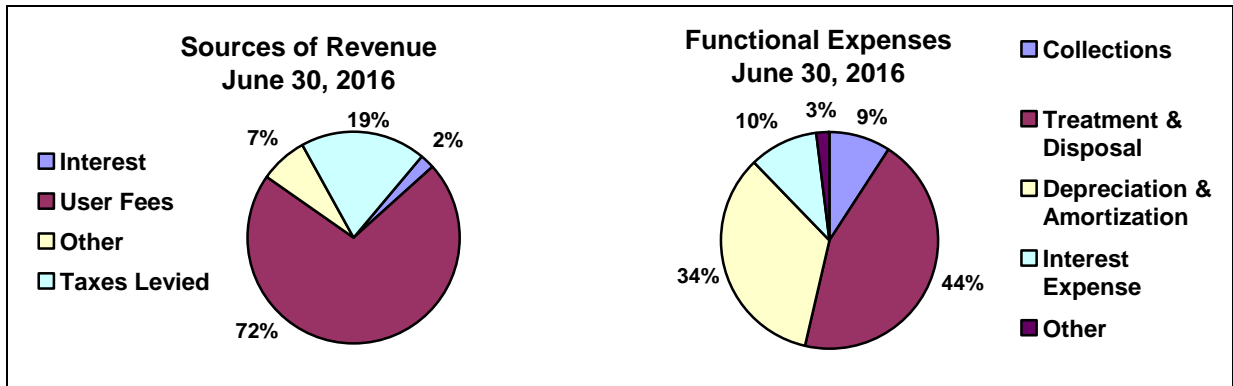
	June 30, 2016	June 30, 2015	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service Charges	\$ 314,477	\$ 301,549	\$ 12,928	4.3%
Permit and inspection fees	951	902	49	5.4%
Total operating revenues	315,428	302,451	12,977	4.3%
Non-operating revenues				
Property taxes	84,407	79,835	4,572	5.7%
Investment and interest income	9,183	4,806	4,377	91.1%
Contrib. from other government	13,103	8,555	4,548	53.2%
Other	1,555	1,441	114	7.9%
Total non-operating revenues	108,248	94,637	13,611	14.4%
Total revenues	423,676	397,088	26,588	6.7%
Expenses:				
Operating expense other than depreciation and amortization				
	153,501	149,227	4,274	2.9%
Depreciation and amortization	90,502	94,186	(3,684)	-3.9%
Non-operating expense	34,078	37,280	(3,202)	-8.6%
Total expenses	278,081	280,693	(2,612)	-0.9%
Income before capital contributions	145,595	116,395	29,200	25.1%
Capital facilities capacity charges	17,974	17,656	318	1.8%
Increase in net position	163,569	134,051	29,518	22.0%
Beginning net position (1)	1,755,003	1,627,793	127,210	7.8%
Ending net position	\$ 1,918,572	\$ 1,761,844	\$ 156,728	8.9%

(1)- The FY 2015-16 beginning net position of \$1,755,003 million has been restated from the FY 2014-15 ending net position of \$1,761,844 million due to the implementation of GASB Statements No. 73, and the recognition of an increase in net pension liability of \$6.8 million as of July 1, 2015.

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 2015-16, operating revenues increased \$13.0 million, or 4.3 percent over the prior year that is reflective of a \$16.2 million increase in service charges paid to the District from property owners. Of this increase, \$11.7 million, or 3.8 percent is reflective of the decrease in rebates to property owners. In FY 2015-16, \$15.2 million was rebated to property owners as opposed to \$26.9 million in FY 2014-15. This increase from the decline in rebates made to property owners was supplemented by the 1.9 percent increase in the average sewer user fee rate over the prior year.



The \$13.6 million, or 14.4 percent increase in non-operating revenues primarily consists of a \$4.6 million, or 5.7 percent increase in property tax revenues, a \$4.5 million, or 53.2 percent increase in contributions from other governments, and a \$4.4 million, or 91.1 percent increase in investment and interest income. The increase in property tax revenue is primarily the result of the increase in total assessed valuation of over the prior year of 6.2 percent over the prior year. The increase in contributions from other governments is reflective of the increase in capital contributions from the Irvine Ranch Water District. The increase in investment and interest income is attributable to higher yields earned on investments offset somewhat by lower cash and investments balances. Yields earned on investments increased from a 0.8 percent in FY 2014-15 to a 1.7 percent in FY 2015-16 while cash and investment balances decreased from \$556.9 million at June 30, 2015 to \$544.8 million at June 30, 2016.

Operating expense before depreciation and amortization increased \$4.3 million or 2.9 percent over the prior year. The majority of this increase is attributable to the \$3.4 million, or 55.7 percent increase in feasibility studies, a \$3.1 million, or 61.4 percent in other operating expenses, and a \$1.1 million, or 4.3 percent increase in contractual services that were somewhat offset by the \$4.2 million, or 5.3 percent decrease in salaries and benefits. Feasibility studies are done to determine the necessity and the preferred designs of future potential construction projects. The increase in other operating expenses is attributable to the negative adjustment in the Irvine Business Complex wastewater flows of \$1.3 million recorded in FY 2014-15 against the FY 2015-16 actual expenses of \$255,000, and the increase to claims and adjustments of \$1.4 million. The increase in Contractual Service is attributable to the increase in manhole rehabilitation projects, sewer line cleanings, and CCTV inspections.

Operating salaries and benefits decreased by \$4.2 million to \$75.6 million, a 5.3 percent decrease from the prior year. The operating salaries and benefits costs are part of the overall decrease of \$1.2 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 \$93.0 million, a 1.3 percent decrease from the prior year total of \$94.2 million. This decrease is reflective of the \$3.1 million, or 14.5 percent decrease in retirement premiums as a result of the \$125 million pay down against the District's unfunded actuarial accrued pension liability (UAAL) in November 2014. This pay down resulted in a UAAL premium rate decrease from 25.6 percent in FY 2014-15 to 7.86 percent in FY 2015-16.

Non-operating expense decreased \$3.2 million, or 8.6 percent, and is primarily reflective of the decrease in interest expense of \$6.5 million to \$27.6 million, a 19.1 percent decrease from the prior year as the District continues to pay down on its long-term bonded debt; and to the decrease in the loss on disposal of assets of \$3.1 million from the prior year. Conversely, the District recognized pollution remediation expenses of \$6.4 million due to contamination within its underground storage fuel tanks.

Capital Facility Capacity Charges increased a modest \$0.3 million, or 1.8 percent over the prior year due to the slowdown in the economy and the modest increase activity in construction as total the total building permit valuation in Orange County increased 6.3 percent in Calendar Year 2015 over the prior year.

Capital Assets

At June 30, 2016, the District had a net investment of \$2.569 billion in capital assets. This represents a net increase (including additions and deletions) of \$64.5 million or 2.6 percent over the prior year.

(Dollars in thousands)

	June 30, 2016	June 30, 2015	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 15,960	\$ 15,960	\$ -	0.0%
Construction in Progress	499,376	392,209	107,167	27.3%
Sewage collection facilities	447,377	442,183	5,194	1.2%
Sewage treatment facilities	1,496,469	1,536,861	(40,392)	-2.6%
Effluent disposal facilities	36,155	37,726	(1,571)	-4.2%
Solids disposal facilities	307	316	(9)	-2.8%
General and administrative facilities	73,549	78,820	(5,271)	-6.7%
Assets acquired in excess of book value	248	905	(657)	-72.6%
Capital assets, net	\$ 2,569,441	\$ 2,504,980	\$ 64,461	2.6%

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

- \$44.7 million – Sludge Dewatering and Odor Control at Plant No. 1
- \$15.2 million – Newport Force Main Condition Assessment
- \$10.2 million – Sludge Dewatering and Odor Control at Plant No. 2
- \$ 7.5 million – Newhope-Placentia Trunk Replacement
- \$ 7.3 million – Effluent Sampler and Building Area Upgrades
- \$ 5.7 million – Solids Thickening and Processing Upgrades at Plant No. 2

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

Debt Administration

At June 30, 2016, the District had \$1.116 billion outstanding in bonded debt, a net decrease of \$46.3 million, or 4.0 percent from the prior year. This reduction consisted of the accumulation of principal payments made in accordance with the schedule of debt service payments and the partial refunding of \$162.8 million of Series 2009A Certificates of Participation (COP) with Series 2016A Wastewater Refunding Revenue Obligations in the amount of \$145.9 million issued in March 2016.

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 over \$900 million in future treatment plant and collection system capital improvements. In accordance with the District's long-term debt fiscal policy, the District will restrict long-term borrowing to capital improvements that cannot be financed from current revenue. However, no new debt issuances are being proposed over the next five years to assist with the funding of the system improvements scheduled over this time period.

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate within the County of Orange is currently 4.4 percent, a slight increase from the rate of 4.0 percent a year ago.
- Inflation for Orange County in 2015 increased 1.9 percent over the prior year based on the actual percentage change in the consumer price index according to the June 2016 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments increased from the 0.8 percent earnings rate in FY 2014-15 to 1.7 percent for FY 2015-16.

All of these factors were considered in preparing the District's biennium budget beginning July 1, 2016.

The District's user fee schedule was increased by 1.6 percent for FY 2016-17 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 \$5.00, from \$322.00 to \$327.00. This rate increase was necessary to finance the District's cash flow needs as capital improvement outlays alone are projected to be \$171.3 million in FY 2016-17 and are projected to total \$2.4 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and maintain full secondary treatment standards.

Requests for Information

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

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**ORANGE COUNTY SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS**

ORANGE COUNTY SANITATION DISTRICT

Statement of Net Position

June 30, 2016

	2016
Current assets:	
Cash and cash equivalents	\$ 125,552,927
Investments	394,422,940
Accounts receivable, net of allowance for uncollectibles \$98,917	19,365,166
Accrued interest receivable	1,492,193
Connection fees receivable	2,982,914
Property tax receivable	1,060,830
Inventories	6,853,403
Due from other governmental agency	5,770,279
Prepaid expenses	1,464,651
Total current assets	<u>558,965,303</u>
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	10,394,727
Investments	14,442,500
Accrued interest receivable	218,957
Unrestricted:	
Non-depreciable capital assets	515,335,618
Depreciable capital assets, net of accumulated depreciation	2,054,105,261
Prepaid insurance on outstanding debt payable	182,452
Due from other governmental agency	24,730,127
Net OPEB asset	731,700
Other noncurrent assets, net	10,344
Total noncurrent assets	<u>2,620,151,686</u>
Total assets	<u>3,179,116,989</u>
Deferred outflows of resources:	
Deferred losses on defeasances	41,494,547
Deferred outflows related to pensions	49,267,156
Total deferred outflow of resources	<u>90,761,703</u>
Total assets and deferred outflows of resources	<u>3,269,878,692</u>
Current liabilities:	
Accounts payable	9,523,100
Accrued expenses	15,610,020
Retentions payable	5,067,902
Interest payable	18,107,550
Current portion of long-term obligations	54,010,437
Total current liabilities	102,319,009
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	1,165,194,834
Net pension liability	60,752,882
Total noncurrent liabilities	<u>1,225,947,716</u>
Total liabilities	<u>1,328,266,725</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	23,039,510
Total liabilities and deferred inflows of resources	<u>1,351,306,235</u>
Net position:	
Net investment in capital assets	1,429,269,263
Unrestricted	489,303,194
Total net position	<u>\$ 1,918,572,457</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, 2016

	2016
Operating revenues:	
Service charges	\$ 314,477,433
Permit and inspection fees	950,802
	315,428,235
Operating expenses other than depreciation and amortization:	
Salaries and benefits	75,576,332
Utilities	7,245,613
Supplies, repairs and maintenance	25,320,733
Contractual services	27,823,896
Feasibility studies	9,410,726
Other	8,123,628
	153,500,928
Operating income before depreciation and amortization	161,927,307
Depreciation and amortization	90,502,342
	71,424,965
Non-operating revenues:	
Property taxes	84,407,129
Investment and interest income	9,182,807
Contributions from other government	13,103,035
Other	1,555,440
	108,248,411
Non-operating expenses:	
Interest	27,596,931
Pollution remediation	6,356,904
Other	80,650
Loss on disposal of assets	44,121
	34,078,606
Income before capital contributions	145,594,770
Capital contributions; Capital facilities capacity charges	17,974,042
Change in net position	163,568,812
Total net position - beginning, as restated	1,755,003,645
Total net position - ending	\$ 1,918,572,457

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Statement of Cash Flows
For the Year Ended June 30, 2016

	<u>2016</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 291,895,424
Payments to employees	(118,716,990)
Payments to suppliers	<u>(83,871,604)</u>
Net cash provided by operating activities	<u>89,306,830</u>
Cash flows from noncapital financing activities:	
Proceeds from property taxes	84,467,857
Payments for pollution remediation and other obligation	<u>(4,881,665)</u>
Net cash provided by noncapital financing activities	<u>79,586,192</u>
Cash flows from capital and related financing activities:	
Capital facilities capacity charges	15,609,869
Additions to capital assets	(123,016,534)
Interest paid	(51,538,331)
Principal payments on debt obligation	(29,405,000)
Proceeds released to escrow account on defeased debts	(162,780,000)
Proceeds from debt issuances	155,481,198
Debt issuance costs	(834,338)
Net cash used in capital and related financing activities	<u>(196,483,136)</u>
Cash flows from investing activities:	
Proceeds from the sale of investments	389,293,257
Purchases of investments	(313,097,922)
SARI project payments	6,350,808
Interest received	<u>6,628,427</u>
Net cash provided by investing activities	<u>89,174,570</u>
Net increase in cash and cash equivalents	61,584,456
Cash and cash equivalents, beginning of year	<u>74,363,198</u>
Cash and cash equivalents, end of year	<u>\$ 135,947,654</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 71,424,965
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	90,502,342
Bad debt expense (net recoveries)	66,073
(Increase)/decrease in operating assets:	
Accounts receivable	(14,893,203)
Inventories	(109,855)
Prepaid and other assets	(247,567)
Increase/(decrease) in operating liabilities:	
Accounts payable	(14,513,135)
Accrued expenses	6,524,017
Due to other governmental agency	(8,639,608)
Net pension liability	(32,647,071)
Pension/OPEB/accrued leave payable	(10,454,905)
Compensated absences	186,736
Other payable	87,581
Claims and judgments	2,020,460
Net cash provided by operating activities	<u>\$ 89,306,830</u>
<u>Noncash activities:</u>	
Unrealized gain on the fair value of investments	\$ 2,533,731
Receivable from non-operating activities	2,771,980
Capital assets acquired through accounts payable	4,577,212

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

(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 2.6 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, 2016, other than principal and interest payments on outstanding certificates of participation/ revenue obligations and notes (see Note 4).

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

Measurement Focus and Basis of Accounting

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

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

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

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

Operating Plans

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

Cash and Cash Equivalents

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

Investments

Except for certain investments in monies held by fiscal agent as disclosed in Note 2, section "Fair Value of Investment", all other investments are stated at fair value (the price that would be received to sell an asset in an orderly transaction between market participants acting in their economic best interest at the measurement date). Changes in fair value that occur during the fiscal year are reported as part of investment and interest income. Investment and interest income includes interest earnings and realized and unrealized gains or losses in fair value. Investment and interest income are recorded as revenues and receivables when declared and realized gains or losses are recorded when the investment is sold.

Accounts Receivable

Accounts receivable is reported net of the allowance for uncollectible receivables. Uncollectible receivables were \$98,917 at June 30, 2016. Unbilled sewer services through June 30, 2016 are recorded as revenue and receivables. Management determines the allowance for uncollectible receivables by evaluating individual accounts receivable at least one year past due and considering a customer's financial condition, credit history and current economic conditions. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

Inventories

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

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, 2016, net interest costs of \$13,786,670 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, General plant and administrative structures – 40 years, and other General plant and administrative facilities and equipment – 4 to 25 years.

Amortization

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

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

Restricted Assets

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

Deferred Charges on Defeasances

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (i.e. deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. OCSD's deferred charges on the refunding debt at June 30, 2016 are \$41,494,547.

Net Position

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

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition,

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For the Year Ended June 30, 2016

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 are included in this component of net position.

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

Compensated Absences

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

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

Claims and Judgments

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

Pensions

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

A deferred outflow of resources and deferred inflow of resources related to pensions result from changes in the components of the net pension liability and are applicable to a future reporting period. OCSD's deferred outflows related to pensions, deferred inflows related to pensions, and net pension liability for OCERS at June 30, 2016 are \$48,088,910, \$23,039,510, and \$42,439,760, respectively. OCSD's deferred outflows related to pensions, deferred inflows related to pensions, and net pension liability for ARBA at June 30, 2016 are \$1,178,246, \$0, and \$18,313,122, respectively.

