



Orange County Sanitation District Comprehensive Annual Financial Report

for the period ended June 30, 2013
with comparative totals for June 30, 2012



Orange County, California

We're here for you.

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012

Prepared By:
Administrative Services Department
Financial Management Division

Michael D. White, CPA
Controller

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ORANGE COUNTY SANITATION DISTRICT
 Comprehensive Annual Financial Report
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 With Comparative Totals for the Year Ended June 30, 2012

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Serving:

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

October 30, 2013

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, 2013. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2013 and was prepared by the Financial Management Division of the Sanitation District's Administrative Services Department.

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

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

An audit of the books, financial records and transactions of the Sanitation District is conducted annually by independent certified public accountants. The Sanitation District selected the accounting firm of McGladrey LLP to perform the audit for the year ended June 30, 2013. 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, 2013.

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

GOVERNMENTAL STRUCTURE

The Orange County Sanitation District encompasses the Northern section of Orange County. The Sanitation District provides wastewater treatment for an area of the County covering 479 square miles and serving a population of approximately 2.5 million, or 81 percent of the County's population. The Sanitation District was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at the Sanitation District's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in order to simplify governance structures,



reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of collecting sewer user fees at the previously established rate schedules, and were referred to as nine individual revenue areas through June 30, 2000. Effective July 1, 2003, all Revenue Areas, except Revenue Area 14, consolidated user fee rates and all enterprise fund accounting and budgeting activities and are now known as the Consolidated Revenue Area.

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

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

The Sanitation District sewerage system includes approximately 572 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 primary treatment capacities, including standby, of 204 million gallons per day (mgd) and 168 mgd, respectively. In fiscal year 2012-13, greater than 98.8 percent of all advanced primary effluent also received secondary treatment. Both plants are master-planned for a future primary and secondary treatment capacity of 235 mgd for a combined total of 470 mgd by the year 2070.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

In October 2013, the Institute for Economic and Environmental Studies at the California State University Fullerton Mihaylo College of Business and Economics (CSUF) forecasts that the U.S. gross domestic product (GDP) will grow an average of 1.7 percent this year given the weak first half and the potential damage in the fourth quarter from the government shutdown, and then rise to 2.5 percent in 2014 and 2.9 percent in 2015.

The CSUF forecast reported that the construction activity in the Southern California region has continued to improve markedly after a precipitous fall during the recession. Housing starts have grown and permits

have risen from a low of 2,200 in 2009 to 6,900 in 2012 in Orange County. However, the first half of 2013 has shown a much slower pace of increase in permits in all areas of the regions as uncertainty over interest rates and the overall economy appears to have caused builders to become more cautious, especially for the balance of 2013 and early into next year. CSUF is forecasting 2013 to fall to 4,300 but rebound to 7,000 in 2014.

Weakened by a sluggish national economy, Orange County's job growth has slowed this year, but is expected to pick up gradually in 2014 and 2015. Although the "healing process" from the Great Recession has continued, the CSUF forecast concludes that 2013 has faced an unusual array of issues such as political gridlock, geopolitical turbulence, monetary policy uncertainty and fiscal tightening, culminating in the government shutdown. The CSUF forecast predicts an average Orange County payroll job growth of 2.0 percent this year, a drop from last year's 2.3 percent. However by 2015, job growth is expected to rise to 2.8 percent. The unemployment rate in Orange County is steadily declining. The CSUF forecast predicts a drop this year to an average of 6.1 percent from 7.6 percent last year. By 2015, unemployment in the county should dip to 5.1 percent. From 2010 through August of this year, Orange County gained 80,200 payroll jobs, a rise of 6.0 percent. The growth, however, has been "uneven across the industry segments" as construction employment is building momentum with a 15.9 percent rise over the last four years while professional and business services added only 3,100 jobs in the last 12 months, compared to a gain of 11,400 over the previous 12 months. Retail trade actually showed a loss of 1,500 jobs compared to a gain of 1,100 jobs in 2012. Many Orange County businesses are delaying hiring and investment because of concerns about whether Congress and the White House can agree on a budget and how long the Federal Reserve will continue its bond-buying stimulus.

