

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

for the year ended June 30, 2017



Orange County, California

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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

10844 Ellis Avenue, Fountain Valley, CA 92708
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Anaheim

Brea

Buena Park

Cypress

Fountain Valley

Fullerton

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Huntington Beach

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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 26, 2017

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, 2017. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2017 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, 2017. 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, 2017.

Management's discussion and analysis (MD&A) immediately follows the independent auditors' 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 396 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. In fiscal year 2017-18, both plants are projected to receive a combined average daily wastewater flow of 185 million gallons per day from residential, commercial, and industrial sources.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

In June 2017, Chapman University forecasts that the real U.S. gross domestic product will grow 2.2 percent in 2017 as compared to 1.6 percent in 2016. The growth forecasted in consumer and investment spending was led largely by strong gains in housing starts. For a recovery that is one of the longest on record at eight years, the lack of inflationary pressure is remarkable. With only moderate inflation, the Fed will not be as aggressive in raising interest rates.

According to the California Employment Development Department (EDD), Orange County generated a slight increase of approximately 0.1 percent in payroll jobs from August 2016 to August 2017. During this same time period, unemployment in Orange County decreased to 4.2 percent from 4.4 percent while the unemployment in California as a whole decreased to 5.4 percent from 5.6 percent. In June 2017, Chapman University forecasted Orange County's 2017 total payroll employment to increase 1.5 percent

over the prior year, or the addition of 23,200 payroll jobs in 2017. This is the slowest rate of growth since the recovery began in 2009. It is also lower than Chapman University's forecasts for job growth of 1.7 percent in the U.S. and 2.1 percent in California.

Despite the forecasted slowing in Orange County job growth, Chapman University continues to project an increase in housing appreciation to 6.2 percent. Short-run increases can occur when inventories remain tight. Longer-run economic and demographic forces will eventually dominate the pricing equation, especially when affordability, as measured by the median home price-to-median income ratio, is projected to continue increasing.

According to Chapman University, residential permit valuation in the County is forecasted to decrease from 10.9 percent growth in 2016 to 3.9 percent growth in 2017.

MAJOR INITIATIVES

Following are the District's current major initiatives as outlined in the General Manager's work plan for FY 2017-18:

1. **Safety and Security**

- **Cyber Security** – Implement findings from consultant report on cyber-security risks.
- **Safety Engineering Solutions and Physical Site Security** – Implement physical site security enhancements as needed to ensure all facilities remain secure.
- **Voluntary Protection Plan (VPP) Certification** – Complete a full review and audit of all Safety and Health policies, and implement the new safety software module. Conduct a third-party VPP readiness assessment and draft a VPP implementation plan by June 2018.

2. **Succession Planning**

- **Workforce Planning and Development** – Implement changes to the recruitment and selection process that continue to decrease time-to-fill. Deploy semi-annual workforce vulnerability assessments to all departments so that they can identify vulnerable positions, and leverage existing technologies to provide the organization with tools to develop and manage key talent and talent loss due to retirements.
- **Staffing Study** – Conduct a comprehensive staffing study that identifies required staffing levels and opportunities to improve organizational efficiency and effectiveness. Develop the scopes of work with all internal stakeholders for the studies and have the consultant(s) procured by June 2018.

3. **Resource Recovery**

- **Food Waste** – Issue a request for proposal for a Professional Design Services Agreement for the Interim Food Waste Receiving Facility Project.

4. **Reliability**

- **New Electrical Safety Standards and Lubrication Program** – 1.) Develop a plan and schedule to begin implementation of changes to the preventative maintenance program, including identifying labor and resource needs, for the electrical distribution system based upon new electrical safety standards and for legacy assets not currently in the new maintenance management system (MAXIMO). 2.) Develop a program and schedule for implementing a comprehensive machinery lubrication and oil analysis program for rotating equipment.
- **Fleet Business Plan** – Recommend a Fleet Business Plan to the Board of Directors that will include a replacement policy recommendation considering regulatory requirements, green fleet criteria, and fleet best practices.

- **Civil Assets Maintenance** – Implement the operational housekeeping program, and develop a multi-year program for condition assessment and maintenance of civil assets.
- **Operational Resiliency** – Finalize the development of an agency-wide Continuity of Operations Plan that identifies the most critical business and operational functions that ensure the Sanitation District remains operational during a major disaster and/or emergency. Present the findings and plan to the Board of Directors no later than May 2018.
- **Seismic** – Continue the seismic study of OCSD's Plant Facilities, completing the sub-surface exploratory work and engineering analysis to develop strategies to mitigate seismic vulnerabilities.

5. Operational Optimization

- **Rates** – Complete a comprehensive rate study to determine the proper allocation of costs among user types and a recommend future rate plan including Capital Facilities Capacity Charges and Industrial User Charges. Present a 5-year rate program for residential, commercial, and industrial users for Board consideration in April 2018.
- **OCSD Headquarters Building** – Complete the Final Concept Design for the Headquarters Complex. Complete the Preliminary Design and begin Detailed Design for the Ward and Garfield Perimeter Improvements.
- **Dental Amalgam Rule** – Create oversight program to implement new federal dental amalgam rule by June 30, 2018.
- **National Laboratory Certification** – Implement laboratory procedures and corrective measures in response to national laboratory certification audit and obtain final certification by June 30, 2018.

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, 2017:

- **Utility of the Future** from the National Association of Clean Water Agencies (NACWA)
- **2017 Excellence Award in Information Technology Practices** from the Municipal Information Systems Association of California (MISAC)
- **Honor Award in Planning for Biosolids Master Plan** from the American Academy of Environmental Engineers & Scientists
- **Honor Award in Environmental Sustainability for Effluent Reuse Study** from the American Academy of Environmental Engineers & Scientists
- **Safety Plant Award** from the Santa Ana River Basin Section of the California Water Environment (SARBS)
- **Certificate of Achievement for Excellence in Financial Reporting** from the Government Finance Officers Association (GFOA)
- **District Transparency Certificate of Excellence** from the Special District Leadership Foundation
- **Distinguished Budget Presentation Award** from GFOA
- **Silver Award of Distinction- Website Re-Design Communicator Award** from the Academy of Interactive & Visual Arts (AIVA)
- **Silver Award of Distinction- CIP Annual Report 2015-2016 Communicator Award** from AIVA
- **Gold Award of Distinction- 2015-16 Annual Report Communicator Award** from AIVA
- **American In-House Design Award- Utility of the Future Annual Report** from Graphic Design USA
- **Gold Peak Performance Award for P1 and P2** from NACWA
- **Achievement of Excellence in Procurement Award** from the National Procurement Institute.

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 2026. 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, 2017 was \$5.0 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 \$107 million at June 30, 2017.

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, 2017, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$511 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	\$174 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	173 million
Designated For Debt Service Requirements	<u>107 million</u>
Total Designated Cash and Investments	<u>\$ 511 million</u>

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

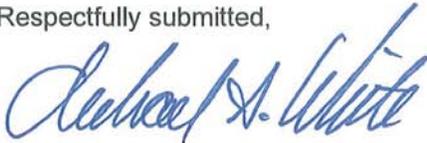
The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Sanitation District for the Sanitation District's comprehensive annual financial report for the year ended June 30, 2016. This was the twenty-second 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, 2016

Executive Director/CEO

ORANGE COUNTY SANITATION DISTRICT

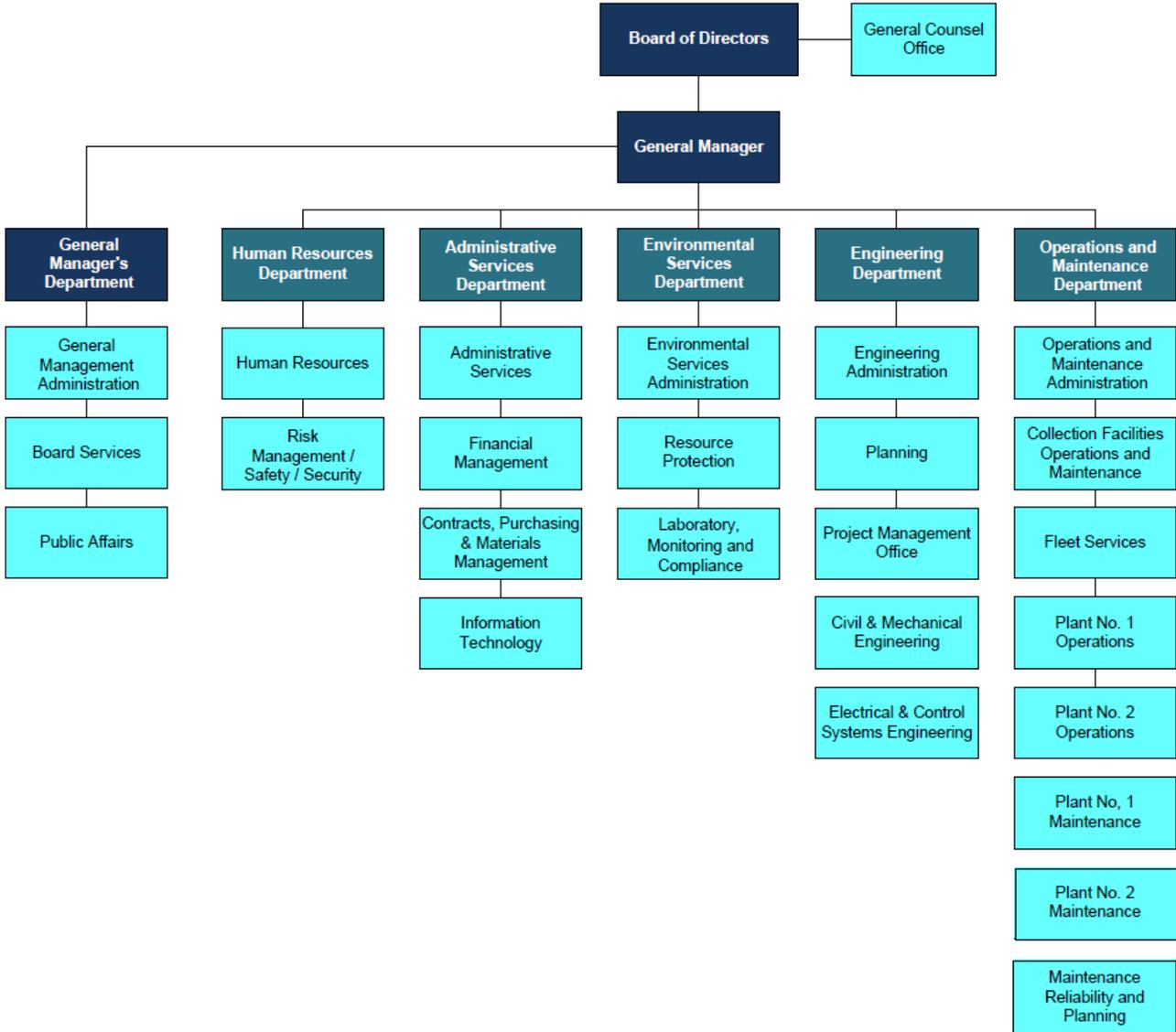
Board of Directors
As of June 30, 2017

<u>Agency</u>	<u>Active Director</u>	<u>Alternate Director</u>
Cities:		
Anaheim	Denise Barnes	Lucille Kring
Brea	Glenn Parker	Cecilia Hupp
Buena Park	Fred Smith	Virginia Vaughn
Cypress	Mariellen Yarc	Stacy Berry
Fountain Valley	Steve Nagel	Cheryl Brothers
Fullerton	Greg Sebourn	Jesus Silva
Garden Grove	Steve Jones	Kris Beard
Huntington Beach	Barbara Delgleize	Erik Peterson
Irvine	Donald P. Wagner	Lynn Schott
La Habra	Tim Shaw	Michael Blazey
La Palma	Peter Kim	Gerard Goedhart
Los Alamitos	Richard Murphy	Warren Kusumoto
Newport Beach	Scott Peotter	Brad Avery
Orange	Teresa Smith	Mark Murphy
Placentia	Chad Wanke	Ward Smith
Santa Ana	Sal Tinajero	David Benavides
Seal Beach	Ellery Deaton	Sandra Massa-Lavitt
Stanton	David Shawver	Carol Warren
Tustin	Allan Bernstein	Chuck Puckett
Villa Park	Robert Collacott	Diana Fascenelli
Sanitary Water Districts:		
Costa Mesa Sanitary District	James M. Ferryman	Robert Ooten
Midway City Sanitary District	Al Krippner	Charlie Nguyen
Irvine Ranch Water District	John Withers	Douglas Reinhart
Yorba Linda Water District	Phil Hawkins	Brooke Jones
County Areas:		
Member of the Board of Supervisors	Michelle Steel	Shawn Nelson

ORANGE COUNTY SANITATION DISTRICT

Organizational Chart

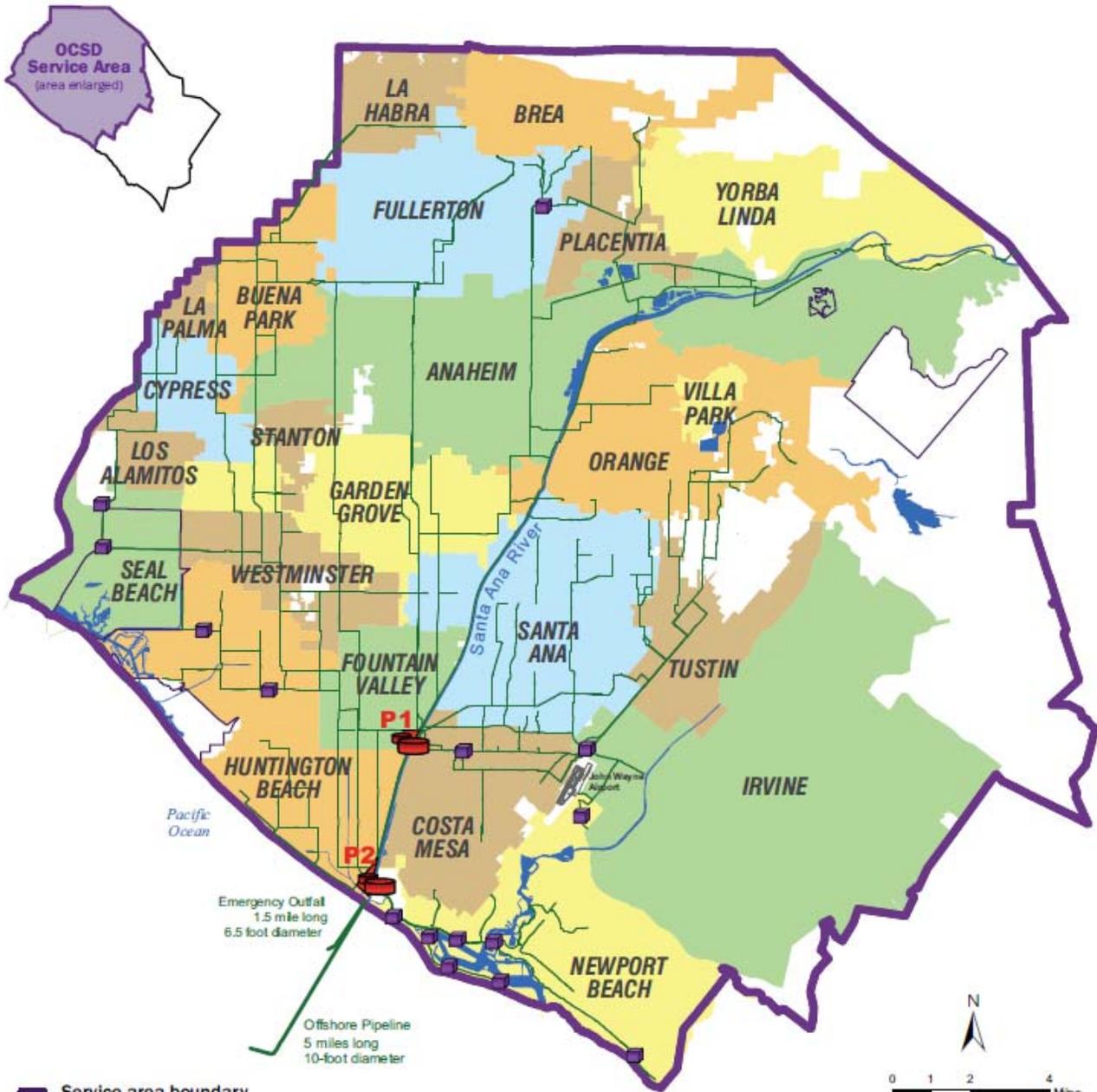
As of June 30, 2017



ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2017



-  Service area boundary
-  Sewer pipelines
-  Reclamation Plant No. 1 (P1)
Treatment Plant No. 2 (P2)
-  Pump and lift stations
-  Unincorporated Orange County (white areas)



Revised June 2017

DISCLAIMER: Map prepared by the Orange County Sanitation District. This map is intended for geographical representation only. No level of accuracy is claimed. Portions of this derived product contain geospatial information copyrighted by Rand McNally 2016. All Rights Reserved.