In aggregate for both plans, OCSD's total deferred outflows related to pensions, deferred inflows related to pensions, and net pension liability at June 30, 2016 are \$49,267,156, \$23,039,510, and \$60,752,882, respectively.

Property Taxes

The County is permitted by State law (Proposition 13) to levy taxes at one percent of full market value (at time of purchase) and can increase the assessed value no more than two percent per

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For the Year Ended June 30, 2016

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 and attached as enforceable liens on real property as of January 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. 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 OCSD's system, directly or indirectly, or an existing structure or category of use is increased. This charge is to pay for District facilities in existence at the time the charge is imposed or to pay for new facilities to be constructed that are of benefit to the property being charged.

Operating and Non-operating Revenues and Expenses

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

Construction Commitments

OCSD has active construction projects to add additional capacity, improve treatment, or replace/rehabilitate existing assets. At June 30, 2016, the outstanding commitments with contractors totaled \$100,566,972.

Self-Insurance Plans

For the year ended June 30, 2016, 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 \$1,000,000 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. The self-insurance portion of the property damage exposure covering earthquake is the 5% per structure, minimum \$5,000,000 deductible with outside excess insurance coverage to \$25 million on covered structures. OCSD has insured a number of key structures against the peril of earthquake, all other structures are completely self-insured. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$500,000 per occurrence deductible under the outside excess liability coverage to \$40 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$75,000 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, 2016.

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For the Year Ended June 30, 2016

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OCSD are processed by outside insurance administrators. These claims are charged to claims expense based on estimated or known amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. Workers' compensation reserves are actuarially determined and general liability estimated loss accruals are estimated using past experience adjusted for current trends and any other factors that would modify past experience. The estimate of the claims liability also includes any amounts for incremental and nonincremental claim adjustment expenses. OCSD management believes that there are no unrecorded claims as of June 30, 2016 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.

Accounting Changes

The accompanying financial statements reflect the implementation of GASB Statement No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The retroactive effect of implementing this change in reporting pension expenses and obligations resulted in a restatement of the beginning net position as described further in Note 9. The effect on the previously issued financial statement as of June 30, 2015 resulted in an adjustment to ending net position from \$1,761,844,454 to \$1,755,003,645.

(2) Cash and Investments

Cash and investments as of June 30, 2016 are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 125,552,927
Investments	394,422,940
Subtotal - current, unrestricted	<u>519,975,867</u>
Restricted:	
Cash and cash equivalents	10,394,727
Investments	14,442,500
Subtotal - restricted	<u>24,837,227</u>
Total cash and cash equivalents and investments	<u>\$ 544,813,094</u>

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For the Year Ended June 30, 2016

Cash and investments consist of the following as of June 30, 2016:

Cash on hand		\$ 3,000
Deposits with financial institutions		(426,695)
Managed portfolio - cash and investments		520,399,562
Subtotal - unrestricted cash and investments		519,975,867
Monies held by trustees:		
Cash and cash equivalents	\$ 10,394,727	
Investment contracts	14,442,500	
Subtotal - monies held by trustees		24,837,227
Grand total cash and investments		\$ 544,813,094

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 identifies certain provisions of either the California Government Code or OCSD's investment policy (whichever is more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Investment Type - Authorized by the California Government Code	Authorized by OCSD's Investment Policy?	Maximum Maturity ^{(1) (3)}	Maximum Percentage of Portfolio ⁽¹⁾	Maximum Investment in a Single Issuer ⁽¹⁾
Local Agency Bonds	Yes	5 years	10% ⁽²⁾	5% ⁽²⁾
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	20% ⁽²⁾
Banker's Acceptances	Yes	180 days	40%	5% ⁽²⁾
Commercial Paper	Yes	270 days	25%	5% ⁽²⁾
Negotiable Certificates of Deposit	Yes	5 years	30%	5% ⁽²⁾
Repurchase Agreements	Yes	1 year	20% ⁽²⁾	5% ⁽²⁾
Reverse Repurchase Agreements	Yes	90 days ⁽²⁾	5% ⁽²⁾	5% ⁽²⁾
Corporate Medium-Term Notes	Yes	5 years	30%	5% ⁽²⁾
Mutual Funds	Yes	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	20%
Mortgage Pass-Through Securities/ CMO/Asset-Backed Securities	Yes	5 years	20%	5% ⁽²⁾
County Investment Pools	Yes	N/A	15% ⁽²⁾	15% ⁽²⁾
Local Agency Investment Fund (LAIF)	Yes	N/A	15% ⁽²⁾	15% ⁽²⁾
Supranational Obligations	Yes	5 years	30%	5% ⁽²⁾
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 a maximum maturity of 5 years for investments purchased by OCSD's external money manager for the long-term investment portfolio. 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.				

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Notes to Basic Financial Statements

For the Year Ended June 30, 2016

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 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%	30%
Repurchase Agreements	1 year	No limit	No limit
Corporate Medium-Term Notes	5 years	30%	30%
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	20%
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
Guaranteed Investment Contracts	N/A	No limit	No limit

Disclosures Relating to Interest Rate Risk

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

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

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Notes to Basic Financial Statements

For the Year Ended June 30, 2016

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2016.

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
Short-Term Portfolio:			
U.S. Treasury Bills	\$ 50,079,810	0.041	0.49
Local Agency Investment Fund	45,928,514	0.458	5.49
U.S. Agency Securities	38,664,264	0.128	1.54
Corporate Medium-Term Notes	15,534,495	0.345	4.13
U.S. Treasury Notes	14,037,510	0.241	2.90
Supranationals	12,999,219	0.114	1.36
Commercial Paper	5,876,610	0.206	2.47
Money Market Mutual Funds	2,002,201	0.083	1.00
Short-term portfolio subtotal	<u>\$ 185,122,623</u>	<u>0.214</u>	<u>2.57</u>
Long-Term Portfolio:			
U.S. Treasury Notes	\$ 98,225,722	1.993	23.92
U.S. Agency Securities*	97,433,624	2.702	32.42
Corporate Medium-Term Notes	68,706,425	2.947	35.36
Asset Backed Securities/CMO*	26,488,906	1.095	13.14
Supranationals	15,048,600	1.259	15.11
Commercial Paper	11,591,907	0.358	4.30
U.S. Treasury Inflation-Protected Securities (TIPS) **	10,583,199	7.943	95.32
Taxable Municipal Bonds	4,761,833	3.538	42.45
Money Market Mutual Funds	2,175,126	0.082	0.98
U.S. Govt. Backed Mortgage Pools (GNMA)*	261,597	3.696	44.36
Long-term portfolio subtotal	<u>\$ 335,276,939</u>	<u>2.433</u>	<u>29.20</u>
Total Portfolio	<u><u>\$ 520,399,562</u></u>		
* Includes highly sensitive securities.			
** The investment's duration in excess of five years was permitted by OCSD's Investment Policy at the time it was purchased.			

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For the Year Ended June 30, 2016

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, 2016.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
US Bank Cash	\$ 26	N/A
Money Market Mutual Funds:		
US Bank Money Market Fund	45,471	N/A
Federated Government Obligations Fund	23,863	38 days
First American Government Obligations Fund	23,240	26 days
Blackrock Institutional Funds	1,406	42 days
Local Agency Investment Fund (LAIF)	10,300,721	167 day average
Investments held by fiscal agents:		
Guaranteed Investment Agreements:		
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 30, 2030
Bayerische Landesbank Girozentrale - 2009A COP	4,924,500	August 1, 2016
Total Fair Value of Investments Held by Fiscal Agents	<u>\$ 24,837,227</u>	

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 \$5,727,914 including \$3,475,796 of mortgage pass-through securities, \$1,990,521 of U.S. agency securities, and \$261,597 of U.S. government backed mortgage pools.

Fair Value of Investments

OCSD measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices for identical investments in active markets;
- Level 2: Observable inputs other than quoted market prices; and
- Level 3: Unobservable inputs.

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For the Year Ended June 30, 2016

At June 30, 2016, OCSD had the following fair value measurements for its managed investment portfolio:

Investment Type	Fair Value	Quoted Prices		
		in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3
Investments in Short-Term Portfolio:				
U.S. Treasury Bills	\$ 50,079,810	\$ -	\$ 50,079,810	\$ -
U.S. Agency Securities	38,664,264	-	38,664,264	-
Corporate Medium-term Notes	15,534,495	-	15,534,495	-
U.S. Treasury Notes	14,037,510	-	14,037,510	-
Supranationals	12,999,219	-	12,999,219	-
Commercial Paper	5,876,610	-	5,876,610	-
Money Market Mutual Funds	2,002,201	-	2,002,201	-
Investments in Long-Term Portfolio:				
U.S. Treasury Notes	98,225,722	-	98,225,722	-
U.S. Agency Securities	97,433,624	-	97,433,624	-
Corporate Medium-term Notes	68,706,425	-	68,706,425	-
Asset Backed Securities/CMO	26,488,906	-	26,488,906	-
Supranationals	15,048,600	-	15,048,600	-
Commercial Paper	11,591,907	-	11,591,907	-
US Treasury Inflation Protected Securities (TIPS)	10,583,199	-	10,583,199	-
Taxable Municipal Bonds	4,761,833	-	4,761,833	-
Money Market Mutual Funds	2,175,126	-	2,175,126	-
U.S. Government Backed Mortgage Pools	261,597	-	261,597	-
Fair Value Hierarchy Totals		<u>\$ -</u>	<u>\$ 474,471,048</u>	<u>\$ -</u>
Investments Not Subject To Fair Value Hierarchy				
Local Agency Investment Fund (LAIF)*	45,928,514			
Total Portfolio	<u>\$ 520,399,562</u>			

*Invested in Short-Term Portfolio

The Bank of New York Mellon is the custodial bank for all of OCSD's investments shown above in the managed portfolio, except for LAIF. Investments classified as Level 2 are valued using the Bank of New York Mellon's fair value hierarchy matrix based on the asset type classification. The fair value hierarchy level matrix is based on discussions with (1) pricing vendors, (2) broker/dealers, (3) investment managers, (4) industry groups, and (5) independent accounting firms.

Monies held by trustees (fiscal agents) that are invested in cash accounts, money market mutual funds and LAIF are reported at carrying cost. Monies held by trustees that are invested in guaranteed investment agreements are exempt from fair value reporting and are reported based on the face value of the contracts.

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

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For the Year Ended June 30, 2016

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	\$ 172,926,241
U.S. Agency Securities - GNMA	261,597
Subtotal	<u>\$ 173,187,838</u>
Investments with no legal minimum rating:	
U.S. Agency Securities (other than GNMA):	
Rating of AA+ (Standard & Poor's)	136,097,888
Municipal Bonds:	
Rating of Aa1 (Moody's)	1,537,046
Rating of Aa3 (Moody's)	3,224,787
Local Agency Investment Fund (LAIF):	
Not rated	56,229,235
Investments with fiscal agents - Guaranteed Investment Contracts:	
Not rated	14,442,500
Subtotal	<u>211,531,456</u>
Investments with a legal minimum rating (or its equivalent) of A:	
Corporate Medium-Term Notes:	
Rating of Aa1 (Moody's)	5,117,880
Rating of AA+ (Standard & Poor's)	3,093,150
Rating of AA- (Standard & Poor's)	5,050,375
Rating of A1 (Moody's)	20,441,950
Rating of A+ (Fitch)	4,004,880
Rating of A (Standard & Poor's)	5,272,216
Rating of A2 (Moody's)	21,641,078
Rating of A3 (Moody's)*	8,416,874
Rating of Baa1 (Moody's)*	4,022,072
Rating of BBB+ (Standard & Poor's)*	7,004,195
Not rated	176,250
Money Market Mutual Funds:	
Rating of Aaa (Moody's)	4,148,543
Not rated	28,784
Invested with fiscal agents:	
Rating of Aaa-mf (Moody's)	48,509
Rating of P-1 (Moody's)	45,497
Subtotal	<u>88,512,253</u>
Investments with a legal minimum rating (or its equivalent) of AA:	
Asset Backed Securities/CMO:	
Rating of Aaa (Moody's)	22,973,531
Rating of AA+ (Standard & Poor's)	3,391,430
Rating of BBB (Fitch)*	123,945
Supranational Obligations:	
Rating of Aaa (Moody's)	20,052,875
Rating of P-1 (Moody's)	7,994,944
Subtotal	<u>54,536,725</u>
Investments with a legal minimum rating (or its equivalent) of "Prime":	
Commercial Paper:	
Rating of P-1 (Moody's)	8,896,217
Rating of A-1 (Standard & Poor's)*	1,796,783
Rating of A (Fitch)*	6,775,517
Subtotal	<u>17,468,517</u>
Total	<u><u>\$ 545,236,789</u></u>

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

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Notes to Basic Financial Statements

For the Year Ended June 30, 2016

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 Agreements." OCSD follows whichever guideline is the most restrictive.

As of June 30, 2016, OCSD had the following investments representing five percent or more of total investments:

<u>Name of Issuer</u>	<u>Fair Value</u>	<u>% of Total</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 89,941,364	16.50%
Federal National Mortgage Association (FNMA)	\$ 48,920,090	8.97%

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, 2016, in accordance with OCSD's investment policy, none of OCSD's investments were held with a counterparty. All of OCSD's investments were held with an independent third party custodian bank registered in the name of OCSD. OCSD uses Bank of New York (BNY) Mellon as a third party custody and safekeeping service for its investment securities.

Investment in State Investment Pool

OCSD is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of OCSD's investment in this pool is reported in the accompanying financial statements at amounts based upon OCSD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. The amounts invested in LAIF are recorded as cash and cash equivalents at June 30, 2016.

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Notes to Basic Financial Statements
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(3) Capital Assets

Capital asset activity for the year ended June 30, 2016 is as follows:

	Beginning Balance at July 1, 2015	Additions / Transfers	Deletions / Transfers	Ending Balance at June 30, 2016
Capital assets not depreciated:				
Cost:				
Land	\$ 15,959,559	\$ -	\$ -	\$ 15,959,559
Construction in progress	392,209,225	153,408,102	(46,241,268)	499,376,059
Total nondepreciable assets	<u>408,168,784</u>	<u>153,408,102</u>	<u>(46,241,268)</u>	<u>515,335,618</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	758,158,102	22,980,656	-	781,138,758
Sewage treatment facilities	2,255,777,614	22,862,744	(504,354)	2,278,136,004
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	227,945,470	2,149,095	(648,121)	229,446,444
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>3,362,338,242</u>	<u>47,992,495</u>	<u>(1,152,475)</u>	<u>3,409,178,262</u>
Accumulated depreciation:				
Sewage collection facilities	(315,974,770)	(17,787,222)	-	(333,761,992)
Sewage treatment facilities	(718,917,465)	(63,253,514)	504,354	(781,666,625)
Effluent disposal facilities	(59,288,947)	(1,571,107)	-	(60,860,054)
Solids disposal facilities	(3,146,534)	(9,718)	-	(3,156,252)
General and administrative facilities	(149,125,455)	(7,223,072)	451,719	(155,896,808)
Excess purchase price over book value on acquired assets	(19,073,561)	(657,709)	-	(19,731,270)
Subtotal	<u>(1,265,526,732)</u>	<u>(90,502,342)</u>	<u>956,073</u>	<u>(1,355,073,001)</u>
Net depreciable assets	<u>2,096,811,510</u>	<u>(42,509,847)</u>	<u>(196,402)</u>	<u>2,054,105,261</u>
Net capital assets	<u>\$2,504,980,294</u>	<u>\$ 110,898,255</u>	<u>\$ (46,437,670)</u>	<u>\$ 2,569,440,879</u>

Capital asset additions for the fiscal year ended June 30, 2016 are \$1.7 million more than the amount deleted from Construction in Progress due to capital equipment purchases of \$1.9 million, partially offset by \$0.2 million of prior capital project expenses that were written off as expense.