Orange County's median single-family home price remains at least 15 percent below its 2006 peak, at the height of the real estate bubble. But the forecast concludes that a rapid price rise over the past year bodes well for future consumer spending. The CSUF forecast predicts a tempering in housing price appreciation due to uncertainty over interest rates and the overall economy.

MAJOR INITIATIVES

Meeting Full Secondary Treatment Standards

The Sanitation District's Board of Directors decided in July 2002 to voluntarily give up its modified ocean discharge permit, issued under section 301(h) of the Federal Clean Water Act, which allowed the Sanitation District to discharge a higher level of Suspended Solids and Biochemical Oxygen Demand than otherwise required by the Act if adequate environmental and public health protection was demonstrated.

To obtain a renewal of its ocean discharge permit at secondary treatment standards without the modification (often referred to as a "waiver") and , the Sanitation District undertook a massive capital improvement program ("CIP") of building new, and rehabilitating existing, facilities in order for the Sanitation District to operate its facilities in a manner that will allow it to achieve secondary treatment standards as defined by the Act.

Permits are issued for a five (5) year duration, and the U.S. Environmental Protection Agency (EPA) has no authority to waive the discharge limits requirements or grant a longer permit (except per Sec. 301(h)). In November 2004, a consent decree was signed by EPA and filed with the U.S. District Court that approved the construction schedule and decrees that no penalties will be imposed for discharges that exceed the secondary treatment limits during the period of construction.

Seven milestones towards achieving secondary treatment standards were identified within the consent decree along with due dates, as follows:

- March 15, 2006 – Completion of the new \$44.4 million "Trickling Filter Facility" at Plant 1.
- November 15, 2006 – Completion of the design and advertising for construction of the "New Activated Sludge System" at Plant 1.

- January 15, 2007 – Completion of the design and advertising for construction of Trickling Filters at P2.
- March 28, 2008 – Completion of construction for Rehabilitation of Activated Sludge Plant at Plant 2.
- February 15, 2011 – Complete construction of Plant No. 2 secondary treatment expansion.
- July 10, 2012 – Complete construction of Plant No. 1 secondary treatment expansion.
- December 31, 2012 – Compliance with Code of Federal Regulations secondary treatment requirement.

The District is in compliance with the Consent Decree and has successfully completed all seven milestones within the specified deadlines as required. The District completed the final milestone on December 29, 2012.

Strategic Planning

In November 2007, the Board of Directors adopted a new comprehensive strategic plan to steer OCSD's efforts and engage the organization to envision service levels and operational needs for the next five years. In continuing to look at the five-year horizon, the Strategic Plan has been updated on an annual basis. Each of these strategic plan annual updates has followed a similar process that had been established when the original November 2007 had been adopted with the General Manager's Office initiated the planning effort with the Executive Management Team, and then soliciting input and ideas from managers and supervisors. In October 2013, the staff-generated ideas were presented to the Board of Directors during a workshop, where Board Members discussed and deliberated changes and additions to the plan.

Driven by the Sanitation District's mission, vision and core values, the 2013 Strategic Plan update maintains an aggressive effort to meet the sanitation, health, and safety needs of the 2.5 million people being served in a cost effective manner, while protecting the environment where we live.

Since 2007, 90 percent of the strategic goals identified have been completed. Eleven new goals were added in the 2013 update and the continuation of four previous goal was included in the plan.