REVISED: 06/2017

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the Orange County Sanitation District (the District) as of and for the year ended June 30, 2017, 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 Orange County Sanitation District, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Proportionate Share of the Net Pension Liability, Schedule of District Contributions, Schedule of Net Pension Liability – Additional Retiree Benefit Account, Schedule of Changes in Net Pension Liability – Additional Retiree Benefit Account, 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 Governmental Accounting Standards Board, 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 collectively 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 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 26, 2017

Management Discussion and Analysis **June 30, 2017**

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, 2017. 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, 2017, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$2,041.2 million (net position). Of this amount, \$536.3 million represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- Total net position increased \$122.6 million, or 6.4 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$34.0 million, or 1.3 percent over the prior year.
- Net investment in capital assets increased \$75.6 million, or 5.3 percent.
- Unrestricted Net Position increased \$47.0 million, or 9.6 percent over the prior year.
- Total outstanding bonded debt decreased by \$71.8 million from the prior year to \$1.044 billion.

Overview of the Basic Financial Statements

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

In accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the District's financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. The Statement of Net Position includes 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.

Net Position

As previously noted, net position increased \$122.6 million, or 6.4 percent over the net position for FY 2015-16, to \$2,041.2 million in Fiscal Year 2016-17.

(Dollars in thousands)

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Increase (Decrease)
Assets and deferred outflow of resources				
Assets				
Current and other assets	\$ 600,066	\$ 609,676	\$ (9,610)	-1.6%
Net Capital assets	2,603,458	2,569,440	34,018	1.3%
Total assets	3,203,524	3,179,116	24,408	0.8%
Deferred outflows of resources	74,510	90,762	(16,252)	-17.9%
Total Assets and deferred outflows of resources	3,278,034	3,269,878	8,156	0.2%
Liabilities				
Current liabilities	99,376	102,319	(2,943)	-2.9%
Noncurrent liabilities	1,107,762	1,225,948	(118,186)	-9.6%
Total liabilities	1,207,138	1,328,267	(121,129)	-9.1%
Deferred inflows of resources	29,671	23,039	6,632	28.8%
Total Liabilities and deferred inflows of resources	1,236,809	1,351,306	(114,497)	-8.5%
Net position:				
Net investment in capital assets	1,504,898	1,429,269	75,629	5.3%
Unrestricted	536,327	489,303	47,024	9.6%
Total net position	\$ 2,041,225	\$ 1,918,572	\$ 122,653	6.4%

Current and other assets decreased \$9.6 million, or 1.6 percent, due primarily to net cash provided by operations of \$98.8 million, proceeds from property taxes of \$88.0 million, contributions from other governments of \$24.4 million, receipt of capital facilities capacity charges of \$15.6 million, investment income of \$3.1 million, and other government repayments of \$4.3 million offset by capital outlays of \$104.5 million, bonded debt retirements of \$53.5 million, interest paid of \$47.0 million, and local sewer line transfer payment of \$38.8.

Net Capital assets increased \$34.0 million, or 1.3 percent, due mostly to the ongoing capital improvement program construction in progress additions of \$131.3 million and land additions of \$10.6 million, offset by depreciation of \$96.3 million and the ownership transfer of local sewer net capital assets of \$9.3 million to the East Orange County Water District (EOCWD). 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 \$188.3 million and \$90.5 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 2016-17, the District incurred project costs of \$13.7 million at Plant No. 1 and \$20.7 million at Plant No. 2 bringing the total cost-to-date to \$165.8 million and \$46.6 million, respectively, with completion scheduled in FY 2017-18.

Collection system projects includes the Newhope-Placentia Trunk Replacement. The Newhope-Placentia Trunk Replacement incurred outlays of \$17.3 million in FY 2016-17 with a total project budget of \$112.0 million through the projected completion in FY 2021-22. This project will increase the size of approximately 35,000 feet of the trunk line from Yorba Linda Boulevard to Orangewood Avenue. The upsized sewer will accommodate flows from the newly abandoned Yorba Linda Pump Station and the newly interconnected Atwood Sub-trunk.

The Gisler-Redhill System Improvements (Reach "B") is another collection system project that incurred outlays of \$11.8 million in FY 2016-17 with a total project budget of \$25.2 million through projected completion in FY 2018-19. This project will replace a section of the existing sewer and rehabilitate other reaches in the Gisler-Redhill System. This will include installing a larger diameter pipelines, providing interties, new diversion settings, and sliplining and relining manholes.

See page 8 for the Schedule of Capital Assets and listing of other major capital additions for FY 2016-17.

Deferred Outflows of Resources decreased \$16.3 million, or 17.9 percent from the prior year primarily due to pension investment earnings underperforming the actuarial valuation projection by \$9.1 million and the difference between carrying amount of the retired debt, Certificates of Participation (COP) Series 2009A, and the acquisition price of COP Series 2017A, in the amount of \$3.4 million.

Deferred Inflows of Resources increased \$6.6 million, or 28.8 percent over the prior year is primarily due to the increase in pension expense as a result of the change in actuarial assumptions.

Net Investment in capital assets increased \$75.6 million, or 5.3 percent over the prior year primarily due to the result of the net increase in capital assets of \$34.0 million coupled with a \$41.6 million decrease in related debt.

Unrestricted net position increased \$47.0 million, or 9.6 percent due to the overall increase in net position of \$122.6 million offset by the increase in net investment in capital assets of \$75.6 million.

Changes in Net Position

Net position increased \$122.6 million in FY 2016-17, or 6.4 percent over the prior year.

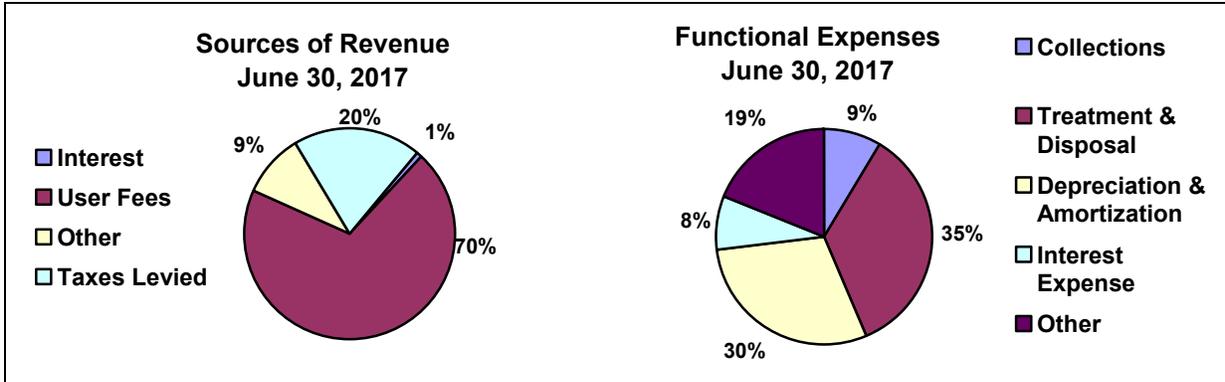
(Dollars in thousands)

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service Charges	\$ 312,237	\$ 314,477	\$ (2,240)	-0.7%
Permit and inspection fees	1,045	951	94	9.9%
Total operating revenues	313,282	315,428	(2,146)	-0.7%
Non-operating revenues				
Property taxes	88,284	84,407	3,877	4.6%
Investment and interest income	3,081	9,183	(6,102)	-66.4%
Contrib. from other government	24,388	13,103	11,285	86.1%
Other	2,757	1,555	1,202	77.3%
Total non-operating revenues	118,510	108,248	10,262	9.5%
Total revenues	431,792	423,676	8,116	1.9%
Expenses:				
Operating expense other than depreciation and amortization	150,252	153,501	(3,249)	-2.1%
Depreciation and amortization	96,320	90,502	5,818	6.4%
Non-operating expense	78,918	34,078	44,840	131.6%
Total expenses	325,490	278,081	47,409	17.0%
Income before capital contributions	106,302	145,595	(39,293)	-27.0%
Capital facilities capacity charges	16,351	17,974	(1,623)	-9.0%
Increase in net position	122,653	163,569	(40,916)	-25.0%
Beginning net position	1,918,572	1,755,003	163,569	9.3%
Ending net position	\$ 2,041,225	\$ 1,918,572	\$ 122,653	6.4%

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 2016-17, operating revenues decreased \$2.1 million, or 0.7 percent from the prior year that is reflective of the \$5.7 million decrease in local sewer service fees as ownership of the local sewer lines was transferred over to EOCWD on August 2, 2016. This decrease in local sewer service fees was somewhat offset by the 1.6 percent increase in the average sewer user fee rate over the prior year.



The \$10.3 million, or 9.5 percent increase in non-operating revenues primarily consists of a \$11.3 million, or 86.1 percent increase in contributions from other governments, a \$3.9 million, or 4.6 percent increase in property tax revenues, and a \$1.2 million, or 77.3 percent increase in other, somewhat offset by a \$6.1 million, or 66.4 percent decrease in investment and interest income. The increase in contributions from other governments is reflective of the increase in capital contributions from the Irvine Ranch Water District. The increase in property tax revenue is primarily the result of the increase in total assessed valuation of 5.3 percent over the prior year. The decrease in investment and interest income is attributable to lower yields earned on investments and lower cash and investments balances. Yields earned on investments decreased from 1.7 percent in FY 2015-16 to 0.6 percent in FY 2016-17 while cash and investment balances decreased from \$544.8 million at June 30, 2016 to \$511.0 million at June 30, 2017.

Operating expense before depreciation and amortization decreased \$3.2 million or 2.1 percent from the prior year. The majority of this decrease is attributable to the \$1.6 million, or 19.8 percent decrease in other operating expenses, the \$1.1 million, or 15.6 percent decrease in utilities, the \$1.1 million, or 11.7 percent decrease in feasibility studies, and the \$1.3 million, or 1.7 percent decrease in salaries and benefits, that were somewhat offset by a \$1.7 million, or 6.2 percent increase in contractual services. The decrease in other operating expenses is mostly attributable to the reduction in pending claims of \$1.7 million. The decrease in utilities is attributable to the decrease in electricity charges from the reduction in outfall pumping and the implementation of a more cost-effective strategy in managing the District's electrical needs. Feasibility studies are done to determine the necessity and the preferred designs of future potential construction projects and fluctuate from year-to-year, as required. The increase in Contractual Service is mostly attributable to the increases in security, with the addition of armed patrol services at both plants, and increases in preventative maintenance services for the Civil Assets Management Program (CAMP).

Operating salaries and benefits decreased by \$1.3 million to \$74.3 million, a 1.7 percent decrease from the prior year. The operating salaries and benefits costs are part of the overall decrease of \$1.7 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 \$90.3 million, a 2.9 percent decrease from the prior year total of \$93.0 million. This decrease is reflective of the \$5.2 million, or 30.5 percent decrease in retirement premiums as a result of the \$214.1 million pay down against the District's unfunded actuarial accrued pension liability (UAAL) over the current and previous two fiscal years. This pay down resulted in a UAAL premium rate decrease from 7.86 percent in FY 2015-16 to 0.69 percent in FY 2016-17.

Non-operating expense increased \$44.8 million, or 131.6 percent, and is primarily reflective of the \$50.8 million transfer of local sewer service fee assets including \$41.5 million of local sewer accumulated capital repair and replacement funds to EOCWD. Somewhat offsetting this increase is the decrease in pollution remediation expense as \$6.4 million was incurred in the prior year but none recorded in fiscal year 2016-

17, and a decrease in interest expense of \$2.0 million, a 7.1 percent decrease from the prior year as the District continues to pay down on its long-term bonded debt.

Capital Facility Capacity Charges decreased \$1.6 million, or 9 percent from the prior year due to the slowdown in construction activity as total building permit valuation in Orange County is projected to increase 4.5 percent in Calendar Year 2017 from the prior year increase of 10.1 percent.

Capital Assets

At June 30, 2017, the District had a net investment of \$2.603 billion in capital assets. This represents a net increase (including additions and deletions) of \$34.0 million or 1.3 percent over the prior year.

(Dollars in thousands)

	June 30, 2017	June 30, 2016	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 25,247	\$ 15,960	\$ 9,287	58.2%
Construction in Progress	461,833	499,376	(37,543)	-7.5%
Sewage collection facilities	482,558	447,377	35,181	7.9%
Sewage treatment facilities	1,515,969	1,496,469	19,500	1.3%
Effluent disposal facilities	34,636	36,155	(1,519)	-4.2%
Solids disposal facilities	297	307	(10)	-3.3%
General and administrative facilities	82,918	73,549	9,369	12.7%
Assets acquired in excess of book value	-	248	(248)	-100.0%
Capital assets, net	\$ 2,603,458	\$ 2,569,441	\$ 34,017	1.3%

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

- \$20.7 million – Sludge Dewatering and Odor Control at Plant No. 2
- \$17.3 million – Newhope-Placentia Trunk Replacement
- \$13.7 million – Sludge Dewatering and Odor Control at Plant No. 1
- \$11.8 million – Gisler-Redhill System Improvements- Reach “B”
- \$10.6 million – 18475 Pacific St. & 18484 Bandilier Cir. Property Acquisition
- \$ 5.3 million – Ocean Outfall Booster Station Rehabilitation

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, 2017, the District had \$1.044 billion outstanding in bonded debt, a net decrease of \$71.8 million, or 6.4 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 refunding of \$120.9 million of Series 2014B Revenue Refunding Certificates of Participation (COP) with Series 2016B Revenue Refunding COP issued in the amount of \$109.9 million in November 2016 and the partial refunding of \$91.6 million of Series 2007A Certificates of COP with Series 2017A Wastewater Refunding Revenue Obligations issued in the amount of \$66.4 million issued in February 2017.

Moody’s, Standard and Poor’s, and Fitch Ratings all reaffirmed their AAA rating of the Orange County Sanitation District. The District’s long-range financing plan is designed to maintain this high rating. Over the next five years, the District is projecting over \$1 billion in future treatment plant and collection system

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

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate within the County of Orange is currently 4.2 percent, a slight decrease from the rate of 4.4 percent a year ago.
- Inflation for the Los Angeles-Riverside-Orange County area increased 2.0 percent in 2016 over the prior year based on the actual percentage change in the consumer price index according to the U. S. Department of Labor, Bureau of Labor Statistics.
- The actual rate of return on investments decreased from the 1.7 percent earnings rate in FY 2015-16 to 0.6 percent for FY 2016-17.

All of these factors are considered in preparing the District's biennium budget.