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(4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2016:

	Beginning Balance, July 1	Additions	Deletions	Ending Balance, June 30	Due w within one year	Long-term amount
Arbitrage payable	\$ 274,948	\$ 87,581	\$ -	\$ 362,529	\$ 362,529	\$ -
Compensated absences	7,362,602	7,344,126	(7,157,390)	7,549,338	6,914,502	634,836
Claims and judgments	2,550,597	2,713,076	(692,616)	4,571,057	540,640	4,030,417
Certificates of participation, revenue obligations & notes	1,162,355,000	145,880,000	(192,185,000)	1,116,050,000	35,575,000	1,080,475,000
Unamortized premium (discount)	78,785,357	28,988,588	(17,101,598)	90,672,347	10,617,766	80,054,581
Totals	\$1,251,328,504	\$ 185,013,371	\$(217,136,604)	\$ 1,219,205,271	\$54,010,437	\$ 1,165,194,834

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, 2016 is \$362,529.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2016 is \$7,549,338 with an estimated \$6,914,502 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, 2016 and 2015:

	2015-16	2014-15
Claims and judgments payable at July 1	\$2,550,597	\$1,896,152
Claims incurred during the fiscal year	2,713,076	1,286,106
Payments on claims during the fiscal year	(692,616)	(631,661)
Claims and judgments payable at June 30	4,571,057	2,550,597
Less: current portion	(540,640)	(467,110)
Total long-term claims and judgments payable	\$4,030,417	\$2,083,487

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Certificates of Participation/ Revenue Obligations and Notes

OCSD issues certificates of participation, revenue obligations and notes in order to finance construction of the treatment facilities. Each issuance represents a direct and proportionate interest in the semi-annual interest payments. Installment payments for the issues are payable from any source of lawfully available funds of OCSD. Certificates of participation, revenue obligations, and notes at June 30, 2016 are summarized as follows:

	Amount
2007A refunding certificates of participation	\$ 91,885,000
2007B certificates of participation	7,110,000
2008B refunding certificates of participation	8,815,000
2009A certificates of participation	13,405,000
2010A wastewater revenue obligations	80,000,000
2010C wastewater revenue obligations	157,000,000
2011A wastewater refunding revenue obligations	111,465,000
2012A wastewater refunding revenue obligations	100,645,000
2012B wastewater refunding revenue obligations	66,395,000
2014A wastewater refunding revenue obligations	85,090,000
2014B revenue refunding certificate anticipation notes	120,850,000
2015A wastewater refunding revenue obligations	127,510,000
2016A wastewater refunding revenue obligations	145,880,000
Total certificates of participation, revenue obligations, and notes	<u>\$ 1,116,050,000</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, 2016, the coverage ratio for senior lien debt was 3.39.

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, 2016 reserve of \$9,518,026 is held by Union Bank, the trustee, and meets the reserve requirement.

December 2007 Certificates of Participation, Series 2007B

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

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On August 7, 2014, \$93,930,000 of the outstanding principal balance of the 2007 Series B certificates was advance-refunded with the proceeds of the August 7, 2014 wastewater refunding revenue obligations Series 2014A (see below) in a transaction accounted for as an in-substance defeasance. These funds are held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2016, this \$93,930,000 represents the amount still outstanding on bonds considered defeased.

On February 12, 2015, \$152,990,000 of the outstanding principal balance of the 2007 Series B certificates was advance-refunded with the proceeds of the February 12, 2015 wastewater refunding revenue obligations Series 2015A (see below) in a transaction accounted for as an in-substance defeasance. These funds are held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2016, this \$152,990,000 represents the amount still outstanding on bonds considered defeased.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2016 reserve of \$7,518,822 is held by Union Bank, the trustee, and meets the reserve requirement.

September 2008 Refunding Certificates of Participation, Series 2008B

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2016 reserve of \$2,785,786 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, 2019.

On March 30, 2016, \$162,780,000 of the outstanding principal balance of the 2009 Series A certificates was advance-refunded with the proceeds of the March 30, 2016 wastewater refunding revenue obligations Series 2016A (see below) in a transaction accounted for as an in-substance defeasance. These funds are held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2016, this \$162,780,000 represents the amount still outstanding on bonds considered defeased.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2016 reserve of \$4,967,336 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

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For the Year Ended June 30, 2016

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.

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

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For the Year Ended June 30, 2016

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.

August 2014 Wastewater Refunding Revenue Obligations, Series 2014A

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

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

October 2014 Revenue Refunding Certificate Anticipation Notes, Series 2014B

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

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

February 2015 Wastewater Refunding Revenue Obligations, Series 2015A

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

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

March 2016 Wastewater Refunding Revenue Obligations, Series 2016A

On March 30, 2016, OCSD completed the sale of \$145,880,000 of wastewater refunding revenue obligations. The obligations were issued to partially refund an amount of \$162,780,000 of the outstanding principal balance of 2009 Series A certificates of participation. The stated interest rate on the obligations is fixed and will range from 4 to 5 percent. Annual principal payments are due on February 1, beginning February 1, 2020 through February 1, 2039.

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$18.7 million. The total future payments for the new debt provide a net present value gain of approximately \$18.8 million to refund the old debt.

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

Annual Amortization Requirements

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Estimated Interest</u>	<u>Total</u>
2017	\$ 156,425,000	\$ 45,181,495	\$ 201,606,495
2018	32,415,000	42,379,797	74,794,797
2019	31,940,000	41,285,797	73,225,797
2020	33,025,000	39,691,647	72,716,647
2021	34,675,000	38,043,347	72,718,347
2022-2026	157,455,000	167,656,716	325,111,716
2027-2031	217,555,000	125,903,445	343,458,445
2032-2036	263,540,000	72,253,679	335,793,679
2037-2041	164,315,000	22,128,077	186,443,077
2042-2046	24,705,000	1,641,536	26,346,536
Total	<u>\$ 1,116,050,000</u>	<u>\$ 596,165,534</u>	<u>\$ 1,712,215,534</u>

(5) Pension Benefits

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

Pension Plan

(A) General Information about the Pension Plan

Plan Description:

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

Benefits Provided:

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

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retirement allowance at age 52. Members attaining age 70 are eligible to retire regardless of credited service.

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

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

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

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

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

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

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

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries currently receiving benefits	410
Inactive Employees entitled to but not yet receiving benefits	99
Active Employees	<u>572</u>
Total	<u><u>1,081</u></u>

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(B) Contributions:

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

Contributions to the Plan from OCSD were \$12,222,849 for the year ended June 30, 2016. An additional \$50,000,000 was contributed to pay down OCSD's Net Pension Liability.

Contribution rates in effect for the fiscal year ended June 30, 2016 are as follows:

	Plan G	Plan H	Plan B	Plan U
Employer Contribution Rate, 7/1/15 - 6/30/16	20.75%	20.75%	18.39%	17.52%
Employee Contribution Rate, 7/1/15 - 6/30/16 (2)	7.07-12.53% (1)	6.60-12.53% (1)	7.40-12.62%	7.21-13.14%
Paid by Employer for Employee	3.50%	3.50%	0.00%	0.00%

(1) Net of employer paid portion of 3.5%

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

For the measurement period ended June 30, 2016, the contributions and average employer's contribution rate as a percentage of annual payroll were as follows:

Plans	Employer Contributions	Employee (Paid by Employer) Contributions	Average Employer Contribution Rate (%)
Plan G	\$ 23,830	\$ 4,020	0.05%
Plan H	10,086,350	1,690,059	19.43%
Plan B	925,955	-	1.53%
Plan U	1,186,713	-	1.96%
Total	<u>\$ 12,222,849</u>	<u>\$ 1,694,079</u>	

(C) Pension Liabilities:

As of June 30, 2016, OCSD reported net pension liability of \$42,439,760 for its proportionate share of OCERS' net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OCSD's proportion of the net pension liability was based on a projection of OCSD's long-term share of contributions to the pension plan relative to the projected contribution of all participating employers, actuarially determined.

At December 31, 2015, OCSD's proportion of the net pension liability was 0.742%, which was a decrease of 0.388% from its proportion measured as of December 31, 2014. The change in OCSD's proportion of the net pension liability during the fiscal year ended June 30, 2016 was caused by the contributions and projections noted above and an additional contribution of \$50,000,000 in September 2015 by OCSD to the plan.

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

For the year ended June 30, 2016, OCSD recognized pension expense of \$14,823,759 for its proportionate share of the pension expense. At June 30, 2016 OCSD reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 14,164,115
Net difference between projected and actual investment earnings on pension plan investments	33,392,920	-
Changes of Assumptions (1)	-	8,661,357
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,143,993	214,038
Employer contributions paid to OCERS subsequent to the measurement date	12,551,997	-
Total	\$ 48,088,910	\$ 23,039,510

(1) The monetary effects of changes in actuarial assumptions and method totals \$8,661,357. These changes include:

- adjustments to the mortality tables.
- retirement assumptions for deferred vested members (age at retirement 58, increase of 4.25% in reciprocity, and an increase in compensation increases),
- % in the rate of marriage for male and female members at retirement or pre-retirement death,
- an increase in the Consumer Price Index of 3.0% per year, maximum increase is 3%,
- and a slight increase of .50% in salaries per year.

Detail for these changes is available in the Segal Actuarial Valuation for December 31, 2015, Section 3. This report is available on the OCERS website at www.ocers.org.

The amount \$12,551,997 reported as deferred outflows of resources related to pensions resulting from OCSD's contributions to OCERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OCERS pensions will be recognized in pension expense as follows:

Year ended June 30	Amount
2017	\$ 3,730,264
2018	3,730,264
2019	3,730,264
2020	2,339,161
2021	(1,023,092)
2022	(9,458)
Thereafter	-

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(E) Actuarial Assumptions and Methods:

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

The mortality assumptions used in the total pension liability at December 31, 2015 were based on the RP-2000 Combined Healthy Mortality Table projected with the Society of Actuaries Scale BB to 2020. For healthy general members, no adjustments are made. For disabled general members the ages are set forward six years for males and three years for females. The basis for determining the mortality assumptions used were based on the results of the actuarial experience study for the period January 1, 2011 through December 31, 2013.

Further details of the Experience Study can be found in the OCERS CAFR, available on their website at www.ocers.org.

(F) Long-Term Expected Real Rate of Return

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

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table for the calendar year ended December 31, 2015:

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

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For the Year Ended June 30, 2016

(G) Discount Rate:

The discount rate used to measure the total pension liability was 7.25% for the year ended December 31, 2015. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2015.

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability	\$ 123,781,728	\$ 42,439,759	\$ (24,490,282)
December 31, 2015			

(I) Pension Plan Fiduciary Net position:

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

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 267 retirees. The ARBA plan is not subject to the reporting requirements of GASB 68 and 71 because a trust has not been set up for the plan. However, GASB 73 has been implemented for the ARBA plan in the fiscal year ended June 20, 2016. The plan is a funded on a pay-as-you-go plan from general funds and is administered by OCSD. The stand-alone financial statements are not issued for the plan.

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

Benefits are determined by hire date, bargaining unit and years of service as follows:

Hire date	All: Prior to 7/1/88	All: After 7/1/88 OCEA*: Before 8/1/11
Benefit amount per year of service for normal retirement age	\$10 per month x years of service up to a maximum of 25 years	\$10 per month x years of service up to a maximum of 25 years
Service requirement eligibility	Age 50 or over with 10 or more years Any age with 30 or more years Age 70 or over, any years	Age 50 or over with 10 or more years Any age with 30 or more years Age 70 or over, any years
Benefit payments	Monthly for life	Monthly for life
Benefit schedule	Immediately after retiree health insurance coverage ends	Immediately upon retirement

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

No cost of living adjustment is provided to benefit recipients.

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries currently receiving benefits	267
Inactive Employees entitled to but not yet receiving benefits	66
Active Employees	546
Total	<u>879</u>

Contributions: There are no employee contributions for this plan; OCSD covers 100% of the cost. OCSD utilizes a pay-as-you-go method for funding the plan. Contributions to the Plan from OCSD were \$565,380 for the year ended June 30, 2016.

Pension Liabilities: As of June 30, 2016, OCSD reported net pension liability of \$18,313,122 for its ARBA plan. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

The actuarial evaluation performed as of July 1, 2015, used the Entry Age, Level Percent of Pay Cost Method. This method represents the present value of all benefits accrued through the valuation date assuming that each employee's liability is expensed from hire date until retirement date as a level percentage of pay.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

The following table shows the changes in the Net Pension Liability:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(c) = (a) - (b)
Beginning Balance at July 1, 2015	\$ 16,680,614	\$ -	\$ 16,680,614
Changes in the year:			
Service Cost	270,223	-	270,223
Interest on Total Pension Liability	626,386	-	626,386
Changes of Benefit Terms	-	-	-
Changes of Assumptions	1,230,327	-	1,230,327
Benefit Payments (1)	(494,428)	-	(494,428)
Net changes	<u>1,632,508</u>	<u>-</u>	<u>1,632,508</u>
Ending Balance at June 30, 2016	<u>\$ 18,313,122</u>	<u>\$ -</u>	<u>\$ 18,313,122</u>

(1) As part of the July 1, 2015 actuarial valuation report, Demsey, Filliger & Associates prepared a projection of the expected annual cost to the District to pay ARBA benefits.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension: For the year ended June 30, 2016, OCSD recognized pension expense of \$1,019,642 for its ARBA plan. At June 30, 2016 OCSD reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes of Assumptions (1)	1,107,294	-
Net difference between projected and actual investment earnings on pension plan investments	-	-
Employer contributions over actuary projections	<u>70,952</u>	<u>-</u>
Total	<u>\$ 1,178,246</u>	<u>\$ -</u>

(1) The monetary effects of changes in actuarial assumptions and method totals \$1,107,294. These changes include a change in the discount rate from 3.75% as of the valuation date to 3.25% as of the statement date.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

The amount of \$70,952 reported as deferred outflows of resources related to pensions resulting from OCSD's contributions over actuary projections as of July 1, 2015 valuation date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources related to ARBA pensions will be recognized in pension expense as follows:

Year ended June 30	Amount
2017	\$ 123,033
2018	123,033
2019	123,033
2020	123,033
2021	123,033
2022	123,033
2023	123,033
2024	123,033
2025	123,033

Actuarial Assumptions and Methods: The total pension liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	3.75% per annum as of July 1, 2015 (Valuation Date) 3.25% per annum as of June 30, 2016 Measurement Date
Discount rate	3.25%
Inflation rate	2.50% per annum
Projected salary increases	3.00% per annum (for service cost only; benefits not pay-related)

The mortality assumptions used in the total pension liability at July 1, 2015 were based on the RP-2014 Employee and Health Annuitant Mortality Tables for Males or Females, as appropriate, without projection.

Discount Rate: The discount rate used to measure the Total Pension Liability was 3.75% as of the valuation date, July 1, 2015, and 3.25% as of the measurement date, June 30, 2016. Because there are no assets held in a trust that meets GASB 68 or 71, the discount rate is based on the 20 year, tax exempt general obligation municipal bonds with an average rating of AA or higher.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate: The following table represents the Total Pension Liability calculated using the discount rate of 3.25% as of the measurement date, as well as what Total Pension Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.25%) or 1 percentage point higher (4.25%) than the current rate:

Net Pension Liability	1% Decrease (2.25%)	Current Discount Rate (3.25%)	1% Increase (4.25%)
June 30, 2016	\$ 21,203,622	\$ 18,313,122	\$ 15,972,636

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

(6) Other Postemployment Benefits

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

As of the date of the latest actuarial valuation (7/1/15), there were 576 active employees, 72 retirees paying premiums, and 72 retirees whose premium is fully paid by OCSD. For the fiscal year ended June 30, 2016, premiums ranged between \$181 and \$3,749 per month, depending on the plan and number of dependents covered.

Funding Policy: There are no employee contributions to this plan; OCSD covers 100% of the cost for qualifying employees as stated above. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom OCSD pays for a period (see above). An actuarial evaluation was performed as of July 1, 2015, using the Entry Age Normal, Level Percent of Pay Cost Method. This method represents the present value of benefits accrued through the valuation date, assuming that each employee's liability is expensed from hire date until retirement date as a level percentage of pay. 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 2015-16, OCSD contributed \$1,176,887 and retirees contributed \$785,101 to cover current year expenses.

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

The following OPEB cost and net OPEB obligation/(asset) was determined for the year ended June 30, 2016:

	June 30, 2016
Annual required contribution	\$ 559,620
Interest on net OPEB obligation	(4,373)
Adjustment to annual required contribution	6,540
Annual OPEB cost	561,787
Contributions made	(1,176,887)
Increase (decrease) in net OPEB obligation	(615,100)
Net OPEB obligation, beginning of year	(116,600)
Net OPEB obligation/(asset), end of year	<u>\$ (731,700)</u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

OCSD's annual OPEB cost contributed and the net OPEB obligation/(asset) for the years ended June 30, 2014, 2015, and 2016 are shown in the following table.