The New Goals include:

- Legislative Advocacy and Public Outreach Efforts – Position the District as a leader in innovative solutions to infrastructure issues, pursue available government subsidies for funding District programs, and educate the public as to the District's purpose, mission, and services provided.
- Identify Potential Biosolids Management Options – The District will have a clear mid-term and long-term strategy for biosolids management following FY 2016-17 when the existing composting contract expires and biosolids production will be reduced by one-third. (The reduction in biosolids will occur when centrifuges are constructed and placed into service that will reduce the volume of water in the biosolids production).
- Odor Control – Completion of an Odor Control Master Plan to ensure that the District is limiting offsite odor impacts in a comprehensive and cost effective manner and to ensure that the District's investment in current and potentially future process systems will produce the benefits intended.
- Energy Efficiency - Reaffirm the District's commitment to leadership in energy efficiency and energy conservation from organic sludge to electricity, gas, and useful heat.
- Future Water Recycling Options – The District will begin to plan for the highest and best utilization of effluent water at Treatment Plant No. 2.
- Cessation of Disinfection of the District's Ocean Discharge – Seek to remove the requirement to disinfect the outfall effluent from the ocean discharge permit and to recover full marine life around the ocean outfall.

- Transfer of Local Sewers – Obtain Board’s direction as to whether local sewers (as opposed to regional sewer) should be maintained by member cities and local sewer agencies.
- Workforce Planning & Workforce Development (WFPD) – Integrate WFPD efforts to ensure workforce capabilities match work required to meet the District’s mission and levels of service.
- Asset Management Update and Action Plan – Maintain resilient, cost effective infrastructure which protects public health and the environment.
- Business Risk Management and Safety and Security – The District is in a continually state of readiness and is always in a position to provide its critical services to the public.
- Operational Efficiencies – Safe and cost-effective operation and maintenance of District facilities while meeting all levels of service expectations.

Continuation of previous Goal:

- SARI Line Relocation – Work in conjunction with the County of Orange and the Federal Government to relocate the Santa Ana River Interceptor Line from the flood plain of the Santa Ana River by December 31, 2013.
- Engine Emission Compliance – Implement capital improvements or operational modifications to achieve engine emission compliance of the District’s cogeneration engines.
- Fuel Cell Evaluation – Evaluate the cost feasibility of replacing or supplementing cogeneration engines with fuel cell technology.
- Odor Control – Implement odor control projects at Plant No. 1 (trickling filters) and Plant No. 2 (solids loading facility) by 2018.

This strategic plan continues to chart a focused roadmap of success for the future of the Orange County Sanitation District. It addresses critical issues and challenges, and communicates clear and concise future direction to Sanitation District staff.

SERVICE EFFORTS AND ACCOMPLISHMENTS

In July 2012, the Sanitation District received the Gold Peak Performance Award from the National Association of Clean Water Agencies covering Reclamation Plant No. 1 and Treatment Plant No. 2 for outstanding compliance with the National Pollutant Discharge Elimination System (NPDES) permit limits for 2011-12.

In September 2012, the Sanitation District received the National Water Research Institute Award of Excellence for the successful completion of its full secondary treatment program.

In November 2012, the Sanitation District received the Engineering News-Record California Best Civil Works/Infrastructure Project Award of Merit for the Bitter Point Pump Station Project.

In December 2012, the Sanitation District was awarded the National Water Research Institute’s Award of Excellence for leadership and commitment in completing the ten-year secondary treatment program and ensuring that only the highest quality water is released into the ocean and recycled by the Groundwater Replenishment System.

In January 2013, the Sanitation District received the California Water Environment Association Engineering Achievement Award for the Ocean Outfall and Ocean Outfall Booster Station Piping Rehabilitation.

ACCOUNTING AND BUDGETARY CONTROLS

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

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

ACCUMULATED FUNDS AND RESERVES POLICY

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

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

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

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

Catastrophic Loss or Self-Insurance Reserves: are established for property damage including fire, flood and earthquake; for general liability; and for workers' compensation. These reserves are intended to work with purchased insurance policies, FEMA disaster reimbursements and State disaster reimbursements. Based on the current infrastructure replacement value of \$6.26 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 \$3.14 billion for the collection facilities and \$3.12 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, 2013 was \$45.2 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 \$135 million at June 30, 2013.