The District's user fee schedule was increased by 1.2 percent for FY 2017-18 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 \$4.00, from \$327.00 to \$331.00. This rate increase was necessary to finance the District's cash flow needs as capital improvement outlays alone are projected to be \$148.1 million in FY 2017-18 and are projected to total \$2.5 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, 2017

	<u>2017</u>
Current assets:	
Cash and cash equivalents	\$ 89,374,975
Investments	416,675,560
Accounts receivable, net of allowance for uncollectibles \$236,187	45,679,780
Accrued interest receivable	1,947,562
Connection fees receivable	3,712,660
Property tax receivable	1,319,052
Inventories	7,163,534
Due from other governmental agency	5,791,345
Prepaid expenses	<u>1,733,053</u>
Total current assets	<u>573,397,521</u>
Noncurrent assets:	
Restricted:	
Cash and cash equivalents	4,992,427
Unrestricted:	
Non-depreciable capital assets	487,080,496
Depreciable capital assets, net of accumulated depreciation	2,116,377,833
Due from other governmental agency	20,472,023
Net OPEB asset	1,193,073
Other noncurrent assets, net	<u>10,344</u>
Total noncurrent assets	<u>2,630,126,196</u>
Total assets	<u>3,203,523,717</u>
Deferred outflows of resources:	
Deferred losses on defeasances	37,127,405
Deferred outflows related to pensions	<u>37,382,920</u>
Total deferred outflows of resources	<u>74,510,325</u>
Total assets and deferred outflows of resources	<u>3,278,034,042</u>
Current liabilities:	
Accounts payable	10,000,957
Accrued expenses	15,253,785
Retentions payable	3,461,476
Interest payable	17,789,350
Current portion of long-term obligations	<u>52,870,671</u>
Total current liabilities	99,376,239
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	1,099,679,143
Net pension liability	<u>8,082,853</u>
Total Noncurrent liabilities	<u>1,107,761,996</u>
Total liabilities	<u>1,207,138,235</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	29,670,775
Total liabilities and deferred inflows of resources	<u>1,236,809,010</u>
Net position:	
Net investment in capital assets	1,504,898,388
Unrestricted	<u>536,326,644</u>
Total net position	<u>\$ 2,041,225,032</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, 2017

	2017
Operating revenues:	
Service charges	\$ 312,237,336
Permit and inspection fees	1,044,752
Total operating revenues	313,282,088
Operating expenses other than depreciation and amortization:	
Salaries and benefits	74,290,587
Utilities	6,118,859
Supplies, repairs and maintenance	25,473,968
Contractual services	29,547,427
Feasibility studies	8,305,420
Other	6,516,078
Total operating expenses other than depreciation and amortization	150,252,339
Operating income before depreciation and amortization	163,029,749
Depreciation and amortization	96,320,430
Operating income	66,709,319
Non-operating revenues:	
Property taxes	88,284,195
Investment and interest income	3,081,016
Contributions from other government	24,388,397
Other	2,756,896
Total non-operating revenues	118,510,504
Non-operating expenses:	
Interest	25,648,352
Local sewer service transfer	50,783,259
Other	69,146
Loss on disposal of assets	2,417,676
Total non-operating expenses	78,918,433
Income before capital contributions	106,301,390
Capital contributions;	
Capital facilities capacity charges	16,351,185
Change in net position	122,652,575
Total net position - beginning	1,918,572,457
Total net position - ending	\$ 2,041,225,032

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2017

	<u>2017</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 286,809,139
Payments to employees	(108,554,324)
Payments to suppliers	<u>(79,412,392)</u>
Net cash provided by operating activities	<u>98,842,423</u>
Cash flows from noncapital financing activities:	
Proceeds from property taxes	88,025,973
Payments for sewer service transfer and other obligation	<u>(38,770,357)</u>
Net cash provided by noncapital financing activities	<u>49,255,616</u>
Cash flows from capital and related financing activities:	
Capital facilities capacity charges	15,621,440
Additions to capital assets	(104,543,497)
Interest paid	(47,057,561)
Principal payments on debt obligation	(35,575,000)
Proceeds released to escrow account on defeased debts	(212,470,000)
Proceeds from debt issuances	195,288,273
Debt issuance costs	(752,912)
Contribution from other government	35,661
Net cash used in capital and related financing activities	<u>(189,453,596)</u>
Cash flows from investing activities:	
Proceeds from the sale of investments	821,428,761
Purchases of investments	(833,789,163)
SARI project payments	4,258,104
Interest received	<u>7,877,603</u>
Net cash used in investing activities	<u>(224,695)</u>
Net decrease in cash and cash equivalents	(41,580,252)
Cash and cash equivalents, beginning of year	<u>135,947,654</u>
Cash and cash equivalents, end of year	<u>\$ 94,367,402</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 66,709,319
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	96,320,430
Bad debt expense (Net recoveries)	137,270
(Increase)/decrease in operating assets:	
Accounts receivable	(26,451,883)
Inventories	(302,833)
Prepaid and other assets	(268,402)
Increase/(decrease) in operating liabilities:	
Accounts payable	(3,514,394)
Accrued expenses	1,462,767
Due to other governmental agency	(21,067)
Net pension liability	(34,154,528)
Pension/OPEB/accrued leave payable	(461,373)
Compensated absences	268,035
Other payable	(362,529)
Claims and judgments	<u>(518,389)</u>
Net cash provided by operating activities	<u>\$ 98,842,423</u>
<u>Noncash activities:</u>	
Unrealized (loss) on the fair value of investments	\$ (4,550,282)
Receivable from non-operating activities	3,266,614
Capital assets acquired through accounts payable	3,992,243
Capital facilities capacity charges contributed	729,745

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(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, 2017, 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.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Measurement Focus and Basis of Accounting

OCSD operates as an enterprise activity. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the Board of Directors is that the costs (expenses, including depreciation and amortization) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

The accounting policies of 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 Investments", 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 \$236,187 at June 30, 2017. Unbilled sewer services through June 30, 2017 are recorded as revenue and receivables. Management determines the allowance for uncollectible receivables by evaluating individual accounts receivable at least one year past due and considering a customer's financial condition, credit history and current economic conditions. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Inventories

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

Capital Assets

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

Capital assets of property, plant, and equipment are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of at least three years. Such assets are recorded at cost, except for assets acquired by contribution, which are recorded at fair market value at the time received. Cost includes labor; materials; outside services; vehicle and equipment usage; other ancillary costs consisting of direct charges such as engineering, purchasing, supervision, or fringe benefits. Interest costs, net of interest earnings, are capitalized on projects. During the fiscal year ended June 30, 2017, net interest costs of \$12,624,952 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, 2017 are \$37,127,405.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Net Position

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

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets and excludes unspent debt proceeds. Deferred 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 asset for OCERS at June 30, 2017 are \$36,398,658, \$29,670,775, and (\$10,384,508), respectively. OCSD's deferred outflows related to pensions, deferred inflows related to pensions, and net pension liability for ARBA at June 30, 2017 are \$984,261, \$0, and \$18,467,361, respectively.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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, 2017 are \$37,382,920, \$29,670,775, and \$8,082,853, respectively.

Property Taxes

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

Property taxes are determined annually 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, 2017, the outstanding commitments with contractors totaled \$60,687,702.

Self-Insurance Plans

For the year ended June 30, 2017, 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

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Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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, 2017.

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, 2017 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.

New GASB Pronouncement

The accompanying financial statements reflect the implementation of GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*. The purpose of this statement is to address certain issues that were raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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 requirements of this Statement that are applicable to OCSD are effective for reporting periods beginning after June 30, 2016 and has been implemented in fiscal year 2016- 207 resulting in revisions to the presentation of payroll-related measures in certain pension schedules presented as required supplementary information.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

(2) Cash and Investments

Cash and investments as of June 30, 2017 are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 89,374,975
Investments	416,675,560
Subtotal - current, unrestricted	<u>506,050,535</u>
Restricted:	
Cash and cash equivalents	4,992,427
Subtotal - restricted	<u>4,992,427</u>
Total cash and cash equivalents and investments	<u><u>\$ 511,042,962</u></u>

Cash and investments consist of the following as of June 30, 2017:

Cash on hand		\$ 3,000
Deposits with financial institutions		1,676,401
Managed portfolio - cash and investments		504,371,134
Subtotal - unrestricted cash and investments		<u>506,050,535</u>
Monies held by trustees:		
Cash and cash equivalents	\$ 4,992,427	
Subtotal - monies held by trustees		<u>4,992,427</u>
Grand total cash and investments		<u><u>\$ 511,042,962</u></u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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 First American Government Obligations Fund are daily liquid funds available on demand.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2017.

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
Short-Term Portfolio:			
U.S. Agency Securities	\$ 67,069,749	0.123	1.48
Local Agency Investment Fund	46,198,204	0.532	6.38
U.S. Treasury Bills	32,918,360	0.101	1.22
Corporate Medium-Term Notes	10,462,697	0.117	1.41
Commercial Paper	5,089,005	0.157	1.88
Money Market Mutual Funds	2,916,333	0.083	1.00
U.S. Treasury Notes	2,497,225	0.250	3.00
Certificates of Deposit	2,000,255	0.185	2.23
Supranationals	1,161,919	0.050	0.60
Short-term portfolio subtotal	<u>\$ 170,313,747</u>	<u>0.232</u>	<u>2.78</u>
Long-Term Portfolio:			
U.S. Treasury Notes	\$ 89,501,697	2.751	33.02
U.S. Agency Securities*	84,622,084	2.311	27.73
Corporate Medium-Term Notes	79,245,629	2.425	29.10
Supranationals	26,947,634	2.587	31.04
Asset Backed Securities/CMO*	22,905,326	0.862	10.35
Commercial Paper	12,571,626	0.221	2.65
U.S. Treasury Inflation-Protected Securities (TIPS)**	10,519,114	6.933	83.20
Taxable Municipal Bonds	4,569,166	2.670	32.04
Money Market Mutual Funds	2,949,857	0.082	0.99
U.S. Govt. Backed Mortgage Pools (GNMA)*	225,254	0.185	2.23
Long-term portfolio subtotal	<u>\$ 334,057,387</u>	<u>2.429</u>	<u>29.15</u>
Total Portfolio	<u><u>\$ 504,371,134</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.			

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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, 2017.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
Money Market Mutual Funds:		
First American Government Obligations Fund	4,992,360	34 days
Blackrock Institutional Funds	67	35 days
Total Fair Value of Investments Held by Fiscal Agents	\$ 4,992,427	

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 \$4,673,177 including \$2,896,073 of mortgage pass-through securities, \$1,551,850 of U.S. agency securities, and \$225,254 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.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

At June 30, 2017, 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. Agency Securities	\$ 67,069,749	\$ -	\$ 67,069,749	\$ -
U.S. Treasury Bills	32,918,360	-	32,918,360	-
Corporate Medium-term Notes	10,462,697	-	10,462,697	-
Commercial Paper	5,089,005	-	5,089,005	-
U.S. Treasury Notes	2,497,225	-	2,497,225	-
Certificates of Deposits	2,000,255	-	2,000,255	-
Supranationals	1,161,919	-	1,161,919	-
Investments in Long-Term Portfolio:				
U.S. Treasury Notes	89,501,697	-	89,501,697	-
U.S. Agency Securities	84,622,084	-	84,622,084	-
Corporate Medium-term Notes	79,245,629	-	79,245,629	-
Supranationals	26,947,634	-	26,947,634	-
Asset Backed Securities/CMO	22,905,326	-	22,905,326	-
Commercial Paper	12,571,626	-	12,571,626	-
US Treasury Inflation Protected Securities (TIPS)	10,519,114	-	10,519,114	-
Taxable Municipal Bonds	4,569,166	-	4,569,166	-
U.S. Government Backed Mortgage Pools	225,254	-	225,254	-
Fair Value Hierarchy Totals		\$ -	\$ 452,306,740	\$ -
Investments Not Subject To Fair Value Hierarchy:				
Local Agency Investment Fund (LAIF)*	46,198,204			
Money Market Mutual Funds*	2,916,333			
Money Market Mutual Funds**	2,949,857			
Total Portfolio	\$ 504,371,134			
<i>*Invested in Short-Term Portfolio</i>				
<i>**Invested in Long-Term Portfolio</i>				

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 money market mutual funds are reported at carrying cost.

Disclosures Relating to Credit Risk

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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	\$ 135,436,396
U.S. Agency Securities - GNMA	225,254
Subtotal	<u>\$ 135,661,650</u>
Investments with no legal minimum rating:	
U.S. Agency Securities (other than GNMA):	
Rating of AA+ (Standard & Poor's)	151,691,833
Municipal Bonds:	
Rating of Aa1 (Moody's)	1,498,882
Rating of Aa3 (Moody's)	3,070,284
Certificates of Deposits;	
Rating of P-1 (Moody's)	2,000,255
Local Agency Investment Fund (LAIF):	
Not rated	46,198,204
Subtotal	<u>204,459,458</u>
Investments with a legal minimum rating (or its equivalent) of A:	
Corporate Medium-Term Notes:	
Rating of Aaa (Moody's)	1,004,820
Rating of Aa1 (Moody's)	4,026,520
Rating of AA+ (Standard and Poor's)	5,998,999
Rating of AA- (Standard & Poor's)	5,491,120
Rating of A1 (Moody's)	15,094,730
Rating of A+ (Fitch)	4,126,480
Rating of A (Standard & Poor's)	10,575,236
Rating of A2 (Moody's)	20,954,696
Rating of A3 (Moody's)*	11,682,918
Rating of Baa1 (Moody's)*	3,864,296
Rating of BBB+ (Standard & Poor's)*	6,726,011
Not rated	162,500
Money Market Mutual Funds:	
Rating of Aaa (Moody's)	5,840,569
Not rated	25,621
Invested with fiscal agents:	
Rating of Aaa-mf (Moody's)	4,992,427
Subtotal	<u>100,566,943</u>
Investments with a legal minimum rating (or its equivalent) of AA:	
Asset Backed Securities/CMO:	
Rating of Aaa (Moody's)	19,975,537
Rating of AA+ (Standard & Poor's)	2,769,888
Rating of BBB (Fitch)*	126,185
Rating of B (Fitch)*	33,716
Supranational Obligations:	
Rating of Aaa (Moody's)	28,109,553
Subtotal	<u>51,014,879</u>
Investments with a legal minimum rating (or its equivalent) of "Prime":	
Commercial Paper:	
Rating of A-1 (Standard & Poor's)*	9,513,376
Rating of A (Fitch)*	8,147,255
Subtotal	<u>17,660,631</u>
Total	<u><u>\$ 509,363,561</u></u>

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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, 2017, OCSD had the following investments representing five percent or more of total investments:

Name of Issuer	Fair Value	% of Total
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 91,935,002	18.05%
Federal National Mortgage Association (FNMA)	\$ 62,105,282	12.19%

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, 2017, 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, 2017.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

(3) Capital Assets

Capital asset activity for the year ended June 30, 2017 is as follows:

	Beginning Balance at July 1, 2016	Additions / Transfers	Deletions / Transfers	Ending Balance at June 30, 2017
Capital assets not depreciated:				
Cost:				
Land	\$ 15,959,559	\$ 10,634,339	\$ (1,346,852)	\$ 25,247,046
Construction in progress	499,376,059	131,296,794	(168,839,403)	461,833,450
Total nondepreciable assets	<u>515,335,618</u>	<u>141,931,133</u>	<u>(170,186,255)</u>	<u>487,080,496</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	781,138,758	63,014,305	(13,601,716)	830,551,347
Sewage treatment facilities	2,278,136,004	88,044,458	(50,878)	2,366,129,584
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	229,446,444	16,859,783	(255,070)	246,051,157
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>3,409,178,262</u>	<u>167,918,546</u>	<u>(13,907,664)</u>	<u>3,563,189,144</u>
Accumulated depreciation:				
Sewage collection facilities	(333,761,992)	(18,508,273)	4,276,901	(347,993,364)
Sewage treatment facilities	(781,666,625)	(68,544,964)	50,878	(850,160,711)
Effluent disposal facilities	(60,860,054)	(1,519,439)	-	(62,379,493)
Solids disposal facilities	(3,156,252)	(9,719)	-	(3,165,971)
General and administrative facilities	(155,896,808)	(7,490,305)	254,341	(163,132,772)
Excess purchase price over book value on acquired assets	(19,731,270)	(247,730)	-	(19,979,000)
Subtotal	<u>(1,355,073,001)</u>	<u>(96,320,430)</u>	<u>4,582,120</u>	<u>(1,446,811,311)</u>
Net depreciable assets	<u>2,054,105,261</u>	<u>71,598,116</u>	<u>(9,325,544)</u>	<u>2,116,377,833</u>
Net capital assets	<u>\$2,569,440,879</u>	<u>\$213,529,249</u>	<u>\$(179,511,799)</u>	<u>\$2,603,458,329</u>