Fiscal Year Ended	Annual OPEB Cost			Net OPEB Obligation/(Asset)
	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	
6/30/14	\$ 744,667	\$ 1,123,961	150.9%	\$ 204,614
6/30/15	751,430	1,072,643	142.7%	(116,600)
6/30/16	561,787	1,176,887	209.5%	(731,700)

Funded status and funding progress: The funded status of the plan as of July 1, 2015, based on the July 1, 2015 actuarial valuation (most current valuation available) was as follows:

Actuarial accrued liability (AAL)	\$9,179,161
Actuarial value of assets	-
Unfunded AAL (UAAL)	9,179,161
Funded ratio	0.0%
Covered payroll	\$ 60,025,942
UAAL as a percentage of covered payroll	15.3%

The preceding noted actuarial accrued liability was based on the June 30, 2016 actuarial valuation. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial valuation contained in the report involve estimates of the subject to continual revision as they reflect a long-term perspective. Assumption used in the report also include techniques designed to reduce short-term volatility in AAL and the actuarial value of assets. Current estimates of the funded status and trend information about the funding progress are presented in the Required Supplementary Information section following the notes to the basic financial statements.

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

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

The ARC for the current year was determined as part of the July 1, 2015 actuarial valuation using the Entry Age Normal, Level Percent of Pay Cost Method. The actuarial assumptions include a 3.75% 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 an open 30 years amortization period. Inflation assumptions are included as part of the healthcare cost trend. No benefit increase is anticipated and the benefit is unaffected by changes in salary.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

(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, 2016, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$247,730.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 on January 1, 1986 whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, for which contributions of \$2,993,946 were recorded as contribution from other government during the fiscal year ended June 30, 2016. IRWD also agreed to fund the annual integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD. Integration contributions of \$10,109,089 to Revenue Area 14 were recognized and reported as contributions from other government during the fiscal year ended June 30, 2016. These 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, \$2,086,136 in annual solids capital handling charges were reported as operating revenue in Consolidated Revenue Area, and \$8,393,851 in solids quarterly operating and maintenance charges were reported as operating revenue in Revenue Area No. 14 during the fiscal year ended June 30, 2016.

Any amounts credited to IRWD are not refunded in cash but are held as a credit to satisfy future contributions required of IRWD. Amounts owed from IRWD are invoiced on a quarterly or annual basis. As a result, a balance of \$15,949,118 was reported in accounts receivable and due from other governmental agency as of June 30, 2016.

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2016; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests,

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2016

Assigning Rights, and Establishing Obligations; is \$10.7 million. This cash reserve requirement is recognized as a liability to IRWD.

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

Relocation of the Santa Ana Regional Interceptor: On June 29, 2010, OCSD entered into an agreement to lend the Orange County Flood Control District (OCFCD) 60 percent of the amount of the contract awarded to design and construct the relocation of the Santa Ana Regional Interceptor, but not to exceed \$72 million. On December 18, 2012, a new agreement was executed that superseded the prior agreement and reduced OCSD's maximum loan obligation to \$59,036,400 based on lower than expected construction costs. OCFCD agrees to repay the loan from any subvention funds received by OCFCD, with the total balance repaid by no later than July 1, 2022. Repayment installments will be made within 30 days equal to 60 percent of any subvention funds received by OCFCD. Interest shall accrue on the unpaid balance from July 1, 2018 at an annual interest rate of two percent until the unpaid balance has been repaid. During the fiscal year ended June 30, 2016, OCSD received loan repayments totaling \$7,075,547, leaving an outstanding loan receivable balance of \$24,005,387 which is included in the due from other governmental agency balance of \$24,730,127 on the statement of net position.

Local Sewer Facilities Transfer: On February 27, 2014, OCSD entered into an agreement to transfer 174 linear miles of local sewer facilities in the unincorporated area of Area 7 and in the City of Tustin, to East Orange County Water District (EOCWD). The transfer was 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 was not within EOCWD's water service area.

The agreement was amended on April 22, 2015 to extend the timeframes and term of the original agreement, to provide for a disbursement of \$25 million of accumulated capital repair and replacement funds within five days following the date of transfer, to provide for a reconciliation of OCSD's records and transfer of any accumulated capital repair and replacement funds in excess of the \$25 million within six months following the date of transfer, and to prohibit the diversion of wastewater flows away from OCSD. Due to delays in receiving approval from OC LAFCO, the agreement was amended a second time on December 24, 2015 to extend the time frames identified in the previous agreement, as amended.

On May 11, 2016, the OC LAFCO Commission executed Resolution 14-01, which approved EOCWD's application for reorganization and amended its sphere of influence, thus providing for the transfer of the local sewers to EOCWD. As of June 30, 2016, no transactions have occurred.

Pollution Remediation: An Underground Storage Tank (UST) at Plant No. 1 failed the pressure test to ensure its tank integrity. As a result of the test failure, OCSD voluntarily took this UST out of service and tested the immediate surrounding area and determined that both gasoline and diesel were present. During the fiscal year ended June 30, 2016, OCSD initiated and completed a project to develop a remediation plan for the contaminated soil. Alternatives were reviewed with the Orange County Health Care Agency, and based upon their feedback a recommended remediation plan was identified. This remediation plan calls for the excavation of 2,400 cubic feet of soil, removal and disposal of contaminated soil, and some limited groundwater treatment. This work is anticipated to begin in the spring of 2017 and be completed by June 30, 2017. As of June 30, 2016, actual costs of \$99,904 were incurred. Total remaining costs are estimated not to exceed \$6,257,000, including post-remediation monitoring costs for a five-year period and a normal project contingency of 30 percent for the remediation effort. This estimated remaining cost

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2016

has been recorded as a current liability as of June 30, 2016, and the total cost of \$6,356,904 is reported as an "Other Non-operating expense."

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

(9) Restatement- Adoption of New Accounting Standard

During the year ended June 30, 2016, OCSD implemented GASB Statement No. 73. The implementation of GASB Statement No. 73 required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources and unfunded pension obligations related to pensions for its proportionate share of collective pension expenses and collective deferred outflows and inflows for resources. The net position was not restated for deferred inflows and deferred outflows because they were not determinable at the time of implementation of GASB 73. The retroactive effect of implementing this change in reporting pension costs resulted in a restatement of the beginning net position. The following is a summary of the effect of this adjustment:

Beginning net position as previously reported at June 30, 2015	\$1,761,844,454
Net pension liability (measurement date as of July 1, 2015)	<u>(6,840,809)</u>
Total adjustment	<u>(6,840,809)</u>
Net position as restated, July 1, 2015	<u>\$1,755,003,645</u>

An amount of \$510,427 represents Revenue Area 14's proportionate share of the restatement of the beginning net position and is included in the total restatement at June 30, 2016. The amount is calculated based on Revenue Area 14's average proportionate share of the total salaries and benefits costs over a 15 years period.

(10) Subsequent Events

As described in Note 8, OCSD entered into an agreement to transfer 174 linear miles of local sewer facilities in the unincorporated area of Area 7 and in the City of Tustin, to East Orange County Water District (EOCWD). On August 1, 2016, the local sewers transfer was officially completed. Although the book value of the transferred assets is believed to be insignificant as most of the assets have been fully depreciated; the agreement also provides that the cash reserves previously collected from rate payers and held for the repair and replacement of these local sewers be transferred to the EOCWD. The agreement provides for the transfer of the cash reserves in two installments; the first \$25 million was transferred on August 5, 2016 and the remaining balance, estimated to be between \$10 and \$15 million, will be transferred within six months of the first disbursement following a reconciliation of OCSD's records.

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**ORANGE COUNTY SANITATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT
 Proportionate Share of the Net Pension Liability
 Orange County Employees Retirement System (OCERS) Pension Plan
 Last 10 fiscal Years (1)

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>
District's proportion of the net pension liability	3.83%	1.13%	0.74%
District's proportionate share of the net pension liability	\$ 202,747,516	\$ 57,418,760	\$ 42,439,759
District's covered-employee payroll (2)(3)	\$ 58,954,754	\$ 58,641,163	\$ 59,789,927
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	343.90%	97.92%	70.98%
OCERS' fiduciary net position as a percentage of the total pension liability	63.14%	89.61%	92.74%

(1) The amounts presented for each fiscal year were determined as of December 31. Data for fiscal years ended June 30, 2007 through 2013 is not available in a comparable format.

(2) Covered payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

(3) As directed by OCERS on the December 31, 2015 actuarial valuation report, Segal Consulting used the updated covered payroll provided by OCERS for fiscal year ended June 30, 2014 and June 30, 2015.

ORANGE COUNTY SANITATION DISTRICT
Schedule of District Contributions
Orange County Employees Retirement System (OCERS) Pension Plan
Last 10 fiscal Years (1)

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 18,920,212	\$ 17,201,569	\$ 12,222,849
Contributions in relation to the contractually required contribution	<u>\$ (18,920,212)</u>	<u>\$ (17,201,569)</u>	<u>\$ (12,222,849)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll (2)(3)	\$ 58,954,754	\$ 58,641,163	\$ 59,789,927
Contributions as a percentage of covered-employee payroll	32.09%	29.33%	20.44%

- (1) The amounts presented for each fiscal year were determined as of December 31. Data for fiscal years ended June 30, 2007 through 2013 is not available in a comparable format.
- (2) Covered payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.
- (3) As directed by OCERS on the December 31, 2015 actuarial valuation report, Segal Consulting used the updated covered payroll provided by OCERS for fiscal year ended June 30, 2014 and June 30, 2015.

ORANGE COUNTY SANITATION DISTRICT

Net Pension Liability
Additional Retiree Benefit Account (ARBA)
Last 10 fiscal Years (1)

	<u>June 30, 2015</u>	<u>June 30, 2016</u>
District's net pension liability	\$ 16,680,614	\$ 18,313,122
District's covered-employee payroll (2)	\$ 60,025,942	\$ 60,595,474
District's net pension liability as a percentage of its covered-employee payroll	27.79%	30.22%

- (1) The amounts presented for each fiscal year were determined as of July 1. Data for fiscal years ended June 30, 2007 through 2014 is not available in a comparable format.
- (2) Covered payroll represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

ORANGE COUNTY SANITATION DISTRICT
 Schedule of Funding Progress
 Other Postemployment Benefits (OPEB)
 Last Three Actuarial Valuations

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

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
7/1/2011	\$ 10,706,789	-	\$10,706,789	0.0%	\$ 59,787,560	17.9%
7/1/2013	10,650,711	-	10,650,711	0.0%	59,832,408	17.8%
7/1/2015	9,179,161	-	9,179,161	0.0%	60,025,942	15.3%

* Based on most recent actuarial valuation available.

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**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Net Position

June 30, 2016

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals 2016
Current assets:				
Cash and cash equivalents	\$ -	\$ 125,552,927	\$ -	\$ 125,552,927
Investments	-	394,422,940	-	394,422,940
Accounts receivable, net of allowance for uncollectibles \$98,917	10,178,839	9,186,327	-	19,365,166
Accrued interest receivable	-	1,492,193	-	1,492,193
Connection fees receivable	-	2,982,914	-	2,982,914
Property tax receivable	-	1,060,830	-	1,060,830
Inventories	-	6,853,403	-	6,853,403
Due from other revenue area	-	14,864,096	(14,864,096)	-
Due from other governmental agency	5,770,279	-	-	5,770,279
Prepaid expenses	-	1,464,651	-	1,464,651
Total current assets	15,949,118	557,880,281	(14,864,096)	558,965,303
Noncurrent assets:				
Restricted:				
Cash and cash equivalents	-	10,394,727	-	10,394,727
Investments	-	14,442,500	-	14,442,500
Accrued interest receivable	-	218,957	-	218,957
Unrestricted:				
Non-depreciable capital assets	11,913,218	503,422,400	-	515,335,618
Depreciable capital assets, net of accumulated depreciation	59,455,604	1,994,649,657	-	2,054,105,261
Prepaid insurance on outstanding debt payable	-	182,452	-	182,452
Due from other governmental agency	-	24,730,127	-	24,730,127
Net OPEB asset	-	731,700	-	731,700
Other noncurrent assets, net	-	10,344	-	10,344
Total noncurrent assets	71,368,822	2,548,782,864	-	2,620,151,686
Total assets	87,317,940	3,106,663,145	(14,864,096)	3,179,116,989
Deferred outflows of resources:				
Deferred losses on defeasances	-	41,494,547	-	41,494,547
Deferred outflows related to pensions	1,507,404	47,759,752	-	49,267,156
Total deferred outflow of resources	1,507,404	89,254,299	-	90,761,703
Total assets and deferred outflows of resources	88,825,344	3,195,917,444	(14,864,096)	3,269,878,692
Current liabilities:				
Accounts payable	-	9,523,100	-	9,523,100
Accrued expenses	-	15,610,020	-	15,610,020
Due to other revenue area	14,864,096	-	(14,864,096)	-
Retentions payable	-	5,067,902	-	5,067,902
Interest payable	-	18,107,550	-	18,107,550
Current portion of long-term obligations	-	54,010,437	-	54,010,437
Total current liabilities	14,864,096	102,319,009	(14,864,096)	102,319,009
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	-	1,165,194,834	-	1,165,194,834
Net pension liability	1,887,417	58,865,465	-	60,752,882
Total noncurrent liabilities	1,887,417	1,224,060,299	-	1,225,947,716
Total liabilities	16,751,513	1,326,379,308	(14,864,096)	1,328,266,725
Deferred inflows of resources:				
Deferred inflows related to pensions	705,009	22,334,501	-	23,039,510
Total liabilities and deferred inflows of resources	17,456,522	1,348,713,809	(14,864,096)	1,351,306,235
Net position:				
Net investment in capital assets:				
Collection system	17,816,698	510,923,329	-	528,740,027
Treatment and disposal -land	406,846	4,068,905	-	4,475,751
Treatment and disposal system	53,145,278	1,983,079,823	-	2,036,225,101
Capital assets related debt	-	(1,140,171,616)	-	(1,140,171,616)
Subtotal	71,368,822	1,357,900,441	-	1,429,269,263
Unrestricted:	-	489,303,194	-	489,303,194
Total net position	\$ 71,368,822	\$ 1,847,203,635	\$ -	\$ 1,918,572,457

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2016

	Revenue Area No. 14	Consolidated Revenue Area	Totals 2016
Operating revenues:			
Service charges	\$ 11,408,052	\$ 303,069,381	\$ 314,477,433
Permit and inspection fees	13,703	937,099	950,802
Total operating revenues	<u>11,421,755</u>	<u>304,006,480</u>	<u>315,428,235</u>
Operating expenses other than depreciation and amortization:			
Salaries and benefits	2,053,300	73,523,032	75,576,332
Utilities	231,430	7,014,183	7,245,613
Supplies, repairs and maintenance	1,196,952	24,123,781	25,320,733
Contractual services	8,922,101	18,901,795	27,823,896
Feasibility studies	233,952	9,176,774	9,410,726
Other	436,025	7,687,603	8,123,628
Total operating expenses other than depreciation and amortization	<u>13,073,760</u>	<u>140,427,168</u>	<u>153,500,928</u>
Operating income (loss) before depreciation and amortization	(1,652,005)	163,579,312	161,927,307
Depreciation and amortization	<u>2,971,121</u>	<u>87,531,221</u>	<u>90,502,342</u>
Operating income (loss)	<u>(4,623,126)</u>	<u>76,048,091</u>	<u>71,424,965</u>
Non-operating revenues:			
Property taxes	2,439,960	81,967,169	84,407,129
Investment and interest income	3,397	9,179,410	9,182,807
Contributions from other government	13,103,035	-	13,103,035
Other	10,037	1,545,403	1,555,440
Total non-operating revenues	<u>15,556,429</u>	<u>92,691,982</u>	<u>108,248,411</u>
Non-operating expenses:			
Interest	122,831	27,474,100	27,596,931
Pollution remediation	168,554	6,188,350	6,356,904
Other	2,145	78,505	80,650
(Gain) loss on disposal of assets	(3,389)	47,510	44,121
Total non-operating expenses	<u>290,141</u>	<u>33,788,465</u>	<u>34,078,606</u>
Income before capital contributions	10,643,162	134,951,608	145,594,770
Capital contributions:			
Capital facilities capacity charges	-	17,974,042	17,974,042
Change in net position	10,643,162	152,925,650	163,568,812
Total net position - beginning, as restated	<u>60,725,660</u>	<u>1,694,277,985</u>	<u>1,755,003,645</u>
Total net position - ending	<u>\$ 71,368,822</u>	<u>\$ 1,847,203,635</u>	<u>\$ 1,918,572,457</u>