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, 2013, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$600 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	234 million
Designated For Debt Service Requirements	<u>135 million</u>
 Total Designated Cash and Investments	 <u>\$ 600 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, 2012. This was the nineteenth 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, 2012

Executive Director/CEO

ORANGE COUNTY SANITATION DISTRICT

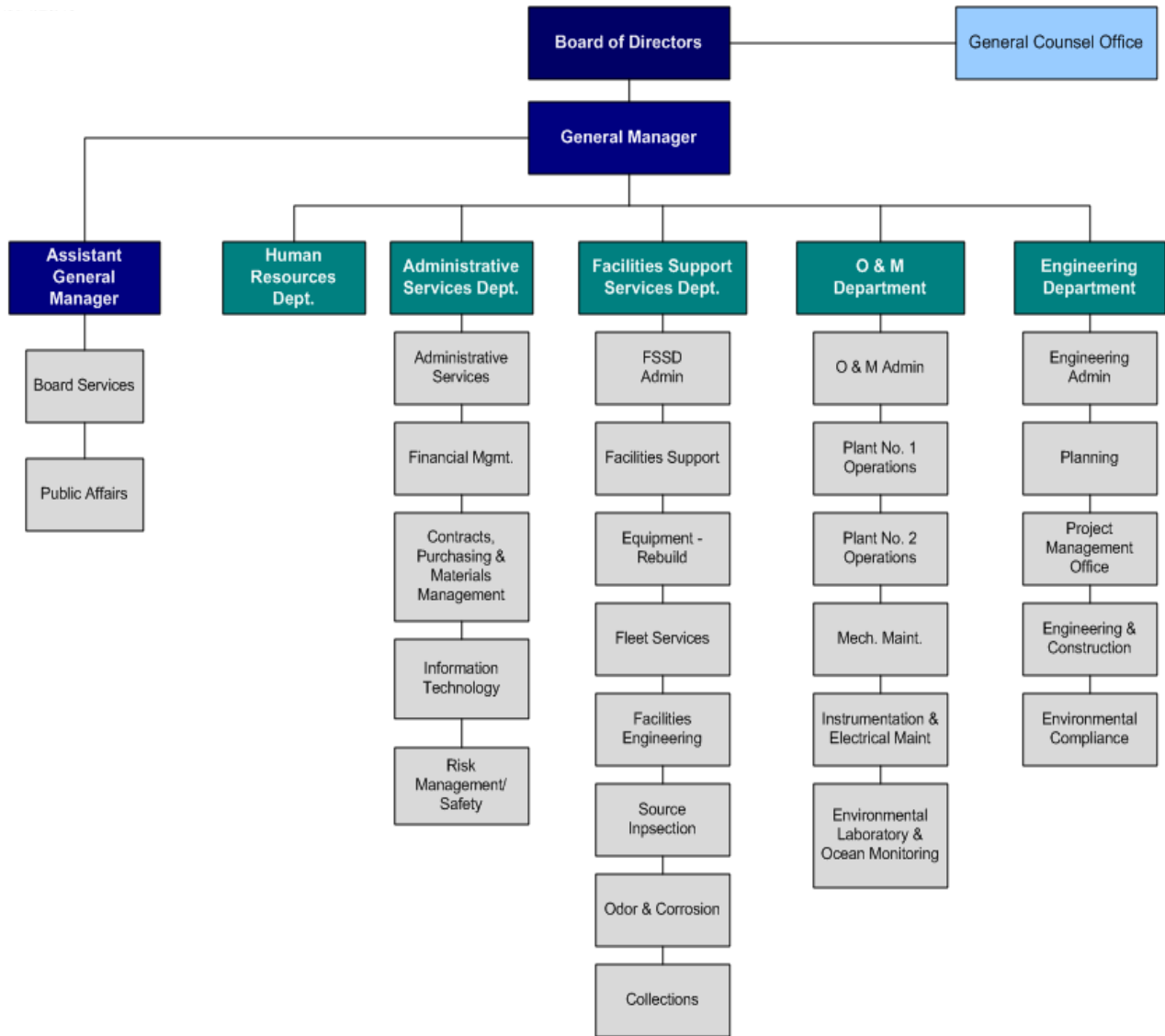
Board of Directors
As of June 30, 2013