For the fiscal year ended June 30, 2017, capital asset additions are \$0.9 million less than the amount deleted from Construction in Progress due to \$2.9 million of prior capital project costs that were written off as expense, partially offset by capital equipment purchases of \$2.0 million. Amounts reported as deletions/transfers for the fiscal year ended June 30, 2017 reflect the removal of sewer collection facilities of \$13.6 million and accumulated depreciation of \$4.3 million in conjunction with the transfer of 174 miles of local sewer facilities to the East Orange County Water District.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

(4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2017:

	Beginning Balance, July 1	Additions	Deletions	Ending Balance, June 30	Due w within one year	Long-term amount
Arbitrage payable	\$ 362,529	\$ 1,153,194	\$ (1,515,723)	\$ -	\$ -	\$ -
Compensated absences	7,549,338	7,325,262	(7,057,227)	7,817,373	7,175,628	641,745
Claims and judgments	4,571,057	497,501	(1,015,890)	4,052,668	752,880	3,299,788
Certificates of participation, revenue obligations & notes	1,116,050,000	176,245,000	(248,045,000)	1,044,250,000	32,140,000	1,012,110,000
Unamortized premium (discount)	90,672,347	18,838,268	(13,080,842)	96,429,773	12,802,163	83,627,610
Totals	\$ 1,219,205,271	\$ 204,059,225	\$(270,714,682)	\$ 1,152,549,814	\$ 52,870,671	\$ 1,099,679,143

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. During the fiscal year ended June 30, 2017 arbitrage payments of \$1,515,723 were remitted. OCSD's liability at June 30, 2017 is \$0.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2017 is \$7,817,373 with an estimated \$7,175,628 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, 2017 and 2016:

	2016-17	2015-16
Claims and judgments payable at July 1	\$ 4,571,057	\$ 2,550,597
Claims incurred during the fiscal year	497,501	2,713,076
Payments on claims during the fiscal year	(1,015,890)	(692,616)
Claims and judgments payable at June 30	4,052,668	4,571,057
Less: current portion	(752,880)	(540,640)
Total long-term claims and judgments payable	\$ 3,299,788	\$ 4,030,417

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

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, 2017 are summarized as follows:

	Amount
2009A certificates of participation	\$ 9,155,000
2010A wastewater revenue obligations	80,000,000
2010C wastewater revenue obligations	157,000,000
2011A wastewater refunding revenue obligations	96,330,000
2012A wastewater refunding revenue obligations	100,645,000
2012B wastewater refunding revenue obligations	66,395,000
2014A wastewater refunding revenue obligations	85,090,000
2015A wastewater refunding revenue obligations	127,510,000
2016A wastewater refunding revenue obligations	145,880,000
2016B revenue refunding certificate anticipation notes	109,875,000
2017A wastewater refunding revenue obligations	66,370,000
Total certificates of participation, revenue obligations, and notes	<u>\$ 1,044,250,000</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, 2017, the coverage ratio for senior lien debt was 3.41.

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, 2017, 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, 2017 reserve of \$4,947,156 is held by US Bank, the trustee, and meets the reserve requirement.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2017

May 2010 Wastewater Revenue Obligations, Series 2010A

On May 18, 2010, OCSD completed the sale of \$80,000,000 of wastewater revenue obligations under the federally taxable Build America Bonds program. The obligations were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The stated interest rate on the obligations is fixed and will range from 5.56 percent to 5.58 percent, however, in accordance with their designation as Build America Bonds, OCSD expects to receive a cash subsidy from the United States Treasury equal to 35 percent of the interest payable with respect to these revenue obligations. The expected net interest rate on the obligations is fixed and will range from 3.614 percent to 3.627 percent. Annual principal payments are due on February 1, beginning February 1, 2034 through February 1, 2040.

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

December 2010 Wastewater Revenue Obligations, Series 2010C

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

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.

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Notes to Basic Financial Statements
For the Year Ended June 30, 2017

August 2012 Wastewater Refunding Revenue Obligations, Series 2012B

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

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

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.

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

November 2016 Revenue Refunding Certificate Anticipation Notes, Series 2016B

On November 1, 2016, OCSD completed the sale of \$109,875,000 of revenue refunding certificate anticipation notes. The notes were issued to fully refund the \$120,850,000 outstanding principal balance of the 2014 Series B revenue refunding certificate anticipation notes. The interest rate on the notes is fixed at 2 percent. The notes will mature on December 15, 2018. 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.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$140,036. The total future payments for the new debt provide a net present value loss of approximately \$228,533 to refund the old debt.

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

February 2017 Wastewater Refunding Revenue Obligations, Series 2017A

On February 1, 2017, OCSD completed the sale of \$66,370,000 of wastewater refunding revenue obligations. The obligations were issued to refund \$91,620,000 of the outstanding principal balance of 2007 Series A 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, 2021 through February 1, 2030.

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$16.4 million. The total future payments for the new debt provide a net present value gain of approximately \$14.5 million to refund the old debt.

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, 2017, including the Revenue Refunding Certificate Anticipation Notes, Series 2016B that currently matures in December 2018, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2018	\$ 32,140,000	\$ 43,798,119	\$ 75,938,119
2019	141,530,000	41,616,369	183,146,369
2020	32,730,000	38,934,869	71,664,869
2021	30,430,000	37,298,369	67,728,369
2022	28,405,000	35,776,869	64,181,869
2023-2027	159,435,000	157,655,346	317,090,346
2028-2032	221,120,000	115,307,183	336,427,183
2033-2037	260,925,000	60,753,071	321,678,071
2038-2042	125,260,000	15,440,206	140,700,206
2043-2047	12,275,000	613,808	12,888,808
Total	<u>\$ 1,044,250,000</u>	<u>\$ 547,194,210</u>	<u>\$ 1,591,444,210</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(5) Pension Benefits

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

Pension Plan

(A) General Information about the Pension Plan

Plan Description:

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

Benefits Provided:

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

ORANGE COUNTY SANITATION DISTRICT
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For the Year Ended June 30, 2017

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, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries currently receiving benefits	439
Inactive Employees entitled to but not yet receiving benefits	104
Active Employees	578
Total	<u>1,121</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(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 \$7,709,733 for the year ended June 30, 2017. An additional \$39,116,110 was contributed to pay down OCSD's Net Pension Liability.

Contribution rates in effect for the fiscal year ended June 30, 2017 are as follows:

	Plan G	Plan H	Plan B	Plan U
Employer Contribution Rate, 7/1/16 - 6/30/17	13.09%	13.09%	10.99%	9.69%
Employee Contribution Rate, 7/1/16 - 6/30/17 (2)	6.35-12.23% (1)	5.89-12.23% (1)	6.77-12.38%	6.43-13.67%
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, 2017, the contributions and average employer's contribution rate as a percentage of covered payroll were as follows:

Plans	Employer Contributions	Employee (Paid by Employer) Contributions	Average Employer Contribution Rate (%)
Plan G	\$ 15,829	\$ 4,232	0.03%
Plan H	6,095,367	1,616,267	12.38%
Plan B	621,422	-	1.00%
Plan U	977,115	-	1.57%
Total	<u>\$ 7,709,733</u>	<u>\$ 1,620,499</u>	

(C) Pension Liabilities:

As of June 30, 2017, OCSD reported a negative net pension liability of (\$10,384,508) for its proportionate share of OCERS' net pension liability. The net pension liability was measured as of December 31, 2016 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, 2016, OCSD's proportion of the net pension liability was (0.200%), which was a decrease of 0.942% from its proportion measured as of December 31, 2015. The change in OCSD's proportion of the net pension liability during the fiscal year ended June 30, 2017 was caused by the contributions and projections noted above and an additional contribution of \$39,116,110 in November 2016 by OCSD to the plan.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

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

For the year ended June 30, 2017, OCSD recognized pension expense of \$11,341,716 for its proportionate share of the pension expense. At June 30, 2017 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	\$ -	\$ 14,897,427
Net difference between projected and actual investment earnings on pension plan investments	24,696,915	8,021,253
Changes of Assumptions (1)	-	6,589,263
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,720,279	162,832
Employer contributions paid to OCERS subsequent to the measurement date	9,981,464	-
Total	\$ 36,398,658	\$ 29,670,775

(1) The monetary effects of changes in actuarial assumptions and method totals \$6,589,263. 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, 2016, Section 3. This report is available on the OCERS website at www.ocers.org.

The amount \$9,981,464 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, 2018. 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
2018	\$ 915,342
2019	915,342
2020	(475,761)
2021	(3,838,015)
2022	(770,489)
Thereafter	-

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

(E) Actuarial Assumptions and Methods:

The total pension liability in the December 31, 2016 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, 2016 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.

ORANGE COUNTY SANITATION DISTRICT

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For the Year Ended June 30, 2017

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, 2016:

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	<u>100.00%</u>	

(G) Discount Rate:

The discount rate used to measure the total pension liability was 7.25% for the year ended December 31, 2016. 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, 2016.

(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	<u>\$ 73,906,089</u>	<u>\$ (10,384,508)</u>	<u>\$ (79,756,756)</u>
December 31, 2016			

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(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 295 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 30, 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.

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.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2017

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries currently receiving benefits	295
Inactive Employees entitled to but not yet receiving benefits	62
Active Employees	543
Total	<u>900</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 \$646,850 for the year ended June 30, 2017.

Pension Liabilities: As of June 30, 2017, OCSD reported net pension liability of \$18,467,361 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.

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
Beginning Balance at July 1, 2016	\$ 18,313,122	\$ -	\$ 18,313,122
Changes in the year:			
Service Cost	278,330	-	278,330
Interest on Total Pension Liability	593,711	-	593,711
Changes of Benefit Terms	-	-	-
Changes of Assumptions	(70,952)	-	(70,952)
Benefit Payments (1)	(646,850)	-	(646,850)
Net changes	<u>154,239</u>	<u>-</u>	<u>154,239</u>
Ending Balance at June 30, 2017	<u>\$ 18,467,361</u>	<u>\$ -</u>	<u>\$ 18,467,361</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.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension: For the year ended June 30, 2017, OCSD recognized pension expense of \$995,074 for its ARBA plan. At June 30, 2017 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)	984,261	-
Net difference between projected and actual investment earnings on pension plan investments	-	-
Employer contributions over actuary projections	-	-
Total	\$ 984,261	\$ -

(1) The monetary effects of changes in actuarial assumptions and method totals \$984,261. 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.

Amounts reported as deferred outflows of resources related to ARBA pensions will be recognized in pension expense as follows:

Year ended June 30	Amount
2018	\$ 123,033
2019	123,033
2020	123,033
2021	123,033
2022	123,033
2023	123,033
2024	123,033
2025	123,030

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-2015 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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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, 2017	\$ 21,382,199	\$ 18,467,361	\$ 16,107,158

(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, 2017, premiums ranged between \$205 and \$3,831 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 ended June 30, 2017, OCSD contributed \$1,034,593 and retirees contributed \$842,710 to cover current year expenses.

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

The following OPEB cost and net OPEB obligation/(asset) was determined for the year ended June 30, 2017:

	June 30, 2017
Annual required contribution	\$ 559,620
Interest on net OPEB obligation	(27,439)
Adjustment to annual required contribution	41,039
Annual OPEB cost	573,220
Contributions made	(1,034,593)
Increase (decrease) in net OPEB obligation	(461,373)
Net OPEB obligation, beginning of year	(731,700)
Net OPEB obligation/(asset), end of year	<u>\$ (1,193,073)</u>

OCSD's annual OPEB cost contributed and the net OPEB obligation/(asset) for the years ended June 30, 2015, 2016, and 2017 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	
6/30/15	\$ 751,430	\$ 1,072,643	142.7%	\$ (116,600)
6/30/16	561,787	1,176,887	209.5%	(731,700)
6/30/17	573,220	1,034,593	180.5%	(1,193,073)

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 July 1, 2015 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 that are 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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

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.

(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, 2017, after recognizing current year amortization of \$247,730, the unamortized amount of the excess of purchase price over the assets' book value was \$0.

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 \$2,673,280 were recorded as contribution from other government during the fiscal year ended June 30, 2017. 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 \$21,678,191 to Revenue Area 14 were recognized and reported as contributions from other government during the fiscal year ended June 30, 2017. 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, \$4,484,149 in annual solids capital handling charges were

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2017

reported as operating revenue in Consolidated Revenue Area, and \$9,973,470 in quarterly solids operating and maintenance charges were reported as operating revenue in Revenue Area No. 14 during the fiscal year ended June 30, 2017.

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 \$33,894,106 was reported in accounts receivable and \$5,791,345 in due from other governmental agency as of June 30, 2017.

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2017; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$11.2 million. This cash reserve requirement is recognized as a liability to IRWD.

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

Relocation of the Santa Ana Regional Interceptor: On June 29, 2010, 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, 2017, OCSD received loan repayments totaling \$3,533,364, leaving an outstanding loan receivable balance of \$20,472,023 which is included in the due from other governmental agency balance on the statement of net position.

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, 2017, OCSD completed an analysis of remediation alternatives resulting in a less costly remediation plan for the contaminated soil than the plan developed during the previous fiscal year. The new remediation plan received approval from the Orange County Health Care Agency, and based upon their feedback a final design will now be completed. This new remediation plan calls for removal and disposal of approximately 2,200 tons of contaminated soil, and some limited groundwater treatment. This work is anticipated to begin in the spring of 2018 and be completed by January 2019. As of June 30, 2017, actual costs of \$194,404 were incurred. Total remaining costs are estimated not to exceed \$5,000,000, including post-remediation monitoring costs for a five-year period and a project contingency of 50 percent for the remediation effort. Based on the lower estimated costs of the new remediation plan, the previously recorded liability was reduced by \$1,162,499 and reported as an "Other Non-operating Revenue."

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2017

(9) 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 local sewer 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.

In accordance with the above agreements, OCSD made three disbursements totaling \$41.5 million of local sewer accumulated capital repair and replacement funds to EOCWD during fiscal year 2016-17. Local sewer capital assets transferred had an approximate book value net of depreciation of approximately \$9.3 million for a total local sewer service transfer non-operating expense of \$50.8 million.