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Cash Flows

For the Year Ended June 30, 2016

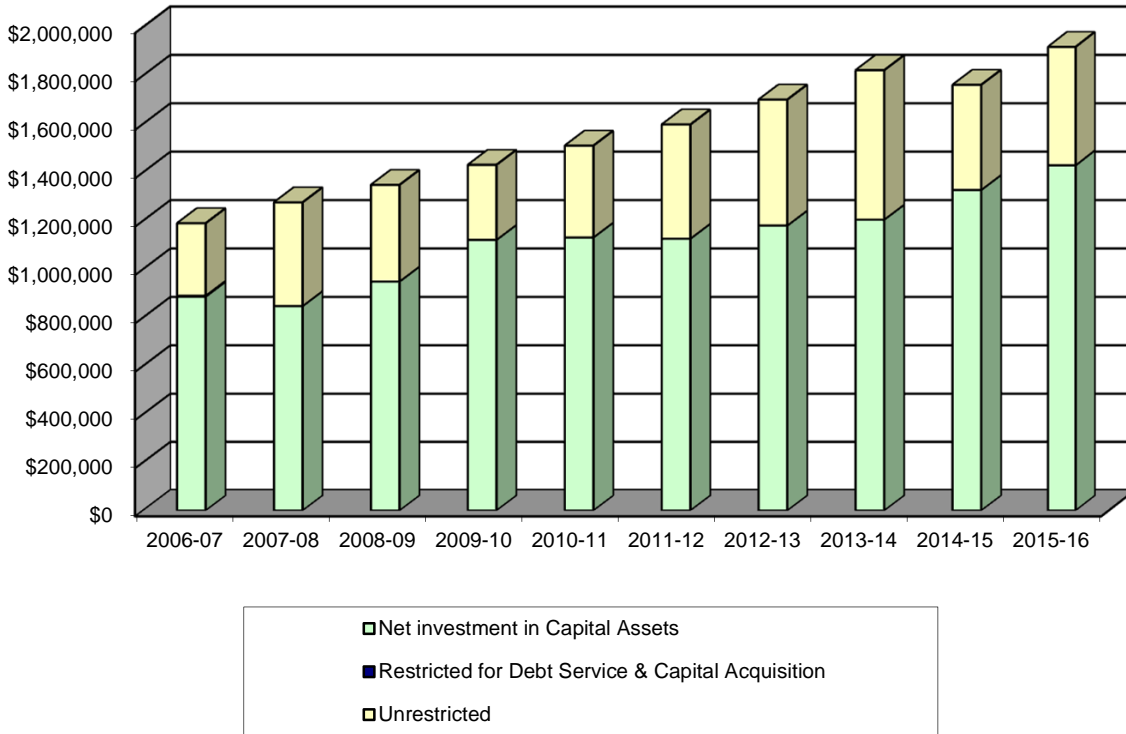
	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals 2016
Cash flows from operating activities:				
Receipts from customers and users	\$ 7,467,404	\$ 284,428,020	\$ -	\$ 291,895,424
Payments to employees	(3,352,792)	(115,364,198)	-	(118,716,990)
Payments to suppliers	(11,016,650)	(72,854,954)	-	(83,871,604)
Net cash provided by (used in) operating activities	<u>(6,902,038)</u>	<u>96,208,868</u>	<u>-</u>	<u>89,306,830</u>
Cash flows from noncapital financing activities:				
Proceeds from property taxes	2,439,960	82,027,897	-	84,467,857
Payments for pollution remediation and other obligation	(160,212)	(4,721,453)	-	(4,881,665)
Net cash provided by noncapital financing activities	<u>2,279,748</u>	<u>77,306,444</u>	<u>-</u>	<u>79,586,192</u>
Cash flows from capital and related financing activities:				
Capital facilities capacity charges	-	15,609,869	-	15,609,869
Additions to capital assets	(13,100,917)	(112,637,166)	2,721,549	(123,016,534)
Disposal of capital assets	-	(10,381,486)	10,381,486	-
Interest paid	(122,831)	(51,415,500)	-	(51,538,331)
Principal payments on debt obligation	-	(29,405,000)	-	(29,405,000)
Proceeds released to escrow account on defeased debts	-	(162,780,000)	-	(162,780,000)
Proceeds from debt issuances	-	155,481,198	-	155,481,198
Debt issuance costs	-	(834,338)	-	(834,338)
Contribution from other government	13,103,035	-	(13,103,035)	-
Net cash used in capital and related financing activities	<u>(120,713)</u>	<u>(196,362,423)</u>	<u>-</u>	<u>(196,483,136)</u>
Cash flows from investing activities:				
Proceeds from the sale of investments	4,211,888	385,081,369	-	389,293,257
Purchases of investments	-	(313,097,922)	-	(313,097,922)
SARI project payments	-	6,350,808	-	6,350,808
Interest received	3,398	6,625,029	-	6,628,427
Net cash provided by investing activities	<u>4,215,286</u>	<u>84,959,284</u>	<u>-</u>	<u>89,174,570</u>
Net increase (decrease) in cash and cash equivalents	<u>(527,717)</u>	<u>62,112,173</u>	<u>-</u>	<u>61,584,456</u>
Cash and cash equivalents, beginning of year	<u>527,717</u>	<u>73,835,481</u>	<u>-</u>	<u>74,363,198</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 135,947,654</u>	<u>\$ -</u>	<u>\$ 135,947,654</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (4,623,126)	\$ 76,048,091	\$ -	\$ 71,424,965
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,971,121	87,531,221	-	90,502,342
Bad debt expense (net recoveries)	-	66,073	-	66,073
(Increase)/decrease in operating assets:				
Accounts receivable	(10,178,839)	(4,714,364)	-	(14,893,203)
Inventories	-	(109,855)	-	(109,855)
Prepaid and other assets	-	(247,567)	-	(247,567)
Increase/(decrease) in operating liabilities:				
Accounts payable	-	(14,513,135)	-	(14,513,135)
Accrued expenses	-	6,524,017	-	6,524,017
Due to other governmental agency	6,224,488	(14,864,096)	-	(8,639,608)
Net pension liability	(1,295,682)	(31,351,389)	-	(32,647,071)
Pension/OPEB/accrued leave payable	-	(10,454,905)	-	(10,454,905)
Compensated absences	-	186,736	-	186,736
Other payable	-	87,581	-	87,581
Claims and judgments	-	2,020,460	-	2,020,460
Net cash provided by (used in) operating activities	<u>\$ (6,902,038)</u>	<u>\$ 96,208,868</u>	<u>\$ -</u>	<u>\$ 89,306,830</u>
Noncash activities:				
Unrealized gain on the fair value of investments	\$ -	\$ 2,533,731	\$ -	\$ 2,533,731
Receivable from non-operating activities	-	2,771,980	-	2,771,980
Capital assets acquired through accounts payable	-	4,577,212	-	4,577,212

**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.	60 - 64
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	65 - 67
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.	68 - 71
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.	72 - 75
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	76 - 79

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 & Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2006-07	\$ 886,463	\$ 3,904	\$ 299,370	\$ 1,189,737
2007-08	847,426	-	428,561	1,275,987
2008-09	948,869	-	399,452	1,348,321
2009-10	1,121,057	-	310,016	1,431,073
2010-11	1,131,063	-	379,423	1,510,486
2011-12	1,125,966	-	471,652	1,597,618 ⁽¹⁾
2012-13	1,180,298	-	520,427	1,700,725
2013-14	1,204,706	-	617,589	1,822,295
2014-15	1,327,384	-	434,460	1,761,844 ⁽²⁾
2015-16	1,429,269	-	489,303	1,918,572 ⁽³⁾

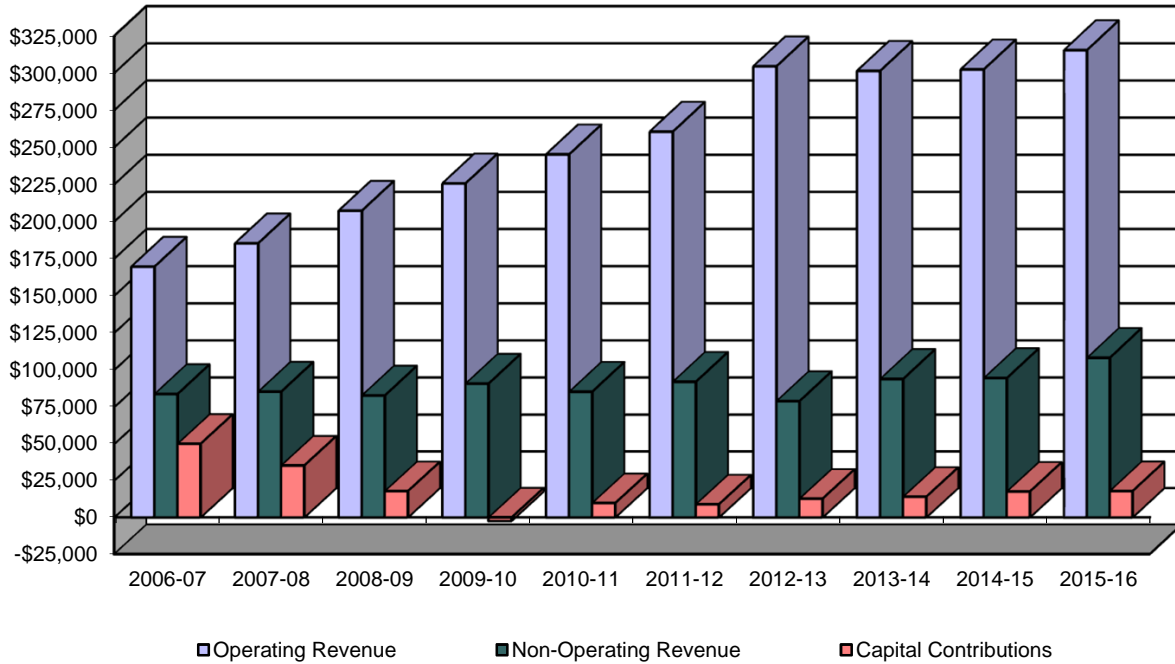
⁽¹⁾ Beginning net position restated due to implementation of GASB 65.

⁽²⁾ Beginning net position restated due to implementation of GASB 68.

⁽³⁾ Beginning net position restated due to implementation of GASB 73.

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

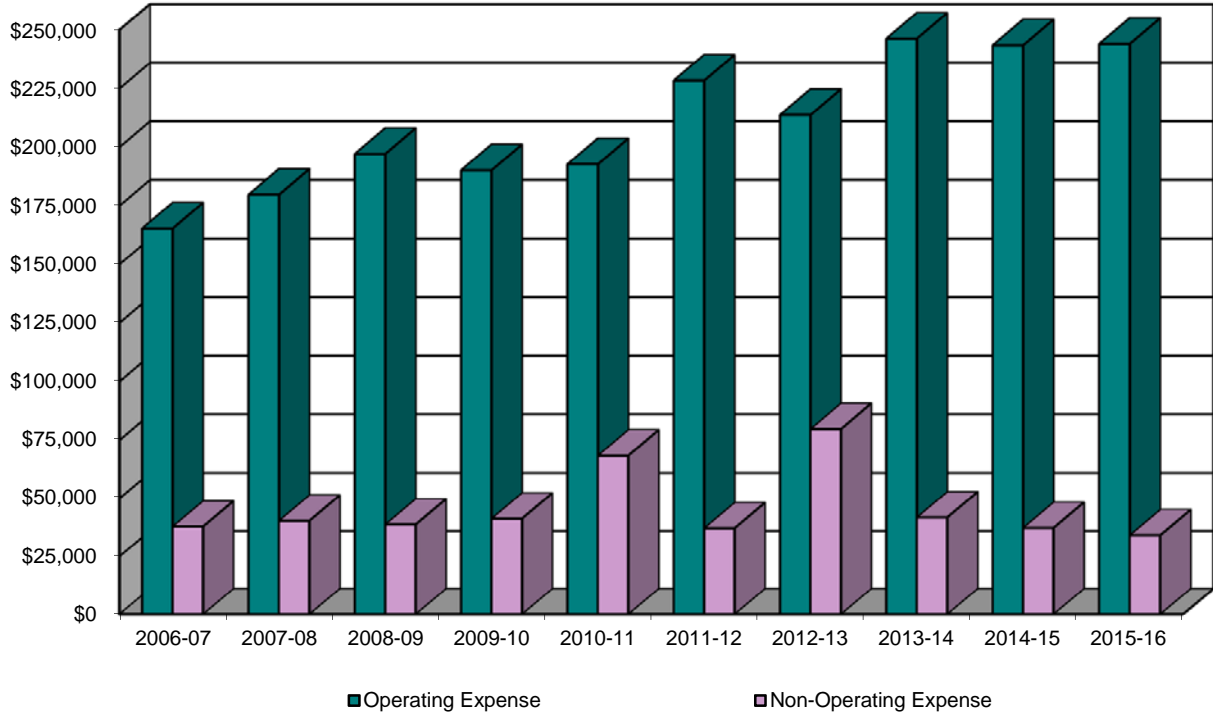


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2006-07	\$ 167,790	\$ 1,866	\$ 169,656	\$ 60,565	\$ 22,244	\$ 1,068	\$ 83,877	\$50,207
2007-08	184,180	1,196	185,376	65,210	20,235	13	85,458	35,408
2008-09	206,422	895	207,317	66,427	14,836	1,634	82,897	17,937
2009-10	225,059	629	225,688	64,759	19,166	6,939	90,864	(2,406)
2010-11	244,465	784	245,249	64,307	10,092	11,015	85,414	9,800
2011-12	259,491	1,030	260,521	67,882	15,747	8,486	92,115	8,936
2012-13	303,400	1,176	304,576	79,240	(3,913)	3,781	79,108	12,797
2013-14	300,611	848	301,459	74,944	6,498	12,595	94,037	14,093
2014-15	301,548	902	302,450	79,835	4,806	9,996	94,637	17,656
2015-16	314,477	951	315,428	84,407	9,183	14,658	108,248	17,974

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

ORANGE COUNTY SANITATION DISTRICT

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

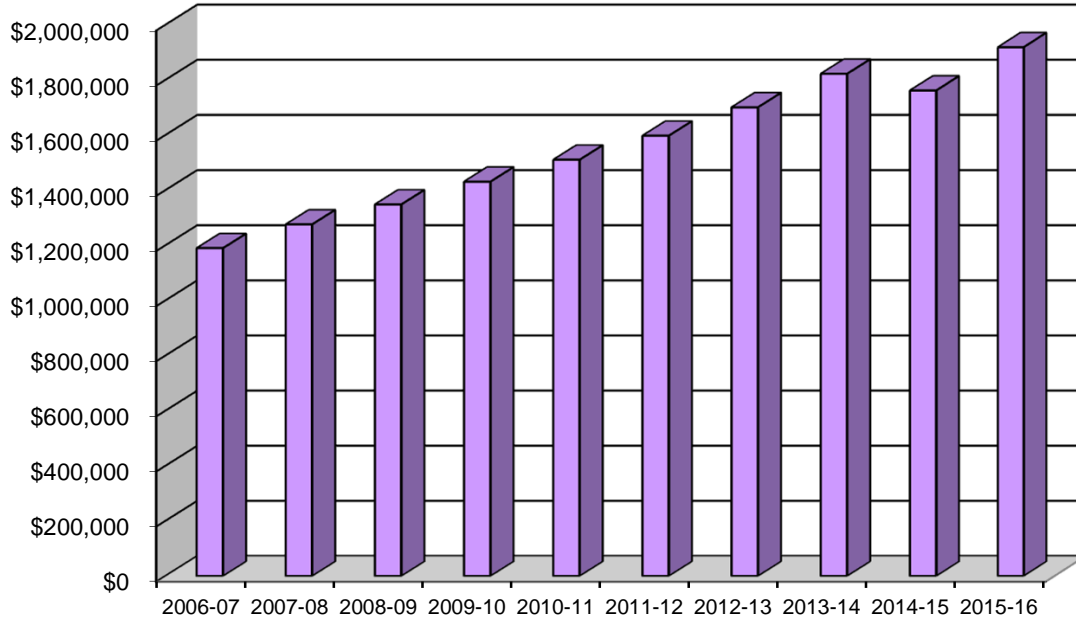


Fiscal Year	Operating Expense				Total Operating	Non - Operating Expense		Total Non-Operating
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort		Interest Expense	Other	
2006-07	\$ 57,802	\$ 8,072	\$ 46,281	\$ 53,111	\$ 165,266	\$ 21,747	\$ 16,089	\$ 37,836
2007-08	67,629	8,092	56,169	47,767	179,657	22,517	17,818	40,335
2008-09	67,498	7,242	89,816	32,520	197,076	24,899	13,842	38,741
2009-10	69,652	6,934	61,499	52,036	190,121	27,537	13,736	41,273
2010-11	73,112	6,948	63,328	49,288	192,676	29,129	39,245	68,374
2011-12	75,642	7,405	89,272	56,051	228,370	28,700	8,433	37,133
2012-13	76,878	6,403	66,536	63,907	213,724	42,315	37,335	79,650
2013-14	79,179	6,381	60,887	99,805	246,252	40,450	1,317	41,767
2014-15	79,657	7,246	62,323	94,186	243,412	34,112	3,168	37,280
2015-16	75,576	7,246	70,679	90,502	244,003	27,597	6,482	34,079

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

ORANGE COUNTY SANITATION DISTRICT

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



Ending Net Position by Fiscal Year

Fiscal Year	Total Revenues	Total Expenses	Change in Net Position	Beginning Net Position	Ending Net Position
2006-07	\$ 303,740	\$ 203,102	\$ 100,638	\$ 1,089,099	\$ 1,189,737
2007-08	306,242	219,992	86,250	1,189,737	1,275,987
2008-09	308,151	235,817	72,334	1,275,987	1,348,321
2009-10	314,146	231,394	82,752	1,348,321	1,431,073
2010-11	340,463	261,050	79,413	1,431,073	1,510,486
2011-12	361,572	265,503	96,069	1,501,549 ⁽¹⁾	1,597,618
2012-13	396,481	293,374	103,107	1,597,618	1,700,725
2013-14	409,589	288,019	121,570	1,700,725	1,822,295
2014-15	414,743	280,692	134,051	1,627,793 ⁽²⁾	1,761,844
2015-16	441,650	278,082	163,568	1,755,004 ⁽³⁾	1,918,572

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

⁽²⁾ Beginning net position restated due to implementation of GASB 68.