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

ORANGE COUNTY SANITATION DISTRICT

Organizational Chart

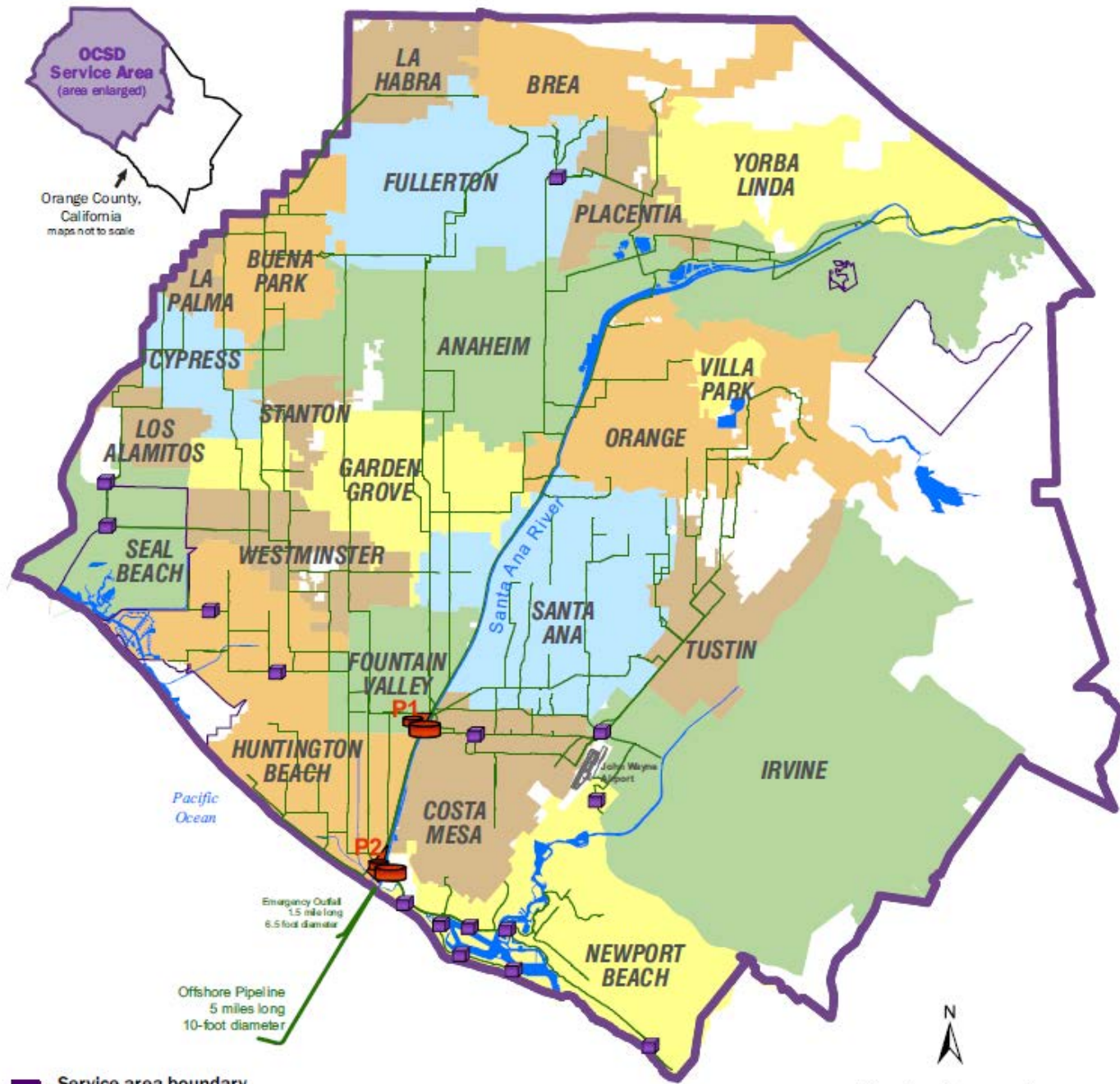
As of June 30, 2013








ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2013



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

DISCLAIMER: Map prepared by the Orange County Sanitation District. This map is intended for graphical representation only. No level of accuracy is claimed. Portions of this derived product contain geographical information copyrighted by Rand McNally 2012. All Rights Reserved.