**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)

Reporting Date:	June 30, 2015	June 30, 2016	June 30, 2017
Measurement Date:	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>
District's proportion of the net pension liability	1.13%	0.74%	(0.20%)
District's proportionate share of the net pension liability	\$ 57,418,760	\$ 42,439,759	\$ (10,384,508)
District's covered payroll (2)	\$ 58,641,163	\$ 59,789,927	\$ 60,000,017
District's proportionate share of the net pension liability as a percentage of its covered payroll	97.92%	70.98%	(17.31%)
OCERS' fiduciary net position as a percentage of the total pension liability	89.61%	92.74%	101.70%

- (1) The amounts presented for each fiscal year were determined as of December 31. Data for fiscal years ended June 30, 2008 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 District Contributions
 Orange County Employees Retirement System (OCERS) Pension Plan
 Last 10 Fiscal Years (1)

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Contractually required contribution	\$ 17,201,569	\$ 12,222,849	\$ 7,709,734
Contributions in relation to the contractually required contribution	<u>\$ (17,201,569)</u>	<u>\$ (12,222,849)</u>	<u>\$ (7,709,734)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll (2)	\$ 58,641,163	\$ 59,789,927	\$ 60,000,017
Contributions as a percentage of covered payroll	29.33%	20.44%	12.85%

(1) Data for fiscal years ended June 30, 2008 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

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

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
District's net pension liability	\$ 16,680,614	\$ 18,313,122	\$ 18,467,361
District's covered payroll (2)	\$ 60,025,942	\$ 60,595,474	\$ 62,266,907
District's net pension liability as a percentage of its covered payroll	27.79%	30.22%	29.66%

(1) The amounts presented for each fiscal year were determined as of July 1. Data for fiscal years ended June 30, 2008 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
 Changes in Net Pension Liability
 Additional Retiree Benefit Account (ARBA)
 Last 10 Fiscal Years (1)

	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Beginning Balance at July 1	<u>\$ 16,680,614</u>	<u>\$ 18,313,122</u>
Changes in the year:		
Service Cost	270,223	278,330
Interest on Total Pension Liability	626,386	593,711
Changes of Benefit Terms	-	-
Changes of Assumptions	1,230,327	(70,952)
Benefit Payments (2)	<u>(494,428)</u>	<u>(646,850)</u>
Net changes	<u>1,632,508</u>	<u>154,239</u>
Ending Balance at June 30	<u><u>\$ 18,313,122</u></u>	<u><u>\$ 18,467,361</u></u>

- (1) The amounts presented for each fiscal year were determined as of July 1. Data for fiscal years ended June 30, 2008 through 2015 is not available in a comparable format.
- (2) 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.

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.

<u>Actuarial Valuation Date*</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
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.

**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Net Position

June 30, 2017

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals 2017
Current assets:				
Cash and cash equivalents	\$ -	\$ 89,374,975	\$ -	\$ 89,374,975
Investments	-	416,675,560	-	416,675,560
Accounts receivable, net of allowance for uncollectibles \$236,187	33,894,106	11,785,674	-	45,679,780
Accrued interest receivable	-	1,947,562	-	1,947,562
Connection fees receivable	-	3,712,660	-	3,712,660
Property tax receivable	-	1,319,052	-	1,319,052
Inventories	-	7,163,534	-	7,163,534
Due from other revenue area	-	39,685,451	(39,685,451)	-
Due from other governmental agency	5,791,345	-	-	5,791,345
Prepaid expenses	-	1,733,053	-	1,733,053
Total current assets	39,685,451	573,397,521	(39,685,451)	573,397,521
Noncurrent assets:				
Restricted:				
Cash and cash equivalents	-	4,992,427	-	4,992,427
Unrestricted:				
Non-depreciable capital assets	14,489,785	472,590,711	-	487,080,496
Depreciable capital assets, net of accumulated depreciation	78,160,306	2,038,217,527	-	2,116,377,833
Due from other governmental agency	-	20,472,023	-	20,472,023
Net OPEB asset	-	1,193,073	-	1,193,073
Other noncurrent assets, net	-	10,344	-	10,344
Total noncurrent assets	92,650,091	2,537,476,105	-	2,630,126,196
Total assets	132,335,542	3,110,873,626	(39,685,451)	3,203,523,717
Deferred outflows of resources:				
Deferred losses on defeasances	-	37,127,405	-	37,127,405
Deferred outflows related to pensions	-	37,382,920	-	37,382,920
Total deferred outflows of resources	-	74,510,325	-	74,510,325
Total assets and deferred outflows of resources	132,335,542	3,185,383,951	(39,685,451)	3,278,034,042
Current liabilities:				
Accounts payable	-	10,000,957	-	10,000,957
Accrued expenses	-	15,253,785	-	15,253,785
Due to other revenue area	39,685,451	-	(39,685,451)	-
Retentions payable	-	3,461,476	-	3,461,476
Interest payable	-	17,789,350	-	17,789,350
Current portion of long-term obligations	-	52,870,671	-	52,870,671
Total current liabilities	39,685,451	99,376,239	(39,685,451)	99,376,239
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	-	1,099,679,143	-	1,099,679,143
Net pension liability	-	8,082,853	-	8,082,853
Total Noncurrent liabilities	-	1,107,761,996	-	1,107,761,996
Total liabilities	39,685,451	1,207,138,235	(39,685,451)	1,207,138,235
Deferred inflows of resources:				
Deferred inflows related to pensions	-	29,670,775	-	29,670,775
Total liabilities and deferred inflows of resources	39,685,451	1,236,809,010	(39,685,451)	1,236,809,010
Net position:				
Net investment in capital assets:				
Collection system	17,299,691	528,427,283	-	545,726,974
Treatment and disposal -land	794,999	14,315,091	-	15,110,090
Treatment and disposal system	74,555,401	1,968,065,864	-	2,042,621,265
Capital assets related debt	-	(1,098,559,941)	-	(1,098,559,941)
Subtotal	92,650,091	1,412,248,297	-	1,504,898,388
Unrestricted:	-	536,326,644	-	536,326,644
Total net position	\$ 92,650,091	\$ 1,948,574,941	\$ -	\$ 2,041,225,032

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	Revenue Area No. 14	Consolidated Revenue Area	Totals 2017
Operating revenues:			
Service charges	\$ 7,064,287	\$ 305,173,049	\$ 312,237,336
Permit and inspection fees	19,367	1,025,385	1,044,752
Total operating revenues	<u>7,083,654</u>	<u>306,198,434</u>	<u>313,282,088</u>
Operating expenses other than depreciation and amortization:			
Salaries and benefits	\$ (3,376,698)	\$ 77,667,285	74,290,587
Utilities	265,713	5,853,146	6,118,859
Supplies, repairs and maintenance	1,286,080	24,187,888	25,473,968
Contractual services	10,582,165	18,965,262	29,547,427
Feasibility studies	256,504	8,048,916	8,305,420
Other	591,557	5,924,521	6,516,078
Total operating expenses other than depreciation and amortization	<u>9,605,321</u>	<u>140,647,018</u>	<u>150,252,339</u>
Operating income (loss) before depreciation and amortization	(2,521,667)	165,551,416	163,029,749
Depreciation and amortization	<u>3,053,599</u>	<u>93,266,831</u>	<u>96,320,430</u>
Operating income (loss)	<u>(5,575,266)</u>	<u>72,284,585</u>	<u>66,709,319</u>
Non-operating revenues:			
Property taxes	2,608,688	85,675,507	88,284,195
Investment and interest income	14,733	3,066,283	3,081,016
Contributions from other government	24,352,736	35,661	24,388,397
Other	43,526	2,713,370	2,756,896
Total non-operating revenues	<u>27,019,683</u>	<u>91,490,821</u>	<u>118,510,504</u>
Non-operating expenses:			
Interest	144,212	25,504,140	25,648,352
Local sewer service transfer	-	50,783,259	50,783,259
Other	2,526	66,620	69,146
Loss on disposal of assets	16,410	2,401,266	2,417,676
Total non-operating expenses	<u>163,148</u>	<u>78,755,285</u>	<u>78,918,433</u>
Income before capital contributions	21,281,269	85,020,121	106,301,390
Capital contributions:			
Capital facilities capacity charges	-	16,351,185	16,351,185
Change in net position	21,281,269	101,371,306	122,652,575
Total net position - beginning	<u>71,368,822</u>	<u>1,847,203,635</u>	<u>1,918,572,457</u>
Total net position - ending	<u>\$ 92,650,091</u>	<u>\$ 1,948,574,941</u>	<u>\$ 2,041,225,032</u>

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Cash Flows

For the Year Ended June 30, 2017

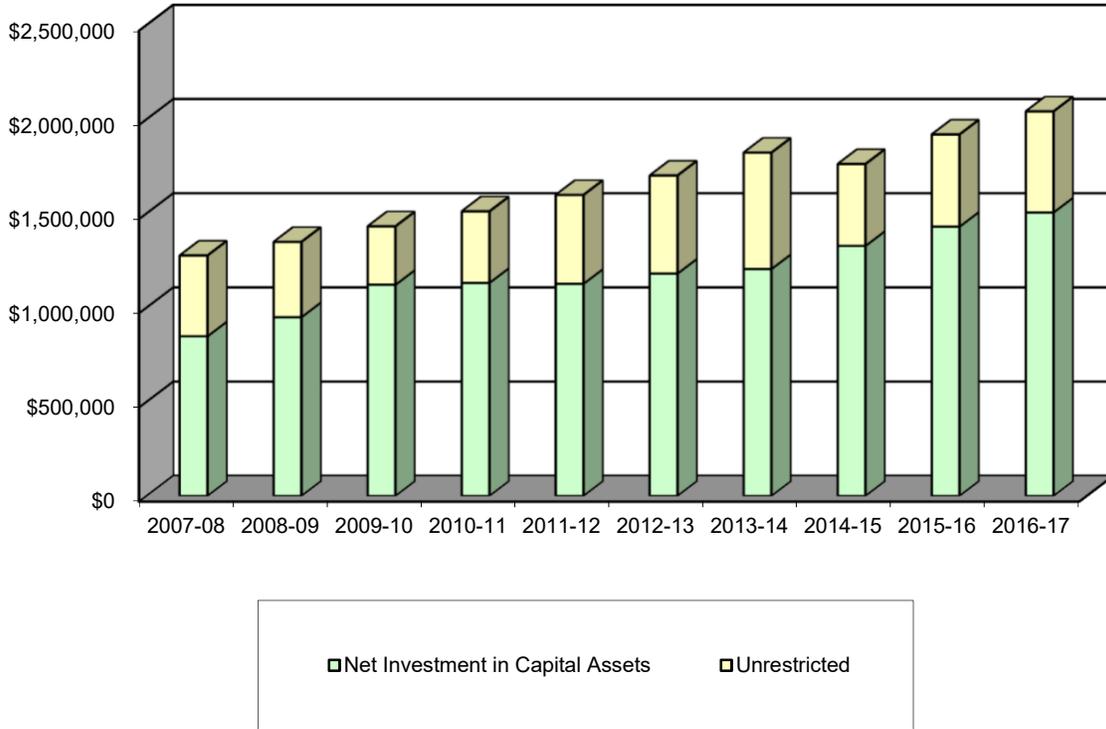
	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals 2017
Cash flows from operating activities:				
Receipts from customers and users	\$ 8,168,676	\$ 278,640,463	\$ -	\$ 286,809,139
Payments to employees	2,291,676	(110,846,000)	-	(108,554,324)
Payments to suppliers	(12,982,019)	(66,430,373)	-	(79,412,392)
Net cash provided by (used in) operating activities	<u>(2,521,667)</u>	<u>101,364,090</u>	<u>-</u>	<u>98,842,423</u>
Cash flows from noncapital financing activities:				
Proceeds from property taxes	2,608,688	85,417,285	-	88,025,973
Payments for sewer service transfer and other obligation	41,195	(38,811,552)	-	(38,770,357)
Net cash provided by noncapital financing activities	<u>2,649,883</u>	<u>46,605,733</u>	<u>-</u>	<u>49,255,616</u>
Cash flows from capital and related financing activities:				
Capital facilities capacity charges	-	15,621,440	-	15,621,440
Additions to capital assets	(24,351,472)	(82,585,371)	2,393,346	(104,543,497)
Disposal of capital assets	-	(21,959,390)	21,959,390	-
Interest paid	(144,212)	(46,913,349)	-	(47,057,561)
Principal payments on debt obligation	-	(35,575,000)	-	(35,575,000)
Proceeds released to escrow account on defeased debts	-	(212,470,000)	-	(212,470,000)
Proceeds from debt issuances	-	195,288,273	-	195,288,273
Debt issuance costs	-	(752,912)	-	(752,912)
Contribution from other government	24,352,736	35,661	(24,352,736)	35,661
Net cash used in capital and related financing activities	<u>(142,948)</u>	<u>(189,310,648)</u>	<u>-</u>	<u>(189,453,596)</u>
Cash flows from investing activities:				
Proceeds from the sale of investments	-	821,428,761	-	821,428,761
Purchases of investments	-	(833,789,163)	-	(833,789,163)
SARI project payments	-	4,258,104	-	4,258,104
Interest received	14,732	7,862,871	-	7,877,603
Net cash provided by (used in) investing activities	<u>14,732</u>	<u>(239,427)</u>	<u>-</u>	<u>(224,695)</u>
Net (decrease) in cash and cash equivalents	-	(41,580,252)	-	(41,580,252)
Cash and cash equivalents, beginning of year	-	135,947,654	-	135,947,654
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ 94,367,402</u>	<u>\$ -</u>	<u>\$ 94,367,402</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (5,575,266)	\$ 72,284,585	\$ -	\$ 66,709,319
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	3,053,599	93,266,831	-	96,320,430
Bad debt expense (Net recoveries)	-	137,270	-	137,270
(Increase)/decrease in operating assets:				
Accounts receivable	(23,715,266)	(2,736,617)	-	(26,451,883)
Inventories	-	(302,833)	-	(302,833)
Prepaid and other assets	-	(268,402)	-	(268,402)
Increase/(decrease) in operating liabilities:				
Accounts payable	-	(3,514,394)	-	(3,514,394)
Accrued expenses	-	1,462,767	-	1,462,767
Due to other governmental agency	24,800,288	(24,821,355)	-	(21,067)
Net pension liability	(1,085,022)	(33,069,506)	-	(34,154,528)
Pension/OPEB/accrued leave payable	-	(461,373)	-	(461,373)
Compensated absences	-	268,035	-	268,035
Other payable	-	(362,529)	-	(362,529)
Claims and judgments	-	(518,389)	-	(518,389)
Net cash provided by (used in) operating activities	<u>\$ (2,521,667)</u>	<u>\$ 101,364,090</u>	<u>\$ -</u>	<u>\$ 98,842,423</u>
<u>Noncash activities:</u>				
Unrealized (loss) on the fair value of investments	\$ -	\$ (4,550,282)		\$ (4,550,282)
Receivable from non-operating activities	-	3,266,614		3,266,614
Capital assets acquired through accounts payable	-	3,992,243		3,992,243
Capital facilities capacity charges contributed	-	729,745		729,745

**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>Unrestricted</u>	<u>Total Net Position</u>
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⁾
2016-17	1,504,898	536,327	2,041,225

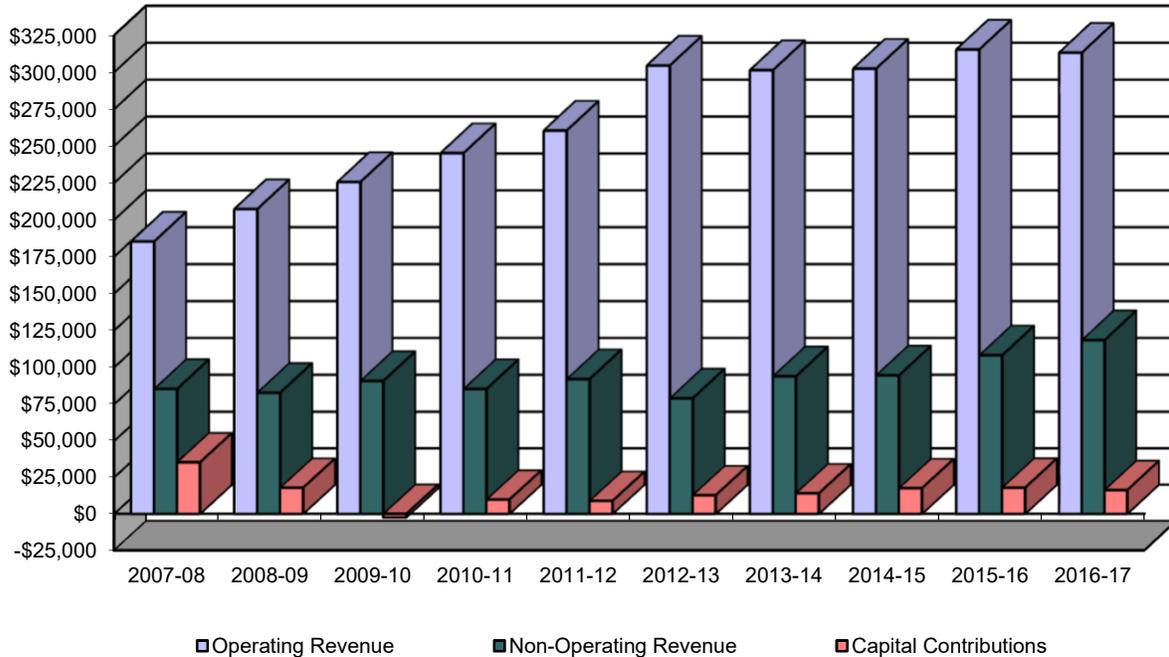
⁽¹⁾ Beginning net position restated due to implementation of GASB 65.