⁽³⁾ Beginning net position restated due to implementation of GASB 73.

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

<u>Fiscal Year</u>	<u>Cash Flow Contingency</u>	<u>Self- Insurance</u>	<u>Capital Improvement Program</u>	<u>Debt Service Requirements</u>	<u>Total</u>
2006-07	\$ 132	\$ 57	\$ 104	\$ 79	\$ 372
2007-08	149	57	219	108	533
2008-09	172	57	172	133	534
2009-10	185	57	102	129	473
2010-11	187	57	176	141	561
2011-12	196	57	186	138	577
2012-13	174	57	234	135	600
2013-14	189	57	296	131	673
2014-15	177	57	194	129	557
2015-16	181	57	190	117	545

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.

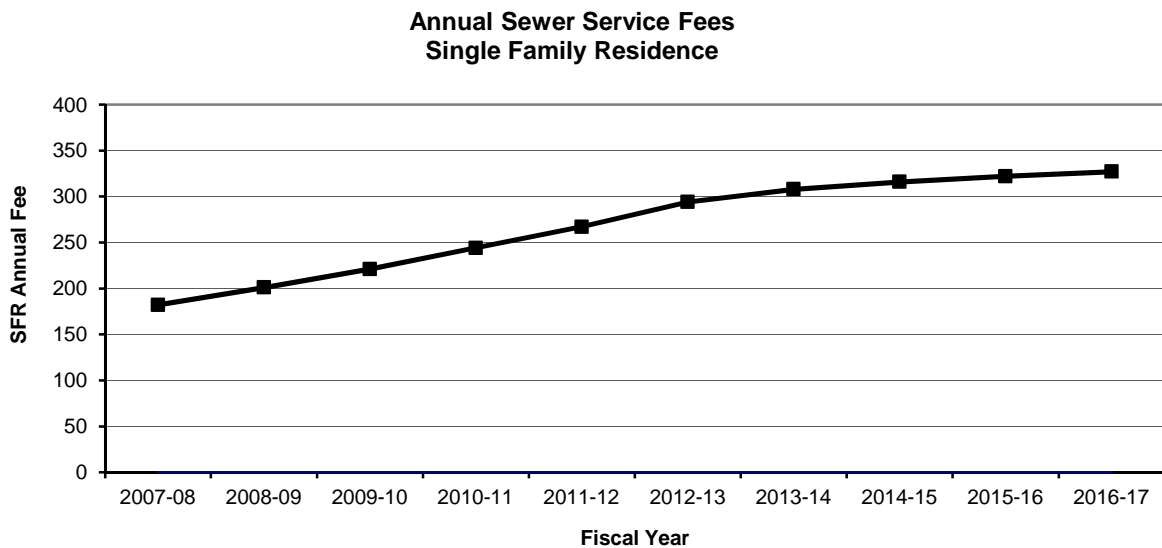
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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.

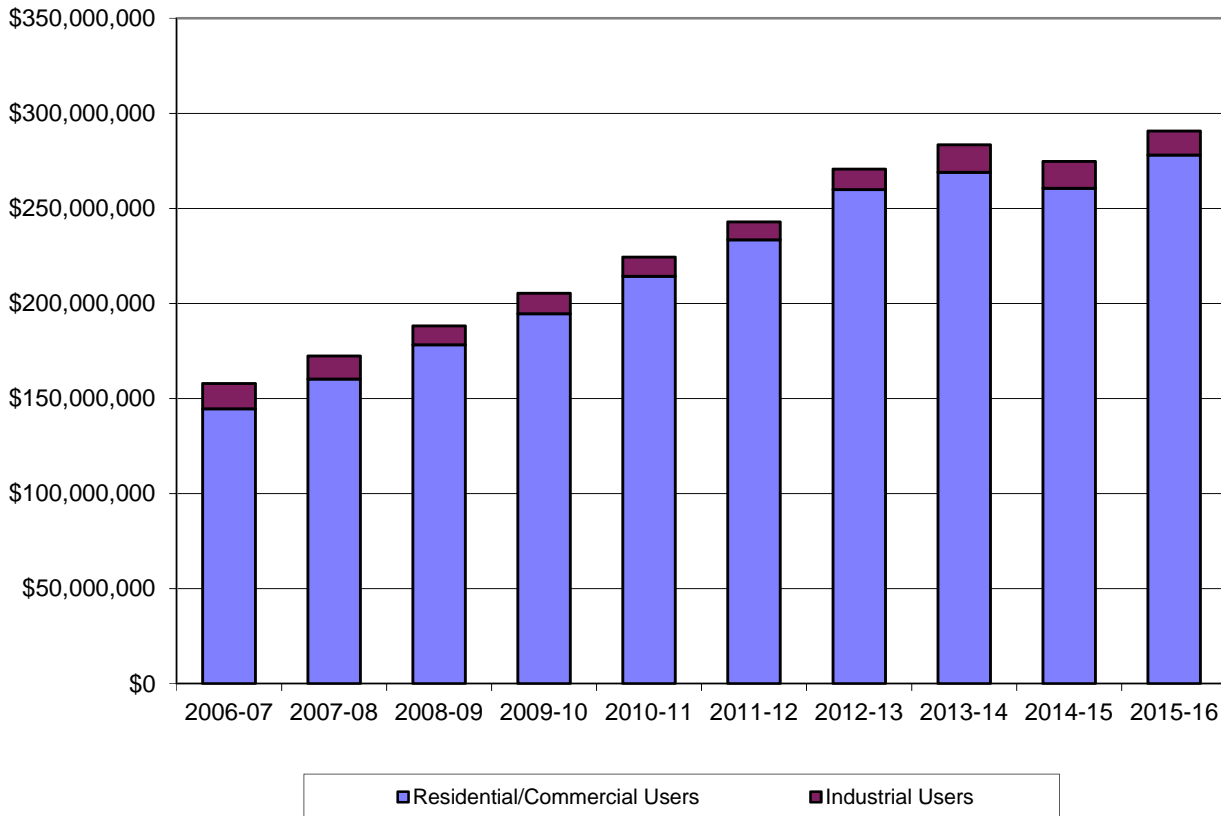
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2007-08	\$ 182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00
2012-13	294.00
2013-14	308.00
2014-15	316.00
2015-16	322.00
2016-17	327.00



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 Year	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
2006-07	\$ 871,586	\$ 144.5	92%	531	\$ 13.4	8%
2007-08	880,208	160.2	93%	520	12.1	7%
2008-09	887,290	178.3	95%	515	9.9	5%
2009-10	880,213	194.5	95%	487	10.8	5%
2010-11	878,408	214.3	95%	479	10.1	5%
2011-12	874,008	233.4	96%	516	9.5	4%
2012-13	883,477	259.8	96%	527	10.8	4%
2013-14	873,308	269.0	95%	489	14.4	5%
2014-15	824,465	260.5	95%	467	14.2	5%
2015-16	863,317	278.0	96%	450	12.6	4%



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

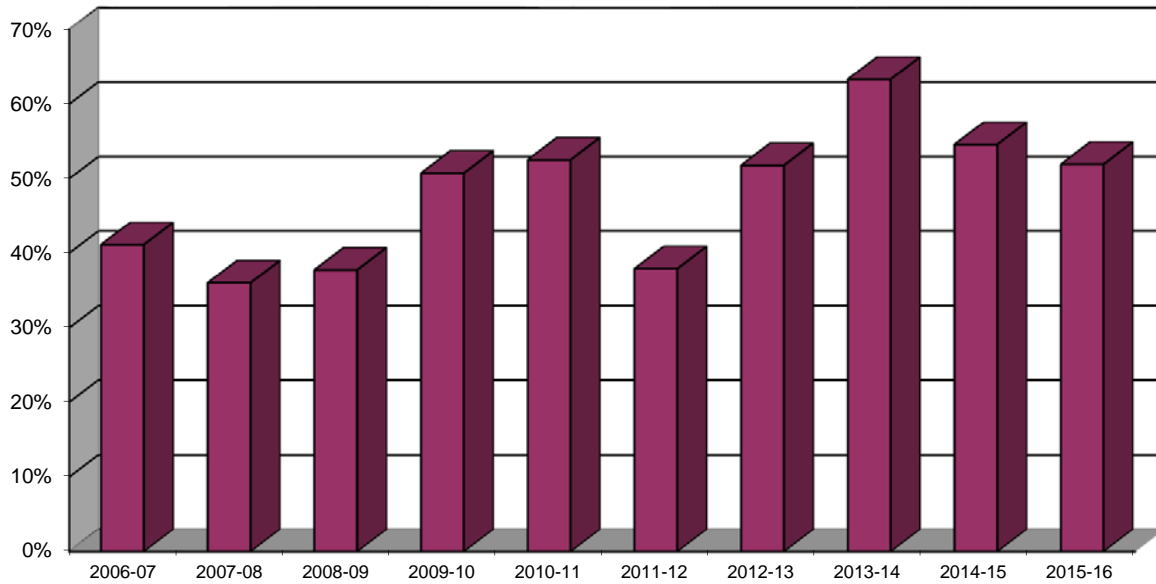
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Prior Fiscal Year and Nine Years Ago

Customer	Fiscal Year Ended 6/30/15			Fiscal Year Ended 6/30/07		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
House Foods America Corp.	\$ 1,055,843	1	0.35%	\$ 410,059	7	0.24%
Kimberly-Clark Worldwide, Inc.	1,047,510	2	0.35%	1,114,920	1	0.66%
Stremicks Heritage Foods, LLC	811,061	3	0.27%	974,474	3	0.58%
MCP Foods, Inc.	738,346	4	0.24%	921,317	4	0.55%
Pulmuone Wildwood, Inc.	571,057	5	0.19%			
Jazz Semiconductor	521,890	6	0.17%			
Ameripecc Inc.	517,583	7	0.17%	278,478	10	0.17%
Nor-Cal Beverage Co. Inc (NCB)	461,589	8	0.15%			
Alta Dena Certified Dairy, LLC	457,496	9	0.15%			
Nor-Cal Beverage Co. Inc (Main)	387,579	10	0.13%			
Alstyle Apparel-A&G Inc.				1,049,362	2	0.63%
Disneyland Resort				791,747	5	0.47%
Disneyland Resort --DCA				567,485	6	0.34%
Pepsi-Cola Bottling Group				374,306	8	0.22%
Seven-Up Bottling Company				335,178	9	0.20%
	<u>\$ 6,569,954</u>		<u>2.17%</u>	<u>\$ 6,817,326</u>		<u>4.06%</u>

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

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

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



<u>Fiscal Year</u>	<u>Principal (1)</u>	<u>Interest</u>	<u>Total Debt Service (3)</u>	<u>Total Operating Expenses (2)</u>	<u>Ratio of Debt Service to Total Operating Expenses</u>
2006-07	\$ 13,465	\$ 32,673	\$ 46,138	\$ 112,155	41.14%
2007-08	11,025	36,484	47,509	131,890	36.02
2008-09	21,305	40,840	62,145	164,556	37.77
2009-10	24,030	46,052	70,082	138,085	50.75
2010-11	25,895	49,426	75,321	143,388	52.53
2011-12	14,370	50,975	65,345	172,319	37.92
2012-13	23,965	53,640	77,605	149,817	51.80
2013-14	39,590	53,163	92,753	146,447	63.34
2014-15	27,875	53,586	81,461	149,226	54.59
2015-16	29,405	50,301	79,706	153,501	51.93

Notes

(1) - Excludes principal reductions due to advanced refunding.

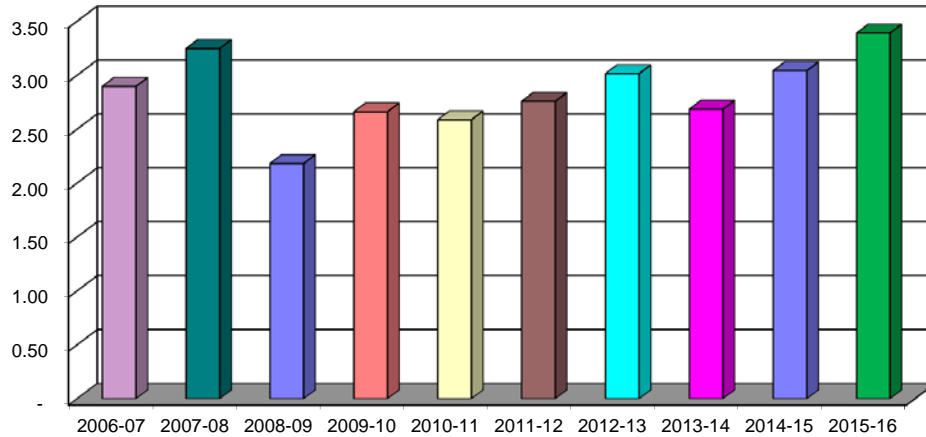
(2) - Excludes depreciation and amortization expense.