REVISED: 01/2013

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Independent Auditor's Report

Board of Directors
Orange County Sanitation District
Fountain Valley, CA

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Sanitation District (the District) as of and for the year ended June 30, 2013, 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 (U.S. GAAP); 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 (U.S. GAAS). 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. GAAP.

Other Matters

Required Supplementary Information

U.S. GAAP requires that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The "Combining Area" financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the "Combining Area" financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Prior-Year Comparative Information

We have previously audited the District's June 30, 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated November 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McGladrey LLP

Irvine, CA
October 30, 2013

Management Discussion and Analysis June 30, 2013

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, 2013. 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, 2013, the assets and deferred outflows of the District exceeded its liabilities by \$1,700.7 million (net position). Of this amount, \$520.4 million represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased \$103.1 million, or 6.5 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$17.9 million, or 0.7 percent over the prior year.
- Net investment in capital assets increased \$54.3 million, or 4.8 percent.
- Unrestricted Net Assets increased \$48.8 million, or 10.3 percent from the prior year.
- The District's total outstanding bonded debt decreased by \$61.0 million over the prior year to \$1.275 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 and the current year's implementation of GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", the District's financial statements include a Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

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

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

Net Position

As previously noted, net position increased \$103.1 million, or 6.5 percent over the net position for FY 2011-12 (restated due to the impacts from the implementation of GASB Statement No. 65 – "Items Previously Reported as Assets and Liabilities"), to \$1,700.7 million in Fiscal Year 2012-13. In comparison, net position increased \$96.1 million, or 6.4 percent in FY 2011-12 over Fiscal Year 2010-11, to \$1,597.6 million.

(Dollars in thousands)

	June 30, 2013	June 30, 2012 (as restated)	Increase (Decrease)	Percentage Increase (Decrease)
Assets				
Current and other assets	\$ 691,853	\$ 644,771	\$ 47,082	7.3%
Capital assets, net	2,432,214	2,414,269	17,945	0.7%
Deferred outflow of resources	20,723	24,492	(3,769)	-15.4%
Total assets	3,144,790	3,083,532	61,258	2.0%
Liabilities				
Current liabilities	278,265	276,972	1,293	0.5%
Noncurrent liabilities	1,165,800	1,208,942	(43,142)	-3.6%
Total liabilities	1,444,065	1,485,914	(41,849)	-2.8%
Net position:				
Net investment in capital assets	1,180,298	1,125,967	54,331	4.8%
Unrestricted	520,427	471,651	48,776	10.3%
Total net position	\$ 1,700,725	\$ 1,597,618	\$ 103,107	6.5%

Current and other assets increased \$47.1 million, or 7.3 percent, due primarily to net cash provided by operations of \$165.5 million, proceeds from property taxes of \$79.4 million, and receipt of capital facilities capacity charges of \$12.8 million offset by capital outlays of \$97.6 million, interest expense of \$42.3 million, certificates of participation (COP) principal payments of \$42.6 million, and contributions to other governments of \$26.6 million representing a return of part of the equity share ownership of Irvine Ranch Water District (IRWD) based on decreased flows discharged to the District.