⁽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

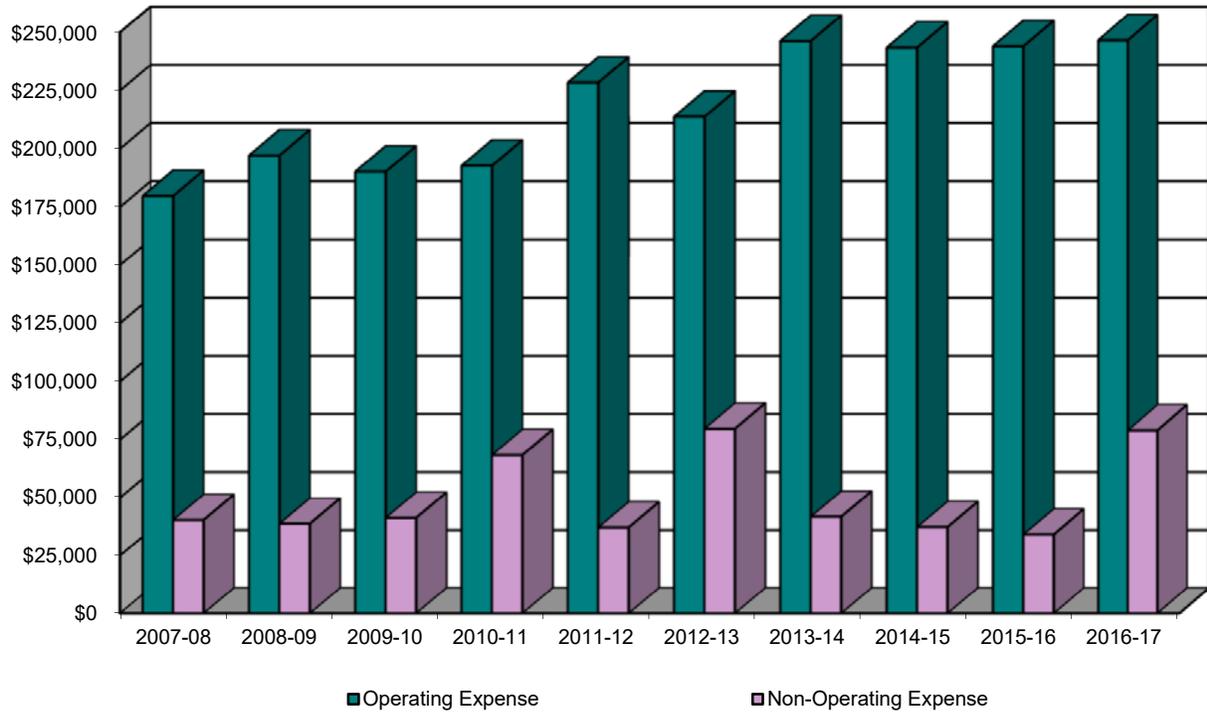


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2007-08	\$ 184,180	\$ 1,196	\$ 185,376	\$ 65,210	\$ 20,235	\$ 13	\$ 85,458	\$35,408
2008-09	206,422	895	207,317	66,427	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
2016-17	312,237	1,045	313,282	88,284	3,081	27,146	118,511	16,351

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

ORANGE COUNTY SANITATION DISTRICT

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

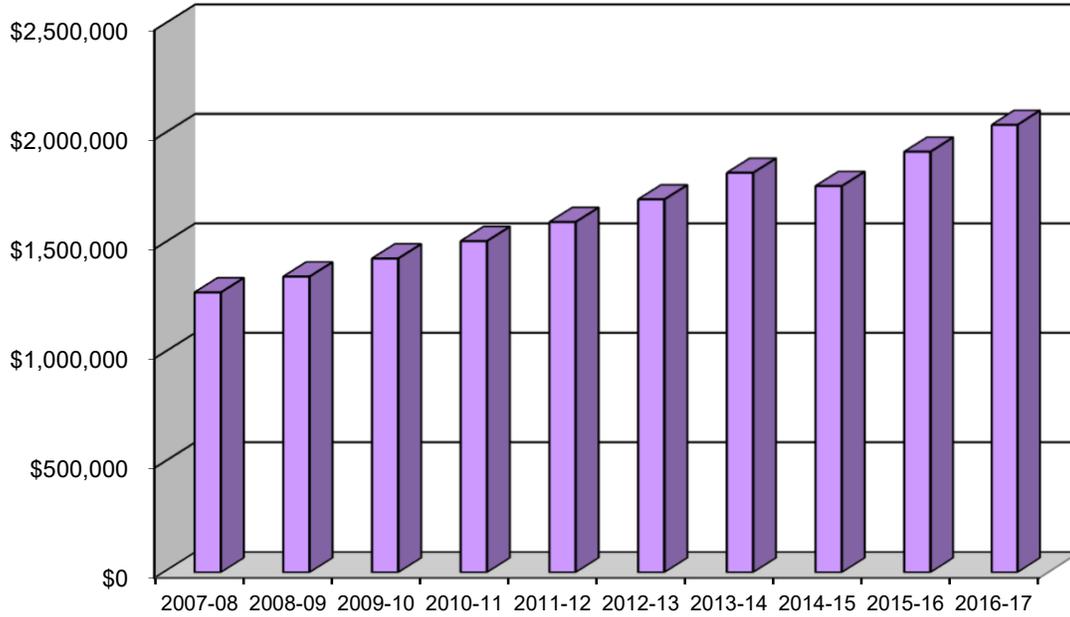


Fiscal Year	Operating Expense				Non - Operating Expense			
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort	Total Operating	Interest Expense	Other	Total Non-Operating
2007-08	\$ 67,629	\$ 8,092	\$ 56,169	\$ 47,767	\$ 179,657	\$ 22,517	\$ 17,818	\$ 40,335
2008-09	67,498	7,242	89,816	32,520	197,076	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
2016-17	74,291	6,119	69,843	96,320	246,573	25,648	53,270	78,918

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
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
2016-17	448,144	325,491	122,653	1,918,572	2,041,225

⁽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

Fiscal Year	Cash Flow Contingency	Self- Insurance	Capital Improvement Program	Debt Service Requirements	Total
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
2016-17	174	57	173	107	511

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 over the next 10 years.

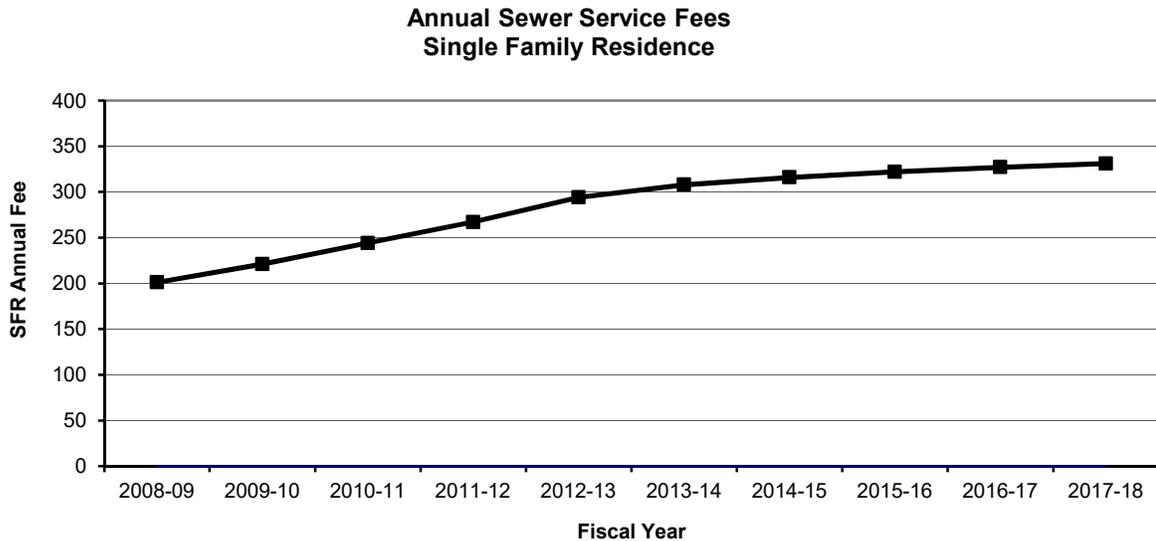
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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.

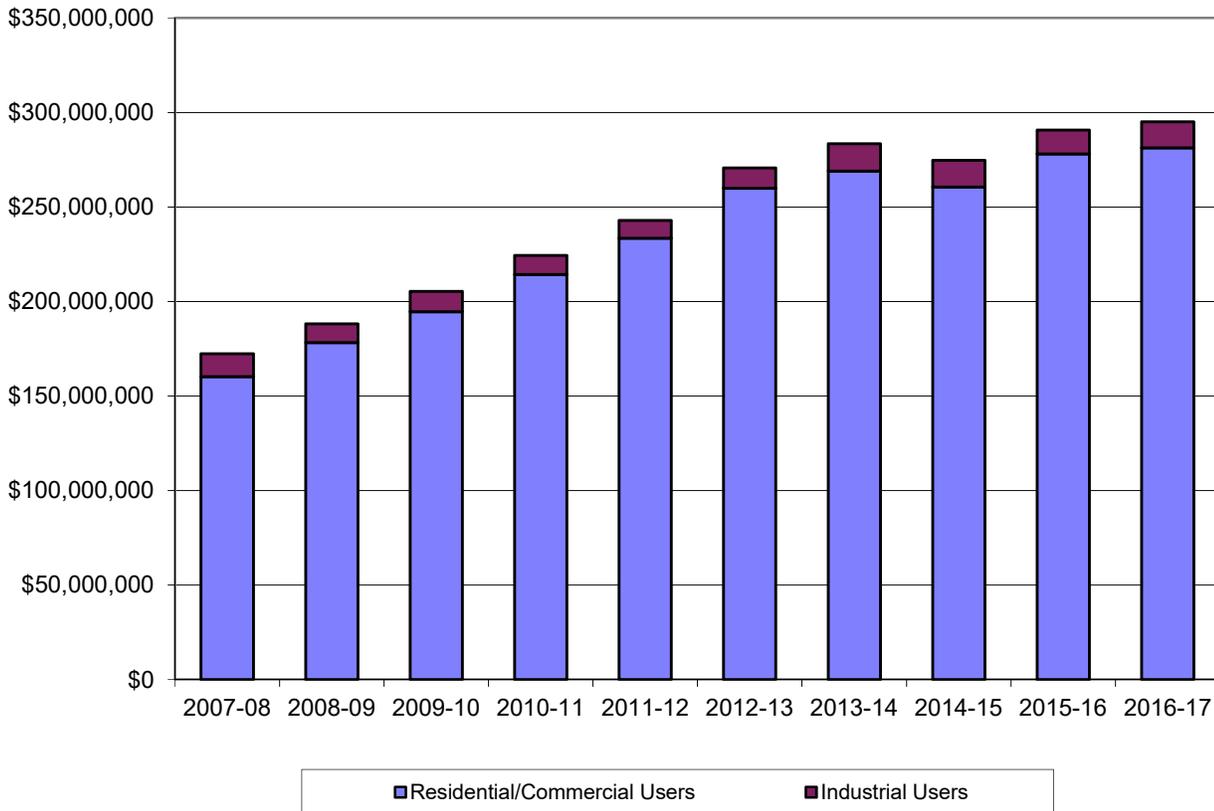
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2008-09	\$ 201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00
2012-13	294.00
2013-14	308.00
2014-15	316.00
2015-16	322.00
2016-17	327.00
2017-18	331.00



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
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%
2016-17	859,869	281.2	95%	466	13.8	5%



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

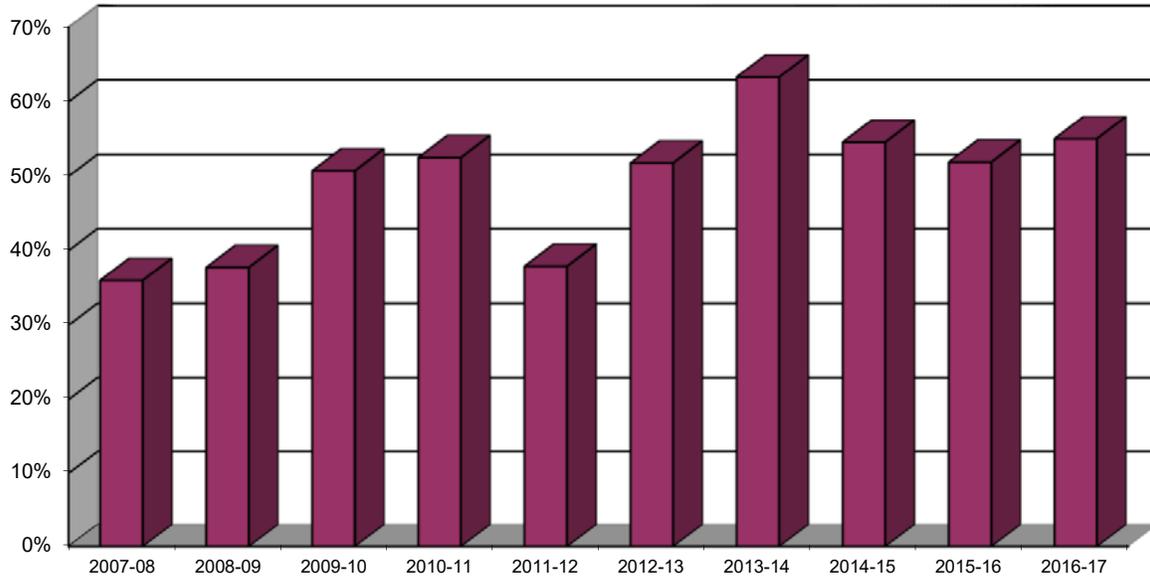
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Current Fiscal Year and Nine Years Ago

Customer	Fiscal Year Ended 6/30/17			Fiscal Year Ended 6/30/08		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
House Foods America Corp.	\$ 1,328,551	1	0.43%	\$ 525,676	7	0.29%
Kimberly-Clark Worldwide, Inc.	1,139,233	2	0.36%	1,032,500	1	0.56%
Cargill, Inc.	1,119,665	3	0.36%			
Pulmuone Wildwood, Inc.	749,655	4	0.24%			
Stremicks Heritage Foods, LLC	678,705	5	0.22%	689,749	5	0.37%
MCP Foods, Inc.	676,563	6	0.22%	798,449	4	0.43%
Schreiber Foods, Inc.	635,504	7	0.20%			
Ameripecc Inc.	593,679	8	0.19%	414,671	8	0.23%
Jazz Semiconductor	549,292	9	0.18%			
Nor-Cal Beverage Co. Inc (Main)	538,242	10	0.17%			
Alstyle Apparel-A&G Inc.				1,023,517	2	0.56%
Disneyland Resort				874,842	3	0.47%
Disneyland Resort --DCA				623,095	6	0.34%
Pepsi-Cola Bottling Group				381,371	9	0.21%
Seven-Up Bottling Company				304,864	10	0.17%
	<u>\$ 8,009,089</u>		<u>2.57%</u>	<u>\$ 6,668,734</u>		<u>3.63%</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