(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,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating & Non-operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 144.5	\$ 160.2	\$ 178.3	\$ 194.5	\$ 214.3	\$ 233.4	\$ 259.8	\$ 269.0	\$ 260.5	\$ 278.0
Service Charges, Net of Refunds-Local	-	-	5.6	5.6	5.7	5.7	5.8	5.7	5.5	5.7
Industrial Sewer Service Charges	13.4	12.1	9.9	10.8	10.1	9.5	10.8	14.4	14.2	12.6
SAWPA Assessment	4.2	4.4	3.7	6.5	4.8	3.5	2.7	2.3	2.7	3.1
IRWD Assessment	6.2	8.2	10.3	10.3	21.4	18.0	27.2	22.1	28.6	29.1
Ad Valorem Taxes	58.9	63.3	64.2	62.6	62.4	66.0	77.3	72.8	77.6	82.0
Interest Earnings	22.1	20.2	14.4	17.8	8.9	13.9	(3.6)	6.1	4.8	9.2
Other Revenues	4.2	2.5	3.8	8.5	3.0	2.6	3.7	3.1	3.2	4.0
Total Revenues	253.5	270.9	290.2	316.6	330.6	352.6	383.7	395.5	397.1	423.7
Operating Expenses (1)	112.2	131.9	164.6	138.1	143.4	172.3	149.8	146.4	149.2	153.5
Net Revenues	\$ 141.3	\$ 139.0	\$ 125.6	\$ 178.5	\$ 187.2	\$ 180.3	\$ 233.9	\$ 249.1	\$ 247.9	\$ 270.2
Debt Service Requirements										
Principal Payments	13.5	11.0	21.3	24.0	25.9	14.4	24.0	39.6	27.9	29.4
Interest Payments	35.3	31.8	36.3	43.1	46.5	51.0	53.6	53.2	53.6	50.3
Total Debt Service Requirements	\$ 48.8	\$ 42.8	\$ 57.6	\$ 67.1	\$ 72.4	\$ 65.4	\$ 77.6	\$ 92.8	\$ 81.5	\$ 79.7
Coverage Ratios	2.90	3.25	2.18	2.66	2.59	2.76	3.01	2.68	3.04	3.39
Ending Reserves (2)	\$ 293.0	\$ 425.0	\$ 401.0	\$ 344.0	\$ 420.0	\$ 439.0	\$ 465.0	\$ 542.0	\$ 428.0	\$ 428.0

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, 2016

	Total Debt 6/30/2016	% Applicable (1)	District's Share of Debt 6/30/16
<u>OVERLAPPING TAX AND ASSESSMENT DEBT (Based on all property assessed valuation of \$374,550,262,458):</u>			
Metropolitan Water District of Southern California	\$ 92,865,000	15.265%	\$ 14,175,842
Coast Community College District	498,864,504	99.358	495,661,794
North Orange County Joint Community College District	271,564,001	97.459	264,663,560
Rancho Santiago Community College District	332,292,899	98.991 & 100.000	329,615,051
Brea-Olinda and Laguna Beach Unified School Districts	42,639,029	99.983 & 14.923	20,439,627
Garden Grove Unified School District	240,640,160	100.000	240,640,160
Los Alamitos Unified School District School Facilities Improvement District No. 1	100,990,124	96.337	97,290,856
Newport Mesa Unified School District	224,859,150	100.000	224,859,150
Placentia-Yorba Linda Unified School District	246,799,202	98.952	244,212,746
Rowland Unified School District	252,439,843	0.147	371,087
Saddleback Valley Unified School District	117,270,000	11.592	13,593,938
Santa Ana Unified School District	274,001,882	100.000	274,001,882
Tustin Unified School District School Facilities Improvement District No. 2002-1	48,068,292	99.956	48,047,142
Tustin Unified School District School Facilities Improvement District No. 2008-1	90,085,000	99.955	90,044,462
Tustin Unified School District School Facilities Improvement District No. 2012-1	29,830,000	99.970	29,821,051
Anaheim Union High School District	144,803,955	100.000	144,803,955
Fullerton Joint Union High School District	88,877,910	91.652	81,458,382
Huntington Beach Union High School District	198,629,998	99.037	196,717,191
School Districts	445,237,382	97.771-100.000	444,701,163
City of Anaheim	700,000	99.203	694,421
Irvine Ranch Water District Improvement Districts	489,489,000	Various	433,299,644
Rossmoor Community Services District Special Tax Obligations	155,000	100.000	155,000
Bonita Canyon Community Facilities District No. 98-1	33,335,000	100.000	33,335,000
Irvine Unified School District Community Facilities Districts	619,423,023	100.000	619,423,023
Tustin Unified School District Community Facilities Districts	238,530,000	100.000	238,530,000
City of Tustin Community Facilities Districts	103,590,000	100.000	103,590,000
Other Community Facilities Districts	367,877,991	99.993-100.000	367,877,017
Orange County Assessment Districts	68,430,000	100.000	68,430,000
City of Irvine 1915 Act Bonds	846,436,000	100.000	846,436,000
Other 1915 Act bonds	12,829,270	100.000	12,829,270
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$5,979,718,414
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Orange County General Fund Obligations	\$ 124,614,000	75.056%	\$ 93,530,284
Orange County Pension Obligation Bonds	353,417,858	75.056	265,261,308
Orange County Board of Education Certificates of Participation	14,840,000	75.056	11,138,310
Coast Community College District Certificates of Participation	3,765,000	99.358	3,740,829
Brea-Olinda Unified School District Certificates of Participation	20,035,000	99.983	20,031,594
Orange Unified School District Certificates of Participation and Benefit Obligations	110,802,063	97.912	108,488,516
Placentia-Yorba Linda Unified School District Certificates of Participation	99,075,355	98.952	98,037,045
Santa Ana Unified School District Certificates of Participation	70,982,229	100.000	70,982,229
Other Unified School District Certificates of Participation	57,193,327	Various	50,732,736
Union High School District Certificates of Participation	90,136,090	Various	87,800,458
School District Certificates of Participation	102,993,805	Various	102,564,395
City of Anaheim General Fund Obligations	662,117,465	99.203	656,840,389
City of Costa Mesa General Fund Obligations	23,250,000	100.000	23,250,000
City of Garden Grove General Fund Obligations	24,010,000	100.000	24,010,000
City of Huntington Beach General Fund and Judgment Obligation Bonds	52,000,382	98.739	51,344,657
City of La Habra General Fund Obligations	22,800,000	100.000	22,800,000
City of Santa Ana General Fund Obligations	66,082,500	100.000	66,082,500
Other City General Fund Obligations	207,653,872	Various	190,245,449
Orange County Sanitation District	0	100.000	0 (2)
Municipal Water District of Orange County Water Facilities Corporation	2,770,000	70.32	1,947,864
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$1,948,828,563
Less: City of Anaheim supported obligations			656,840,389
MWDOC Water Facilities Corporation (100% supported)			1,947,864
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$1,290,040,310
<u>OVERLAPPING TAX INCREMENT DEBT:</u>	\$1,121,278,447	99.801-100.000%	\$1,116,297,606
TOTAL DIRECT DEBT			\$0
GROSS OVERLAPPING & COMBINED TOTAL DEBT			\$9,044,844,583 (3)
NET OVERLAPPING & COMBINED TOTAL DEBT			\$8,386,056,330

- (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 Debt	Gross Combined Total Debt	Net Combined Total Debt	Total Overlapping Tax Increment Debt
Land and Improvement Assessed Valuation (\$372,204,617,889)	1.61%	2.43%	2.25%	
All Property Assessed Valuation (\$374,550,262,458)		2.41%	2.24%	
Redevelopment Incremental Valuation (\$49,887,609,411)				2.24%

Source: California Municipal Statistics

ORANGE COUNTY SANITATION DISTRICT

Ratios of Outstanding Debt
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>(5) Total Outstanding Debt</u>	<u>(3) Median Family Income (1)</u>	<u>Debt as a Percentage of Median Family Income</u>	<u>(4) Population Estimate (2)</u>	<u>Debt per Capita</u>
2006-07	\$ 801,389,769	\$ 78,700	0.010%	2,505,180	319.89
2007-08	1,096,049,542	84,100	0.008%	2,522,820	434.45
2008-09	1,262,936,747	86,100	0.007%	2,539,990	497.22
2009-10	1,306,255,753	87,200	0.007%	2,563,170	509.63
2010-11	1,427,792,453	84,200	0.006%	2,457,571	580.98
2011-12	1,376,404,782	85,300	0.006%	2,472,122	556.77
2012-13	1,325,928,512	84,100	0.006%	2,491,268	532.23
2013-14	1,278,998,124	84,900	0.007%	2,521,803	507.18
2014-15	1,241,140,357	85,900	0.007%	2,548,745	486.96
2015-16	1,206,722,347	85,000	0.007%	2,578,681	467.96

Notes & Data Sources

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

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

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

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

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

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

Fiscal Year	Millions of Gallons of Waste-water Treated Per Day	Collection, Treatment & Disposal Cost per Million Gallons	Total Operating Costs (In Thousands)	Total Non-Operating Costs (In Thousands)	Total Operating Revenues (In Thousands)	Total Non-Operating Revenues (In Thousands)
2006-07	229	1,268.38	\$ 165,266	\$ 37,836	\$ 169,656	\$ 83,877
2007-08	221	1,541.18	179,657	40,335	185,376	85,458
2008-09	211	1,576.67	197,076	38,741	207,317	82,897
2009-10	196	1,588.72	190,121	41,273	225,688	90,864
2010-11	207	1,816.62	192,676	68,374	245,249	85,414
2011-12	201	1,871.47	228,370	37,133	260,521	92,115
2012-13	200	1,906.01	213,724	79,650	304,576	79,108
2013-14	198	1,936.64	246,252	41,767	301,459	94,037
2014-15	187	2,070.97	243,412	37,280	302,450	94,637
2015-16	183	2,110.43	244,003	34,079	315,428	108,248

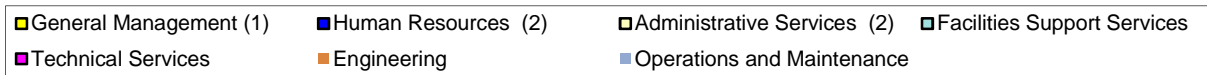
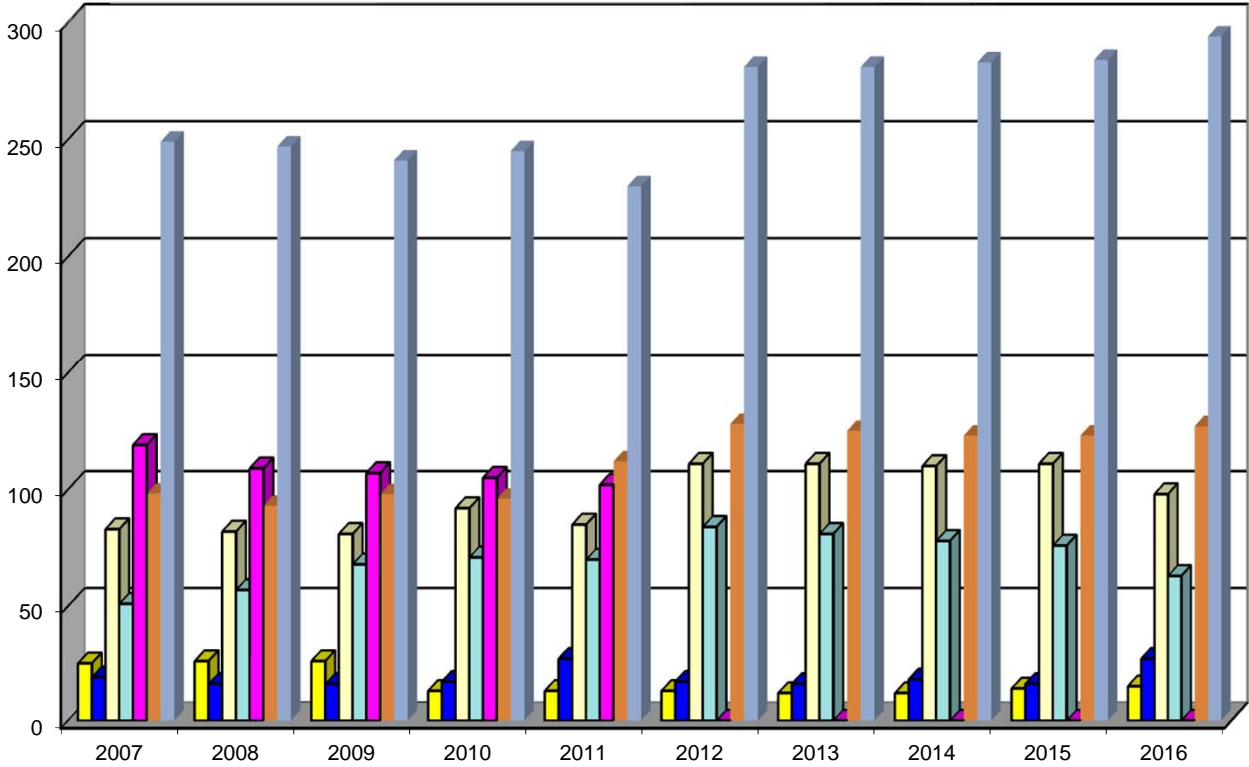
Total expenses in FY 2015-16 increased \$74.9 million, or 36.9 percent since FY 2006-07, primarily as a result of OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012.

Maintenance, chemicals, utilities, and other operating costs represent 31.4 percent of the increase, primarily due to the increase in the levels of treatment referred to above. Depreciation expense represents another 49.9 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2015-16, personnel expenses decreased 5.1 percent over the prior year. This decrease is mainly due to a decrease in OCERS retirement contribution rate as a result of paying down the unfunded actuarial accrued liability over the previous two years. The full-time equivalent positions authorized have not changed in FY 2015-16.

As depicted from the chart above, actual wastewater treatment flows were 229 mgd in FY 2006-07. Due to unusual dry weather conditions during the last several years due to California's record-breaking drought, FY 2015-16 had flows of only 183 mgd, a decrease of 46 mgd or 20% since FY 2006-07.

Source: Orange County Sanitation District.

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



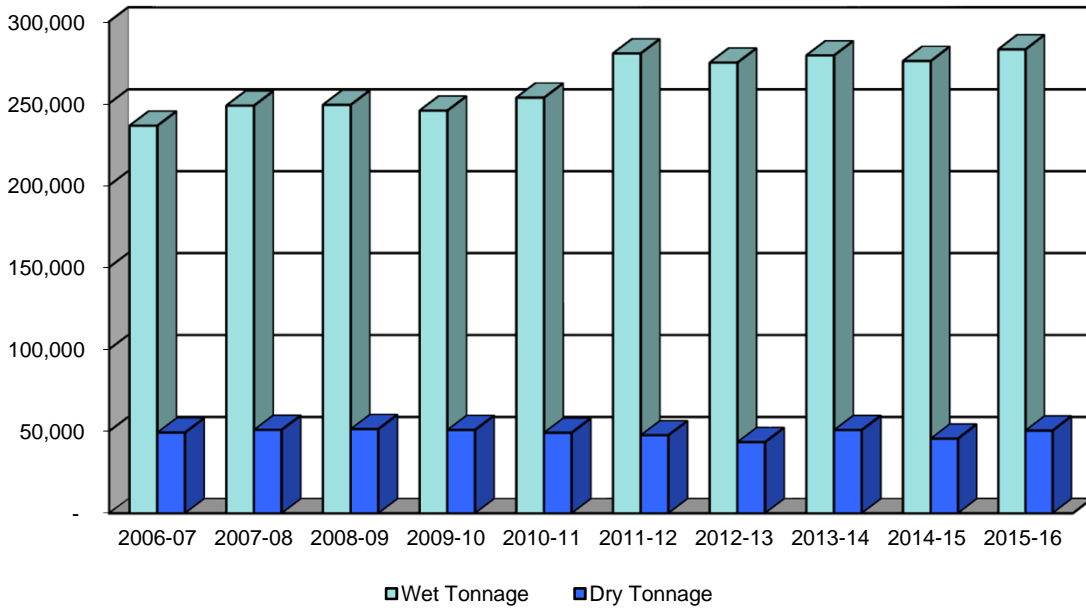
	Fiscal Year Ending June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
General Management (1)	25	26	26	13	13	13	12	12	14	15
Human Resources (2)	19	16	16	17	27	17	16	18	16	27
Administrative Services (2)	83	82	81	92	85	111	111	110	111	98
Facilities Support Services	51	57	68	71	70	84	81	78	76	63
Technical Services	119	109	107	105	102	-	-	-	-	-
Engineering	98	93	98	96	112	128	125	123	123	127
Operations and Maintenance	249	247	241	245	230	281	281	283	284	294
Total FTE's	644	630	637	639	639	634	626	624	624	624

Notes

- (1) - Management Discretion positions used on a temporary basis have been excluded from FTE count.
- (2) - Beginning in 2016, Risk Management moved from Administrative Services to Human Resources Department.