Capital assets, net increased \$17.9 million, or 0.7 percent, due mostly to the ongoing capital improvement program capital additions of \$97.6 million in FY 2012-13 less depreciation of \$63.9 million, the write down of discontinued capital projects of \$8.9 million, and the expensing of \$5.1 million of feasibility studies previously recorded as capital assets. Included in total capital outlays was the New Secondary Treatment System at Plant No. 1. This project was one of several capital improvements that were necessary to achieve secondary treatment standards by December 31, 2012 in accordance with a consent decree signed by EPA and filed with the U.S. District Court. This project included construction of aeration basins, clarifiers, a blower building, and waste sludge pumping stations, that now provide additional secondary treatment capacity of 60 million gallons per day (MGD) at Plant No. 1. Capital outlays of \$1.4 million were incurred in FY 2012-13 bringing total project outlays to \$254.0 million.

Another completed secondary treatment construction project was the Trickling Filters at Plant No. 2. This project included the construction of three trickling filters, a solids contact basin, and six clarifiers for additional secondary treatment capacity of 60 MGD at Plant No. 2. Final capital outlays of \$0.3 million were incurred in FY 2012-13 bringing total project outlays to \$220.0 million.

The completion of the Headworks Improvements at Plant No. 2 in FY 2012-13 was another project with significant outlays. This project has replaced the existing headworks due to failing gates and the ineffectiveness of the bar screens and grit chambers that are allowing grit screenings to pass through into the downstream processes causing increased operating costs. This project includes an influent diversion and metering structure, bar screens, influent pump station, vortex grit chambers, primary influent splitter and metering structure, ferric chloride feed facilities, headworks and trunk line odor control facilities, screenings handling building including a washer/compactor, grit handling building, and an electrical building that includes standby power. In FY 2012-13, \$6.1 million of the total \$257.3 million in capital outlays was incurred.

See page 7 for the Schedule of Capital Assets and a listing of the other major capital additions for FY 2012-13.

Net Investment in capital assets increased \$54.3 million, or 4.8 percent over the prior year primarily as a result of the \$17.9 million increase in net capital assets coupled with a decrease of \$36.4 million in net related debt.

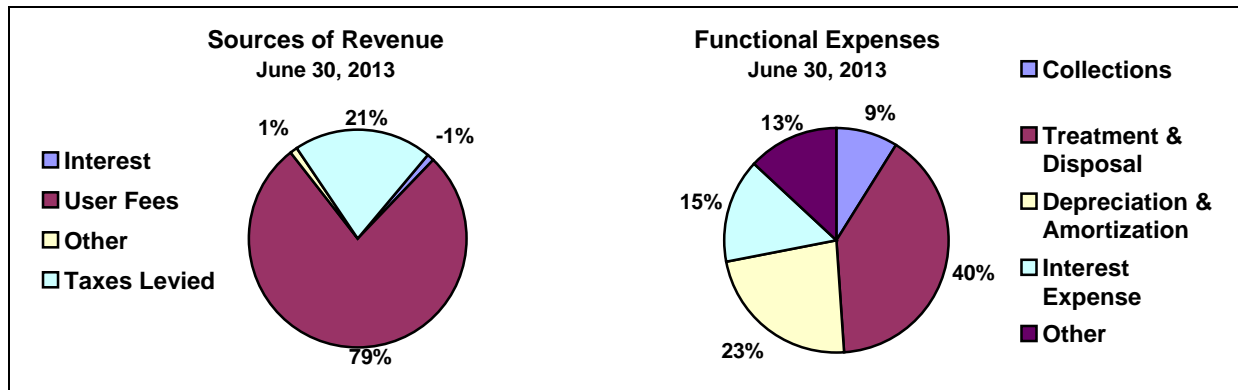
Unrestricted net assets increased \$48.8 million, or 10.3 percent over the prior year, due to the overall increase in net position of \$103.1 offset by the increase in net investment in capital assets of \$54.3 million.

Changes in Net Position

Net position increased \$103.1 million in FY 2012-13, a 6.5 percent increase over the prior year.