Fiscal Year	Principal (1)	Interest	Total Debt Service (3)	Total Operating Expenses (2)	Ratio of Debt Service to Total Operating Expenses
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
2016-17	35,575	47,143	82,718	150,252	55.05

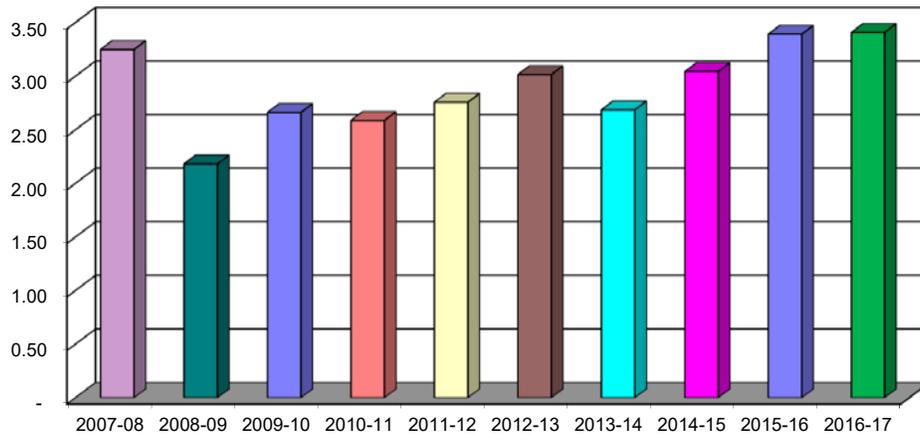
Notes

- (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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating & Non-operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 160.2	\$ 178.3	\$ 194.5	\$ 214.3	\$ 233.4	\$ 259.8	\$ 269.0	\$ 260.5	\$ 278.0	\$ 281.2
Service Charges, Net of Refunds-Local	-	5.6	5.6	5.7	5.7	5.8	5.7	5.5	5.7	1.3
Industrial Sewer Service Charges	12.1	9.9	10.8	10.1	9.5	10.8	14.4	14.2	12.6	13.8
SAWPA Assessment	4.4	3.9	6.6	4.9	3.6	2.7	2.4	2.7	3.2	3.3
IRWD Assessment	6.3	7.7	6.7	18.2	14.2	25.6	19.6	26.4	26.6	36.0
Ad Valorem Taxes	65.2	66.4	64.8	64.3	67.9	79.2	74.9	79.8	84.4	88.3
Interest Earnings	20.2	14.8	19.2	10.1	15.7	(3.9)	6.5	4.8	9.2	3.1
Other Revenues	2.5	3.6	8.4	3.0	2.5	3.7	3.0	3.2	4.0	5.0
Total Revenues	270.9	290.2	316.6	330.6	352.5	383.7	395.5	397.1	423.7	432.0
Operating Expenses (1)	131.9	164.6	138.1	143.4	172.3	149.8	146.4	149.2	153.5	150.3
Net Revenues	\$ 139.0	\$ 125.6	\$ 178.5	\$ 187.2	\$ 180.2	\$ 233.9	\$ 249.1	\$ 247.9	\$ 270.2	\$ 281.7
Debt Service Requirements										
Principal Payments	11.0	21.3	24.0	25.9	14.4	24.0	39.6	27.9	29.4	35.6
Interest Payments	31.8	36.3	43.1	46.5	51.0	53.6	53.2	53.6	50.3	47.1
Total Debt Service Requirements	\$ 42.8	\$ 57.6	\$ 67.1	\$ 72.4	\$ 65.4	\$ 77.6	\$ 92.8	\$ 81.5	\$ 79.7	\$ 82.7
Coverage Ratios	3.25	2.18	2.66	2.59	2.76	3.01	2.68	3.04	3.39	3.41
Ending Reserves (2)	\$ 425.0	\$ 401.0	\$ 344.0	\$ 420.0	\$ 439.0	\$ 465.0	\$ 542.0	\$ 428.0	\$ 428.0	\$ 404.0

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, 2017

	Total Debt 6/30/2017	% Applicable (1)	District's Share of Debt 6/30/17
OVERLAPPING TAX AND ASSESSMENT DEBT (Based on all property assessed valuation of \$393,682,838,333):			
Metropolitan Water District of Southern California	\$ 74,905,000	15.223%	\$ 11,402,788
Coast Community College District	805,844,504	99.370	800,767,684
North Orange County Joint Community College District	240,284,001	97.471	234,207,219
Rancho Santiago Community College District and School Facilities Improvement Dist. No. 1	315,121,533	99.012 & 100.000	312,571,539
Brea-Olinda and Laguna Beach Unified School Districts	39,569,029	99.983 & 15.101	18,549,764
Garden Grove Unified School District	329,640,160	100.000	329,640,160
Irvine Unified School District School Facilities Improvement District No. 1	95,000,000	100.000	95,000,000
Los Alamitos Unified School District School Facilities Improvement District No. 1	104,615,227	96.627	101,086,555
Newport Mesa Unified School District	217,659,150	99.995	217,648,267
Placentia-Yorba Linda Unified School District	242,284,159	98.973	239,795,901
Rowland Unified School District	243,811,554	0.149	363,279
Saddleback Valley Unified School District	118,585,000	11.582	13,734,515
Santa Ana Unified School District	265,510,216	100.000	265,510,216
Tustin Unified School District School Facilities Improvement District No. 2002-1	46,550,254	99.958	46,530,703
Tustin Unified School District School Facilities Improvement District No. 2008-1	88,340,000	99.956	88,301,130
Tustin Unified School District School Facilities Improvement District No. 2012-1	27,720,000	99.970	27,711,684
Anaheim Union High School District	130,663,955	100.000	130,663,955
Fullerton Joint Union High School District	126,837,910	91.666	116,267,239
Huntington Beach Union High School District	193,079,998	99.000	191,149,198
Other School Districts	615,549,839	97.303-100.000	613,672,489
Irvine Ranch Water District Improvement Districts	576,406,680	Various	512,575,511
Bonita Canyon Community Facilities District No. 98-1	31,675,000	100.000	31,675,000
Irvine Unified School District Community Facilities Districts	655,415,000	100.000	655,415,000
Tustin Unified School District Community Facilities Districts	235,850,000	100.000	235,850,000
City of Tustin Community Facilities Districts	100,600,000	100.000	100,600,000
Other Community Facilities Districts	523,494,983	99.998-100.000	523,493,771
Orange County Assessment Districts	57,890,000	100.000	57,890,000
City of Irvine 1915 Act Bonds	824,983,000	100.000	824,983,000
Other 1915 Act bonds	11,411,808	100.000	11,411,808
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$6,808,468,375
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	\$ 227,516,000	74.982%	\$ 170,596,047
Orange County Pension Obligation Bonds	386,762,539	74.982	290,002,287
Orange County Board of Education Certificates of Participation	14,440,000	74.982	10,827,401
Coast Community College District Certificates of Participation	3,610,000	99.370	3,587,257
Brea-Olinda Unified School District Certificates of Participation	18,410,000	99.983	18,406,870
Orange Unified School District Certificates of Participation and Benefit Obligations	105,713,145	97.912	103,505,855
Placentia-Yorba Linda Unified School District Certificates of Participation	95,540,355	98.973	94,559,156
Santa Ana Unified School District Certificates of Participation	75,937,067	100.000	75,937,067
Other Unified School District General Fund Obligations	57,811,903	Various	51,441,989
Union High School District Certificates of Participation	123,476,090	Various	121,176,346
School District Certificates of Participation	93,588,853	Various	93,150,755
City of Anaheim General Fund Obligations	623,352,465	99.209	618,421,747
City of Costa Mesa General Fund Obligations	20,660,000	100.000	20,660,000
City of Garden Grove General Fund Obligations	23,600,000	100.000	23,600,000
City of Huntington Beach General Fund and Judgment Obligation Bonds	46,626,530	98.680	46,011,060
City of La Habra General Fund Obligations	22,145,000	100.000	22,145,000
City of Newport Beach Certificates of Participation	110,595,000	99.994	110,588,364
City of Santa Ana General Fund Obligations	59,357,500	100.000	59,357,500
Other City General Fund Obligations	208,859,866	Various	82,870,875
Orange County Sanitation District	0	100.000	0 (2)
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$2,016,845,576
Less: City of Anaheim supported obligations			618,421,747
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$1,398,423,829
OVERLAPPING TAX INCREMENT DEBT:	\$1,073,917,228	57.933-100.000%	\$1,069,692,768
TOTAL DIRECT DEBT			\$0
GROSS OVERLAPPING & COMBINED TOTAL DEBT			\$9,895,006,719 (3)
NET OVERLAPPING & COMBINED TOTAL DEBT			\$9,276,584,972

- (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 (\$391,776,472,583)	1.74%	2.53%	2.37%	
All Property Assessed Valuation (\$393,682,838,333)		2.51%	2.36%	
Redevelopment Incremental Valuation (\$53,490,437,965)				2.00%

Source: California Municipal Statistics

ORANGE COUNTY SANITATION DISTRICT
Ratios of Outstanding Debt
Last Ten Fiscal Years

Fiscal Year	(5) Total Outstanding Debt	(3) Median Family Income (1)	Debt as a Percentage of Median Family Income	(4) Population Estimate (2)	Debt per Capita
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
2016-17	1,140,679,773	88,000	0.008%	2,586,803	440.96

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)
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
2016-17	188	2,054.56	246,573	78,918	313,282	118,511

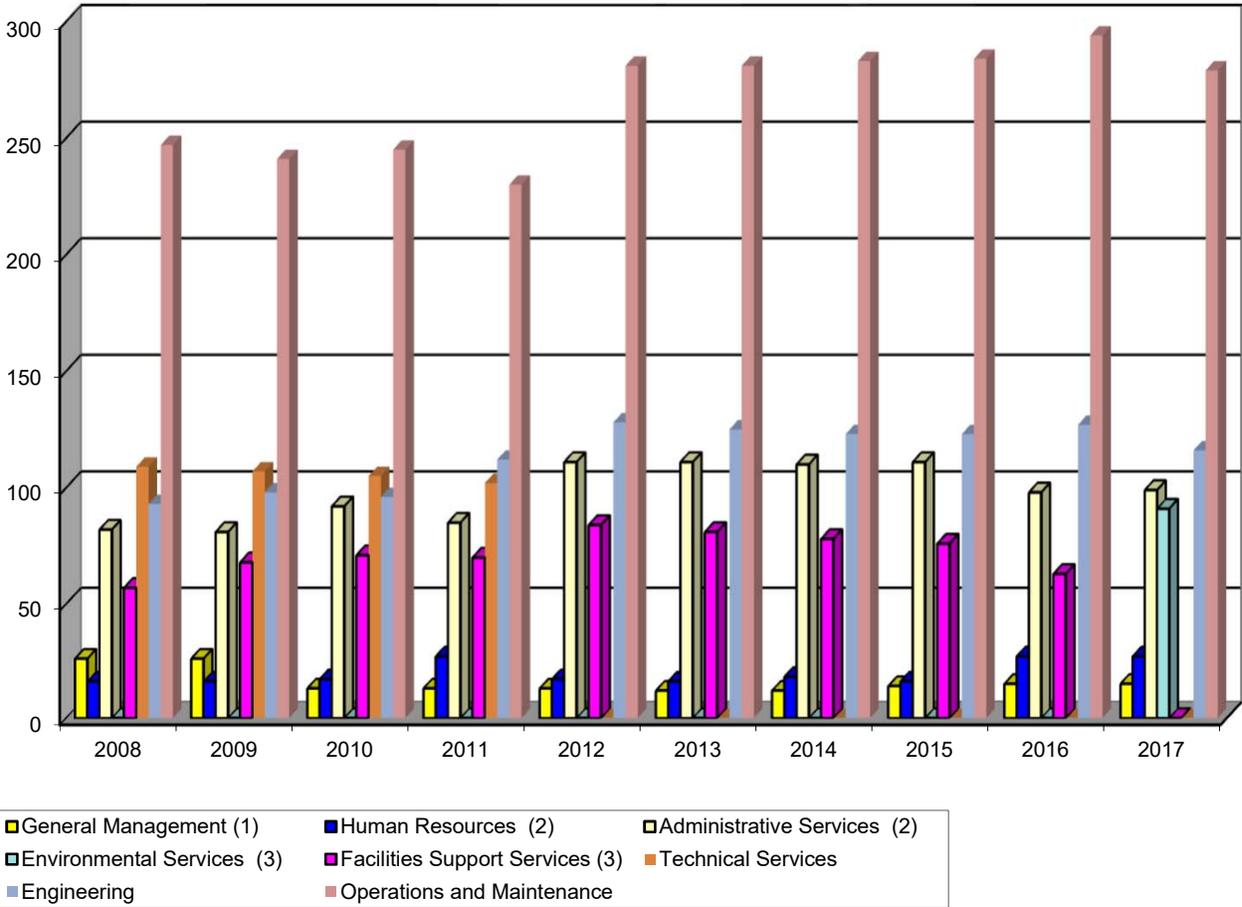
Total expenses in FY 2016-17 increased \$105.5 million, or 48.0 percent since FY 2007-08, primarily as a result of expansion of the Capital Improvement Program (CIP) and increase in operational services levels with OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012.

Depreciation expense represents 46.0 percent of the increase as a result of the expansion in capital facilities and the financing associated with the expansion. Other non-operating expense represents 33.6 percent of the increase due to the FY 2016-17 local sewer facilities transfer to East Orange County Water District. Maintenance, chemicals, utilities, and other operating costs represent another 11.1 percent of the increase, primarily due to the increase in the levels of treatment referred to above. In FY 2016-17 personnel expenses decreased 1.7 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 three years. The full-time equivalent positions authorized increased by 3 in FY 2016-17.

As depicted from the chart above, actual wastewater treatment flows were 221 mgd in FY 2007-08. Due to unusual dry weather conditions during the last several years due to California's record-breaking drought, FY 2016-17 had flows of only 188 mgd, a decrease of 33 mgd or 15% since FY 2007-08.

Source: Orange County Sanitation District.