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>
2006-07	236,460	49,184
2007-08	248,717	50,884
2008-09	249,202	51,342
2009-10	245,668	50,799
2010-11	253,557	49,133
2011-12	280,572	47,556
2012-13	274,957	43,365
2013-14	279,362	50,764
2014-15	275,943	45,515
2015-16	283,052	50,439

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

ORANGE COUNTY SANITATION DISTRICT

Capital Asset Statistics

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Miles of Trunk & Subtrunk Sewers</u>	<u>Number of Pump Stations</u>	<u>Primary Treatment Capacity (1)</u>	<u>Secondary Treatment Capacity (1)</u>
2006-07	581	16	376	200
2007-08	568	17	376	200
2008-09	582	17	376	212
2009-10	579	17	376	212
2010-11	587	17	376	212
2011-12	572	17	376	332
2012-13	572	17	376	332
2013-14	580	17	376	332
2014-15	580	17	376	332
2015-16	570	17	376	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

Fiscal Year	(2) Population Estimates	Total Personal Income (in thousands)	Per Capita Personal Income	(5) Median Family Income	(6) Public School Enrollment	(7) Unemployment Rate
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	164,971,000 (4)	53,983	85,300	502,195	7.9%
2012-13	3,082,000	165,858,000 (4)	53,815	84,100	501,801	6.1%
2013-14	3,114,000	173,306,000 (4)	55,654	84,900	500,487	5.2%
2014-15	3,148,000	181,496,000 (4)	57,654	85,900	497,116	4.3%
2015-16	3,183,000	190,978,000 (4),(8)	59,999	85,000	493,030	4.4%

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: 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, 2016

	Population as of <u>January 1, 2016</u>
Anaheim	358,136
Brea	43,710
Buena Park	83,347
Costa Mesa	114,603
Cypress	49,743
Fountain Valley	56,714
Fullerton	142,457
Garden Grove	177,303
Huntington Beach	195,212
Irvine	258,386
La Habra	62,064
La Palma	16,057
Los Alamitos	11,738
Newport Beach	84,270
Orange	141,420
Placentia	52,263
Santa Ana	342,930
Seal Beach	25,078
Stanton	39,751
Tustin	82,717
Villa Park	5,948
Westminster	94,073
Yorba Linda	<u>67,637</u>
Subtotal Cities ⁽¹⁾	2,505,557
Estimated Population Served in Unincorporated Areas ⁽²⁾	<u>73,124</u>
	<u><u>2,578,681</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 Prior Fiscal Year and Nine Years Ago

<u>Employers</u>	<u>Fiscal Year Ended 6/30/15</u>			<u>Fiscal Year Ended 6/30/07</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (4)</u>
Walt Disney Co.	27,000	1	1.76%	20,000	1	1.30%
University of California, Irvine	22,385	2	1.46%	17,579	3	1.15%
County of Orange	18,135	3	1.18%	18,301	2	1.19%
St. Joseph Health System	12,227	4	0.80%	10,047	4	0.65%
Kaiser Permanente	7,000	5	0.46%			
Boeing Co.	6,890	6	0.45%	9,961	5	0.65%
Walmart	6,000	7	0.39%			
Memorial Care Health System	5,650	8	0.37%			
Bank of America Corp.	5,500	9	0.36%	5,000	10	0.33%
Target Corp.	5,400	10	0.35%			
Yum! Brands Incorporated				7,200	6	0.47%
AT&T Incorporated				6,000	7	0.39%
California State University, Fullerton				5,634	8	0.37%
Home Depot, Incorporated				5,450	9	0.36%
Total	116,187		7.58%	105,172		6.86%

Notes & Data Sources

- (1) - Data is for the entire County of Orange.
- (2) - Data Sources: Orange County Business Journal Book of Lists, County of Orange
- (3) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,530,800 as of June 2015.
- (4) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,535,200 as of June 2007.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators

June 30, 2016

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

Consolidated Revenue Area

County of Orange (unincorporated areas)

Cities:

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

Special Districts:

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

Revenue Area No. 14

County of Orange (unincorporated areas)

Cities:

- Irvine
- Orange
- Tustin

Special District:

- Irvine Ranch Water District

Governing Body:	25-member Board of Directors
Authorized Full-Time Equivalent Employees:	624
Operational Date:	July 1, 1954
Authority:	California Health & Safety Code Section 4700 et. seq.
Services:	Wastewater collection, treatment, and disposal
Service Area:	479 square miles
Population Served:	2.6 million
Total Miles of Sewers (including force mains):	570 miles
Number of Pumping Stations:	17

Wastewater System Treatment Capacities (Million Gallons per Day)

	<u>Actual Flows FY15-16</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>
Plant 1	117	208	182
Plant 2	<u>66</u>	<u>168</u>	<u>150</u>
Total	<u>183</u>	<u>376</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, 2016

	Cost		Market Value	% of Total	Net Unrealized Gain/(Loss)
	Shares Par	Base			
INVESTMENT PORTFOLIO:					
CASH & CASH EQUIVALENTS (U.S. DOLLAR):					
CASH EQUIVALENTS	\$ 68,128	\$ 104,813	\$ 28,784	0.01%	\$ (76,029)
COMMERCIAL PAPER - DISCOUNT	17,520,000	17,468,517	17,468,517	4.03%	-
FEDERAL HOME LOAN BANK - 1 YR OR LESS	21,497,000	21,483,725	21,483,725	5.95%	-
FEDERAL HOME LOAN MORTGAGES - 1 YR OR LESS	2,500,000	2,498,340	2,498,340	3.19%	-
FNMA ISSUES - 1 YR OR LESS	3,350,000	3,348,299	3,348,299	2.12%	-
SHORT TERM INVESTMENT FUNDS (US REGULATED)	4,148,544	4,148,544	4,148,544	0.85%	-
SUPRANATIONAL - 1 YR OR LESS	8,000,000	7,994,944	7,994,944	0.85%	-
U.S. TREASURY BILLS - 1 YR OR LESS	50,100,000	50,079,810	50,079,810	0.85%	-
PENDING TRADES	-	17	17	0.00%	-
SUBTOTAL - CASH & CASH EQUIVALENTS	107,183,672	107,127,009	107,050,980	22.56%	(76,029)
FIXED INCOME SECURITIES (U.S. DOLLAR):					
ABS - CAR LOANS	14,403,804	14,392,765	14,423,393	2.89%	30,628
ABS - CREDIT CARDS	2,500,000	2,499,121	2,501,675	1.91%	2,554
ABS - EQUIPMENT	6,038,061	6,039,376	6,048,462	1.48%	9,086
ABS - HOME EQUITY	133,743	100,433	123,945	0.05%	23,512
ABS - SMALL BUSINESS ADMINISTRATION	91,130	91,130	98,476	0.04%	7,346
ABS - STUDENT LOANS	39,605	39,444	39,579	0.01%	135
BANKING & FINANCE	47,370,000	48,331,527	46,565,079	11.69%	(1,766,448)
CAPITAL GOODS	6,000,000	6,022,240	6,153,710	0.21%	131,470
FHLMC MULTICLASS	2,012,372	2,203,581	2,304,333	0.02%	100,752
FHLMC POOLS	2,532	2,470	2,620	0.51%	150
FNMA POOLS	1,810,382	1,894,260	1,987,884	0.00%	93,624
FNMA REMIC	456,018	452,916	459,233	0.54%	6,317
FOOD BEVERAGE & TOBACCO	1,500,000	1,507,165	1,502,475	0.15%	(4,690)
GNMA MULTI FAMILY POOLS	251,656	251,729	261,598	0.38%	9,869
GNMA REMIC	38,571	38,571	38,770	0.07%	199
HEALTH CARE	4,000,000	4,009,675	4,093,840	0.01%	84,165
INSURANCE	1,000,000	1,014,170	1,001,860	1.14%	(12,310)
OIL & GAS	9,500,000	9,476,387	9,651,455	0.11%	175,068
SUPRANATIONAL ISSUES	20,000,000	20,036,795	20,052,875	1.51%	16,080
TAXABLE MUNICIPALS	4,240,000	4,307,634	4,761,833	0.23%	454,199
TECHNOLOGY	14,000,000	14,063,785	14,270,020	0.43%	206,235
U.S. TIPS	10,477,896	10,360,612	10,583,199	2.77%	222,587
US AGENCIES	105,672,000	105,573,002	106,777,003	2.12%	1,204,001
US GOVERNMENTS	110,894,000	110,855,378	112,263,232	1.48%	1,407,854
UTILITY - TELEPHONE	1,000,000	1,002,660	1,002,480	2.84%	(180)
WHOLE LOAN - CMO - COLLATERALIZED MTG OBLIG	450,940	450,938	451,039	0.12%	101
SUBTOTAL - FIXED INCOME SECURITIES	363,882,710	365,017,764	367,420,068	77.44%	2,402,304
TOTAL INVESTMENT PORTFOLIO	\$ 471,066,382	472,144,773	474,471,048	100.00%	\$ 2,326,275
DEMAND DEPOSITS AND CASH ON HAND		(423,695)	(423,695)		
MONIES HELD WITH FISCAL AGENTS		24,837,227	24,837,227		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		45,900,000	45,928,514		
TOTAL CASH AND INVESTMENTS		\$ 542,458,305	\$ 544,813,094		

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

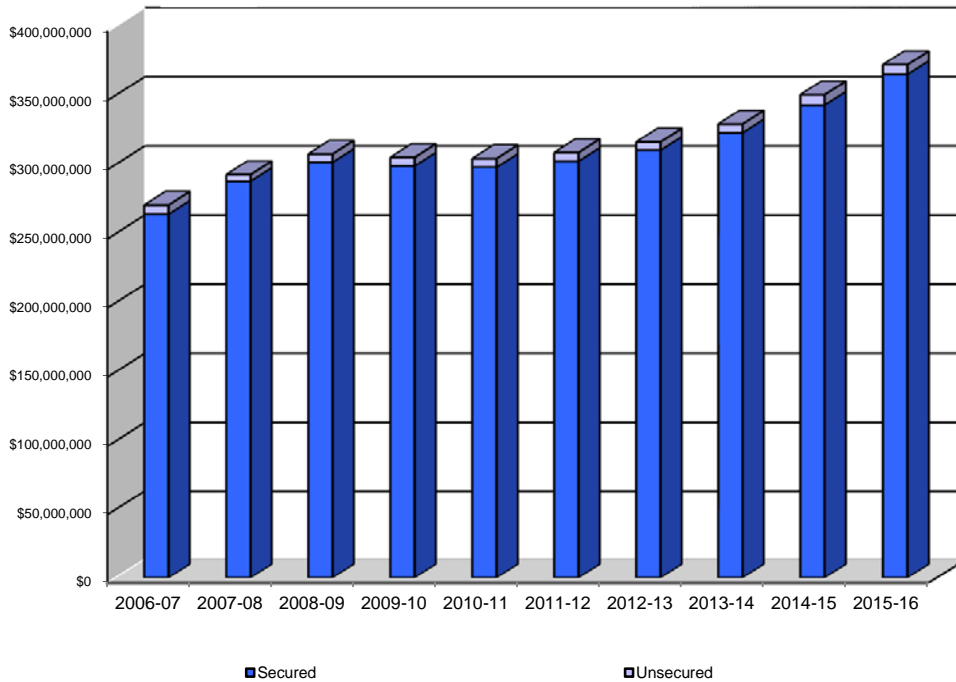
Fiscal Year	Tax Rate			OCSD's Average Share of Basic Levy
	Basic Levy	OCSD 1958 General Obligation Bonds	Total Tax Rate	
2006-07	1.00%	0.00%	1.00%	1.65%
2007-08	1.00%	0.00%	1.00%	1.63%
2008-09	1.00%	0.00%	1.00%	1.64%
2009-10	1.00%	0.00%	1.00%	1.63%
2010-11	1.00%	0.00%	1.00%	1.64%
2011-12	1.00%	0.00%	1.00%	1.64%
2012-13	1.00%	0.00%	1.00%	1.64%
2013-14	1.00%	0.00%	1.00%	1.65%
2014-15	1.00%	0.00%	1.00%	1.63%
2015-16	1.00%	0.00%	1.00%	1.62%

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

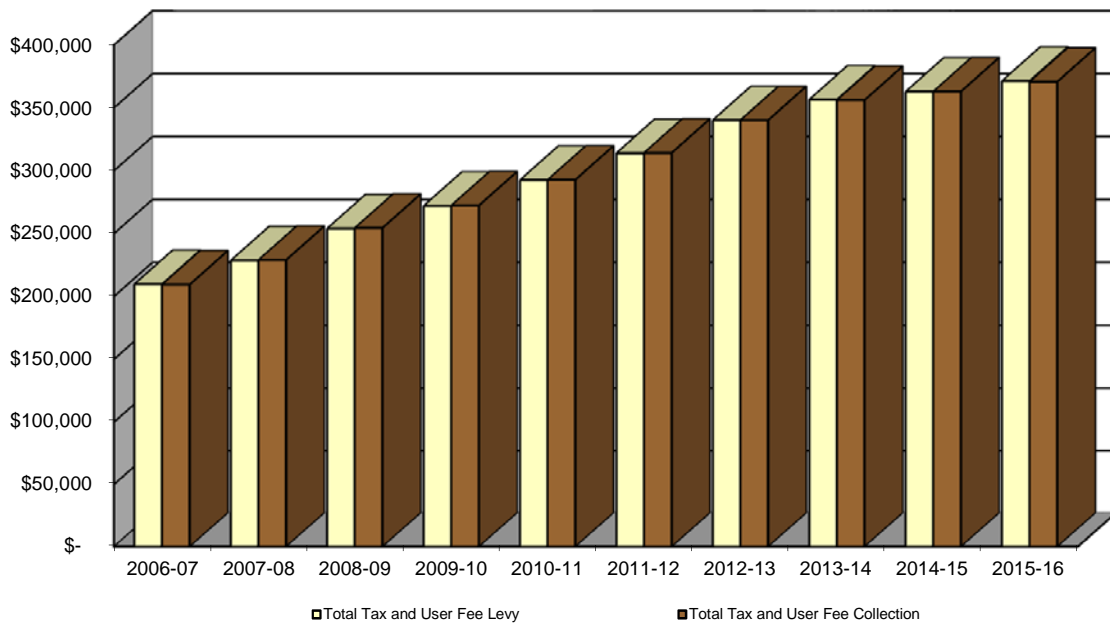


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2006-07	\$ 264,241,033	\$ 6,452,111	\$ 270,693,144	11.93%
2007-08	288,051,467	4,681,838	292,733,305	8.14%
2008-09	301,717,479	5,894,003	307,611,482	5.08%
2009-10	299,038,654	6,116,530	305,155,184	-0.80%
2010-11	298,099,034	6,238,834	304,337,868	-0.27%
2011-12	302,526,970	6,163,979	308,690,949	1.43%
2012-13	310,451,986	5,901,040	316,353,026	2.48%
2013-14	323,064,994	6,220,505	329,285,499	4.09%
2014-15	343,102,030	7,378,643	350,480,673	6.44%
2015-16	365,267,850	6,936,768	372,204,618	6.20%

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 a 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	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	O/S Delinquencies	% of Delinquencies to Levy	(1) Pass-Through Payments
2006-07	\$ 209,766	\$ 209,206	99.73	\$ 215	\$ 209,421	99.84	\$ 560	0.27	\$ -
2007-08	228,622	228,635	100.01	329	228,964	100.15	(13)	(0.01)	-
2008-09	254,092	254,106	100.01	395	254,501	100.16	(14)	(0.01)	-
2009-10	272,050	272,110	100.02	226	272,336	100.11	(60)	(0.02)	-
2010-11	292,646	292,689	100.01	120	292,809	100.06	(43)	(0.01)	-
2011-12	314,077	314,133	100.02	121	314,254	100.06	(56)	(0.02)	3,116
2012-13	340,298	340,156	99.96	64	340,220	99.98	142	0.04	14,687
2013-14	356,607	356,108	99.86	76	356,184	99.88	499	0.14	7,274
2014-15	362,978	362,927	99.99	108	363,035	100.02	51	0.01	8,447 (2)
2015-16	371,502	370,170	99.64	637	370,807	99.81	1,332	0.36	9,199 (2)

Notes

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

(2) In fiscal year 2014-15, the County stopped billing user fees for wholly exempt agencies not subject to property taxes. In fiscal year 2014-15 and 2015-16, OCSD internally billed user fees of \$5 million and \$4.5 million, respectively, to wholly exempt agencies. These amounts have been excluded from the levy and collection amounts above, as only tax and user fees included on County property tax billings are shown in this schedule.

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

Assessed Property Value (2)		Calendar Year	Non- Residential Construction (3)		Residential Construction (3)		Total Construction Value (3)
Fiscal Year	Value		Value	No. of Units	Value		
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	1,993,154	10,636	2,640,484	4,633,638	
2014-15	476,303,290	2015	1,987,903	11,510	2,935,626	4,923,529	
2015-16	504,650,360	2016	2,311,910	11,859	3,068,285	5,380,195 (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, 2016

<u>Type</u>	<u>Insurer</u>	<u>Deductible</u>	<u>Limit</u>
<u>All-Risk Property</u>			
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 (certain structures only)	Everest and others	5% per structure, min. \$5,000,000	\$25 million
<u>Boiler & Machinery</u>			
	Public Entity Property Insurance Program (Lexington and others)	\$25,000 to \$350,000	\$100 million/occurrence
<u>Crime Insurance</u>			
	National Union Fire	\$25,000	\$5 million
<u>Excess General Liability</u>			
	Security National Insurance (first \$10 million layer); Berkley National (\$20 million layer excess \$10 million) Great American (\$10 million layer excess \$30 million)	\$500,000	\$40 million/occurrence and annual aggregate
<u>Travel & Accident</u>			
	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.
<u>Excess Workers' Compensation</u>			
	CSAC Excess Insurance Authority Program	\$1,000,000 Each Accident	Unlimited statutory coverage each accident, each employee \$4 million employer's liability
<u>Pollution Liability</u>			
	CSAC Excess Insurance Authority Program	\$75,000	\$10,000,000 per loss
<u>Watercraft</u>			
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
<u>OCIP Main Basket</u> ("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.
<u>OCIP Excess Liability</u>			
	AIG	\$10,000	\$100 million
<u>OCIP Pollution Liability</u>			
	Liberty Surplus	\$250,000	\$10 million

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

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**ORANGE COUNTY SANITATION DISTRICT
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06/30/16