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



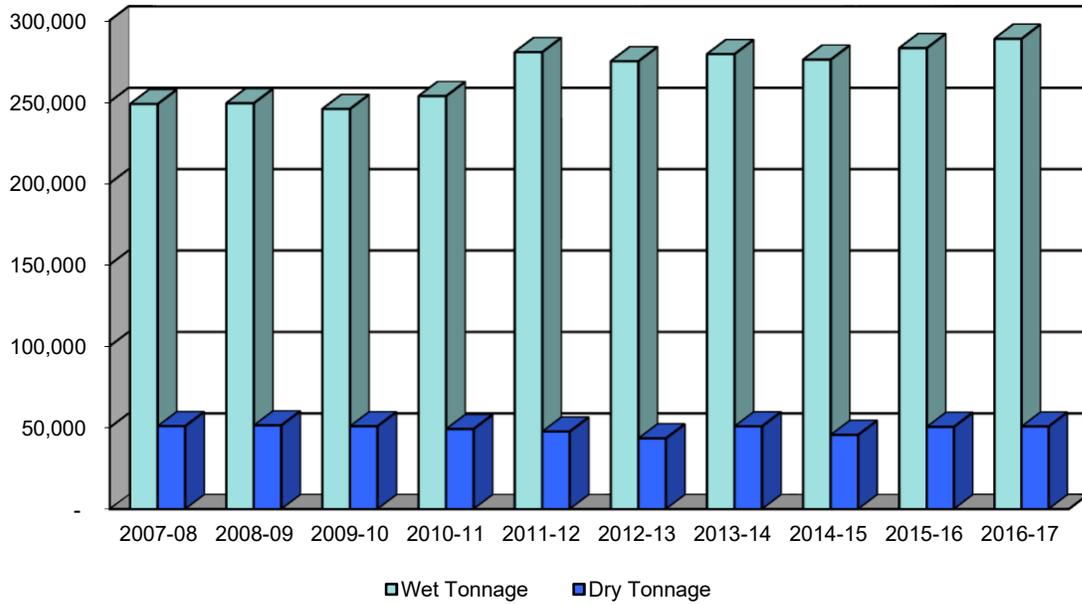
	Fiscal Year Ending June 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Management (1)	26	26	13	13	13	12	12	14	15	15
Human Resources (2)	16	16	17	27	17	16	18	16	27	27
Administrative Services (2)	82	81	92	85	111	111	110	111	98	99
Environmental Services (3)	-	-	-	-	-	-	-	-	-	91
Facilities Support Services (3)	57	68	71	70	84	81	78	76	63	-
Technical Services	109	107	105	102	-	-	-	-	-	-
Engineering	93	98	96	112	128	125	123	123	127	116
Operations and Maintenance	247	241	245	230	281	281	283	284	294	279
Total FTE's	630	637	639	639	634	626	624	624	624	627

Notes

- (1) - Management Discretion positions used on a temporary basis have been excluded from FTE count.
- (2) - In 2016, Risk Management moved from Administrative Services to Human Resources Department.
- (3) - In 2017, District reorganization created Environmental Services and eliminated Facilities Support Services.

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>
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
2016-17	288,771	50,641

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

ORANGE COUNTY SANITATION DISTRICT

Capital Asset Statistics

Last Ten Fiscal Years

Fiscal Year	Miles of Trunk & Subtrunk Sewers	Number of Pump Stations	Primary Treatment Capacity (1)	Secondary Treatment Capacity (1)
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
2016-17	396	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
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	169,584,000 (4)	55,492	85,300	502,195	7.9%
2012-13	3,082,000	166,370,000 (4)	53,981	84,100	501,801	6.1%
2013-14	3,114,000	174,451,000 (4)	56,022	84,900	500,487	5.2%
2014-15	3,148,000	183,052,000 (4)	58,149	85,900	497,116	4.3%
2015-16	3,183,000	190,935,000 (4)	59,986	85,000	493,030	4.4%
2016-17	3,194,000	199,492,000 (4),(8)	62,458	88,000	490,430	3.8%

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, 2017

	Population as of January 1, 2017
Anaheim	358,546
Brea	44,214
Buena Park	83,884
Costa Mesa	114,044
Cypress	49,655
Fountain Valley	56,709
Fullerton	142,234
Garden Grove	176,277
Huntington Beach	197,574
Irvine	267,086
La Habra	62,084
La Palma	15,984
Los Alamitos	11,739
Newport Beach	84,915
Orange	140,882
Placentia	52,268
Santa Ana	341,341
Seal Beach	24,890
Stanton	39,611
Tustin	82,372
Villa Park	5,944
Westminster	93,533
Yorba Linda	67,890
Subtotal Cities ⁽¹⁾	<u>2,513,676</u>
Estimated Population Served in Unincorporated Areas ⁽²⁾	<u>73,127</u>
	<u><u>2,586,803</u></u>

Data Sources:

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

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

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

<u>Employers</u>	<u>Fiscal Year Ended 6/30/17</u>			<u>Fiscal Year Ended 6/30/08</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.	29,000	1	1.91%	20,000	1	1.29%
University of California, Irvine	23,605	2	1.55%	17,579	3	1.13%
County of Orange	18,264	3	1.20%	18,748	2	1.20%
St. Joseph Health	11,925	4	0.78%	10,047	4	0.65%
Allied Universal	8,229	5	0.54%			
Kaiser Permanente	7,694	6	0.51%			
Boeing Co.	6,103	7	0.40%	9,961	5	0.64%
Wal-Mart Stores Inc.	6,000	8	0.39%			
California State University, Fullerton	5,781	9	0.38%	5,634	8	0.36%
Bank of America Corp.	5,500	10	0.36%	5,000	10	0.32%
Yum! Brands Incorporated				7,200	6	0.46%
AT&T Incorporated				6,000	7	0.39%
Home Depot, Incorporated				5,450	9	0.35%
Total	122,101		8.02%	105,619		6.79%

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 1,521,600 as of June 2017.
- (4) - Data Source: State of California, Employment Development Department.
 - Percentage is calculated by dividing employees by total employment of 1,555,900 as of June 2008.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators

June 30, 2017

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:	627
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):	396 miles
Number of Pumping Stations:	17

Wastewater System Treatment Capacities (Million Gallons per Day)

	<u>Actual Flows FY16-17</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>
Plant 1	112	208	182
Plant 2	<u>76</u>	<u>168</u>	<u>150</u>
Total	<u>188</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, 2017

	Shares Par	Cost Base	Market Value Base	% of Total	Net Unrealized Gain/(Loss) Base
INVESTMENT PORTFOLIO:					
CASH & CASH EQUIVALENTS (U.S. DOLLAR):					
CASH EQUIVALENTS	\$ 60,641	\$ 93,295	\$ 25,621	0.01%	\$ (67,674)
COMMERCIAL PAPER - DISCOUNT	1,900,000	1,895,256	1,895,256	0.41%	-
FEDERAL HOME LOAN BANK - 3 MONTHS OR LESS	9,800,000	9,783,493	9,783,493	2.14%	-
FNMA ISSUES - 3 MONTHS OR LESS	19,000,000	18,962,050	18,962,050	4.14%	-
SHORT TERM INVESTMENT FUNDS (US REGULATED)	5,840,569	5,840,569	5,840,569	1.28%	-
U.S. TREASURY BILLS - 3 MONTHS OR LESS	5,000,000	4,990,381	4,990,381	1.09%	-
SUBTOTAL - CASH & CASH EQUIVALENTS	<u>41,601,210</u>	<u>41,565,044</u>	<u>41,497,370</u>	<u>9.06%</u>	<u>(67,674)</u>
FIXED INCOME SECURITIES (U.S. DOLLAR):					
ABS - CAR LOANS	8,916,211	8,915,740	8,907,788	1.94%	(7,952)
ABS - CREDIT CARDS	4,140,000	4,139,643	4,137,268	0.90%	(2,375)
ABS - EQUIPMENT	6,939,186	6,939,012	6,930,482	1.51%	(8,530)
ABS - HOME EQUITY	133,743	100,433	126,186	0.03%	25,753
ABS - SMALL BUSINESS ADMINISTRATION	62,182	62,182	65,359	0.01%	3,177
ABS - STUDENT LOANS	33,013	32,880	33,716	0.01%	836
BANKING & FINANCE	46,190,000	47,071,674	44,571,098	9.73%	(2,500,576)
CAPITAL GOODS	6,000,000	6,048,600	6,061,670	1.32%	13,070
CERTIFICATES OF DEPOSIT - U.S.	2,000,000	2,000,254	2,000,254	0.44%	-
COMMERCIAL PAPER - DISCOUNT	15,850,000	15,765,375	15,765,375	3.44%	-
FEDERAL HOME LOAN BANK	15,000,000	14,967,632	14,967,632	3.27%	-
FHLMC MULTICLASS	1,852,198	2,024,989	2,048,772	0.45%	23,783
FHLMC POOLS	2,307	2,227	2,371	0.00%	144
FNMA POOLS	1,435,848	1,496,854	1,549,461	0.34%	52,607
FNMA REMIC	295,836	295,743	299,679	0.07%	3,936
GNMA MULTI FAMILY POOLS	217,552	217,558	225,254	0.05%	7,696
GNMA REMIC	25,880	25,880	25,995	0.01%	115
HEALTH CARE	5,000,000	5,024,985	5,022,540	1.09%	(2,445)
INSURANCE	4,000,000	4,131,120	4,126,480	0.90%	(4,640)
OIL & GAS	13,850,000	13,831,757	13,874,841	3.03%	43,084
PENDING TRADES	-	16	16	0.00%	-
SUPRANATIONAL ISSUES	28,197,000	28,260,449	28,109,552	6.13%	(150,897)
TAXABLE MUNICIPALS	4,240,000	4,307,634	4,569,166	1.00%	261,532
TECHNOLOGY	15,045,000	15,095,572	15,052,309	3.29%	(43,263)
TRANSPORTATION	1,000,000	999,580	999,390	0.22%	(190)
U.S. TIPS	10,708,984	10,591,700	10,519,114	2.29%	(72,586)
US AGENCIES	106,650,000	106,520,447	106,426,808	23.23%	(93,639)
US GOVERNMENTS	92,400,000	91,704,078	91,998,922	20.08%	294,844
U.S. TREASURY BILLS	28,000,000	27,927,979	27,927,979	6.10%	-
WHOLE LOAN - CMO - COLLATERALIZED MTG OBLIG	329,925	329,900	330,083	0.07%	183
SUBTOTAL - FIXED INCOME SECURITIES	<u>418,514,865</u>	<u>418,831,893</u>	<u>416,675,560</u>	<u>90.94%</u>	<u>(2,156,333)</u>
TOTAL INVESTMENT PORTFOLIO	<u>\$ 460,116,075</u>	<u>460,396,937</u>	<u>458,172,930</u>	<u>100.00%</u>	<u>\$ (2,224,007)</u>
DEMAND DEPOSITS AND CASH ON HAND		1,679,401	1,679,401		
MONIES HELD WITH FISCAL AGENTS		4,992,427	4,992,427		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		46,247,195	46,198,204		
TOTAL CASH AND INVESTMENTS		<u>\$ 513,315,960</u>	<u>\$ 511,042,962</u>		

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

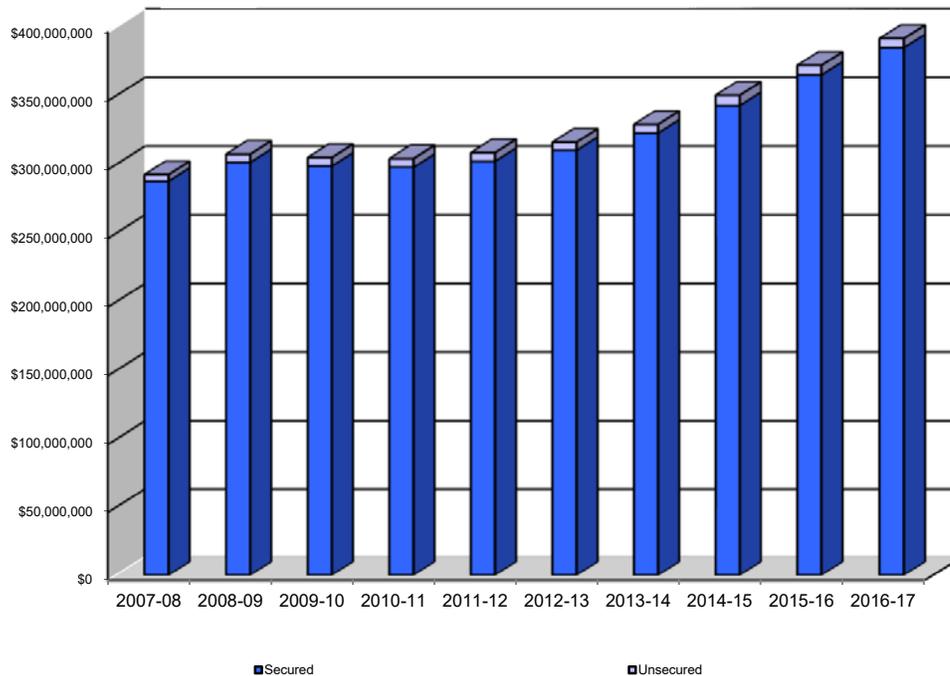
Fiscal Year	Tax Rate			OCSD's Average Share of Basic Levy
	Basic Levy	OCSD 1958 General Obligation Bonds	Total Tax Rate	
2007-08	1.00%	0.00%	1.00%	1.63%
2008-09	1.00%	0.00%	1.00%	1.64%
2009-10	1.00%	0.00%	1.00%	1.63%
2010-11	1.00%	0.00%	1.00%	1.64%
2011-12	1.00%	0.00%	1.00%	1.64%
2012-13	1.00%	0.00%	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%
2016-17	1.00%	0.00%	1.00%	1.61%

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

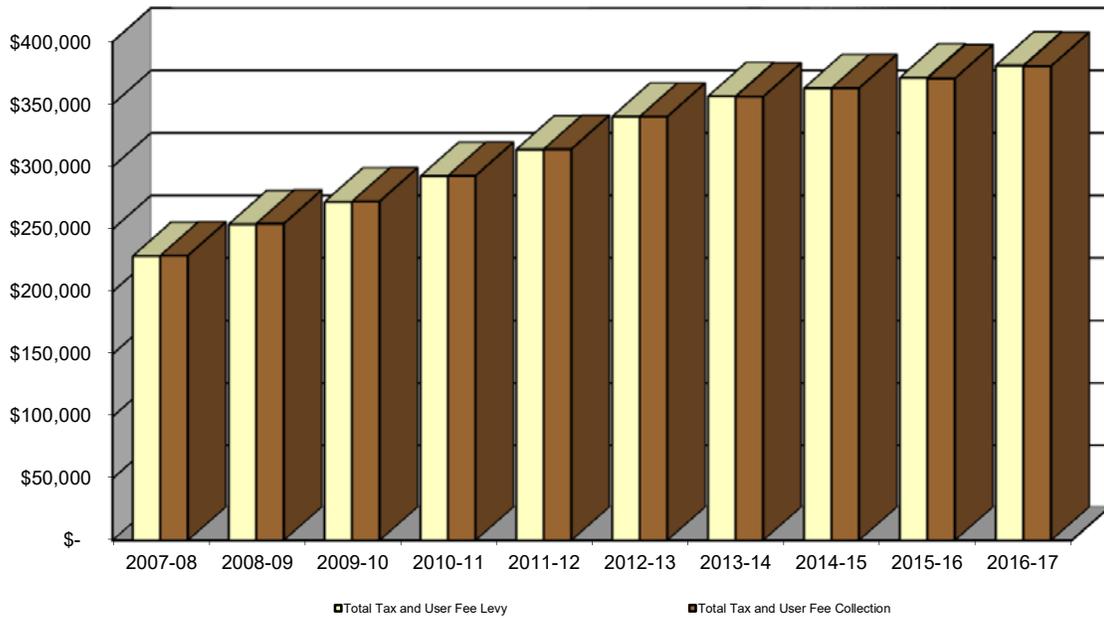


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2007-08	\$ 288,051,467	\$ 4,681,838	\$ 292,733,305	8.14%
2008-09	301,717,479	5,894,003	307,611,482	5.08%
2009-10	299,038,654	6,116,530	305,155,184	-0.80%
2010-11	298,099,034	6,238,834	304,337,868	-0.27%
2011-12	302,526,970	6,163,979	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%
2016-17	385,137,024	6,642,312	391,779,336	5.26%

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
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)
2016-17	381,226	380,078	99.70	608	380,686	99.86	1,148	0.30	9,751

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 and 2015-16, the County did not bill 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

<u>Assessed Property Value (2)</u>		<u>Calendar Year</u>	<u>Non- Residential Construction (3)</u>		<u>Residential Construction (3)</u>		<u>Total Construction Value (3)</u>
<u>Fiscal Year</u>	<u>Value</u>		<u>Value</u>	<u>No. of Units</u>	<u>Value</u>		
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	2,196,000	10,897	2,834,000	5,030,000	
2015-16	504,650,360	2016	2,442,000	12,083	3,094,000	5,536,000	
2016-17	531,052,158	2017	2,396,000	12,556	3,388,000	5,784,000 (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, 2017

<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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06/30/17