(Dollars in thousands)

	June 30, 2013	June 30, 2012 (as restated)	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service Charges	\$ 303,400	\$ 259,491	\$ 43,909	16.9%
Permit and inspection fees	1,176	1,030	146	14.2%
Total operating revenues	<u>304,576</u>	<u>260,521</u>	<u>44,055</u>	<u>16.9%</u>
Non-operating revenues				
Property taxes	79,240	67,882	11,358	16.7%
Investment and interest income	(3,913)	15,747	(19,660)	-124.8%
Contrib. from other government	2,054	7,723	(5,669)	-73.4%
Other	1,727	763	964	126.3%
Total non-operating revenues	<u>79,108</u>	<u>92,115</u>	<u>(13,007)</u>	<u>-14.1%</u>
Total revenues	<u>383,684</u>	<u>352,636</u>	<u>31,048</u>	<u>8.8%</u>
Expenses:				
Operating expense other than depreciation and amortization	149,817	172,319	(22,502)	-13.1%
Depreciation and amortization	63,907	56,051	7,856	14.0%
Non-operating expense	79,650	37,133	42,517	114.5%
Total expenses	<u>293,374</u>	<u>265,503</u>	<u>27,871</u>	<u>10.5%</u>
Income before capital contributions	90,310	87,133	3,177	3.6%
Capital facilities capacity charges	<u>12,797</u>	<u>8,936</u>	<u>3,861</u>	<u>43.2%</u>
Increase in net position	103,107	96,069	7,038	7.3%
Beginning net position	1,597,618	1,501,549	96,069	6.4%
Ending net position	<u>\$ 1,700,725</u>	<u>\$ 1,597,618</u>	<u>\$ 103,107</u>	<u>6.5%</u>



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, maintenance and capital expenditures for providing wastewater management services. Property tax revenues are dedicated for the payment of debt service.

In FY 2012-13, operating revenues increased \$44.1 million, or 16.9 percent over the prior year that is predominately reflective of the \$27.2 million, or 11.7 percent increase in service charges and \$14.7 million recognized in solids capital lease revenue from IRWD under a newly established agreement. The increase in service charges is primarily due to the 10.1 percent increase in the average sewer user fee rate over the prior year.

The \$13.0 million, or 14.1 percent decrease in non-operating revenues primarily consists of a \$19.7 million, or 124.8 percent decrease in investment and interest income, a \$5.7 million, or 73.4 percent decrease in contributions from other governments that is partially offset by a \$11.4 million, or 16.7 percent increase in property tax revenues, and a \$1.0 million, or 126.3 percent increase in other non-operating revenues. The decrease in investment and interest income is attributable to lower yields earned on investments as cash and investments balances grew. The total return earned on investments decreased from 2.8 percent in FY 2011-12 to -0.6 percent in FY 2012-13 as an unrealized loss of \$14.4 million was recorded in FY 2012-13 due to declines in the bond market at year-end. However, this unrealized loss reflects mark-to-market price declines and not the permanent impairment of bond investments. The District is sufficiently liquid within its short-term portfolio to meet its obligations without having to force a sale of the underperforming bonds at a loss. The District's investment portfolio balance increased during this same time period from \$577 million to \$600 million. The decrease in contributions from other governments is reflective of the decrease in capital contributions from IRWD. This decrease is reflective of decline in IRWD's equity share ownership based on decreased flows discharged to the District. The increase in property tax revenue is primarily the result of the increase in total assessed valuation of 1.9 percent over the prior year and one-time redevelopment dissolution proceeds. The increase in other non-operating revenues is mostly reflective of the \$800,000 received on a settlement claim resulting from equipment failure and \$500,000 earned in federal grants from the U.S. Bureau of Reclamation.

Operating expense before depreciation and amortization decreased \$22.5 million or 13.1 percent over the prior year. The majority of this decrease is attributable to the \$23.6 million decrease in feasibility studies, of which \$27.4 million was incurred prior to FY 2011-12 but expensed in FY 2011-12. Previously, feasibility studies had been recorded as construction in progress, a Non-depreciable Capital Asset on the Statement of Net Position. Although not deemed material in prior years, management made the decision

to expense the costs in FY 2011-12 to conform to generally accepted accounting principles in regards to the accounting for feasibility studies.

Excluding feasibility studies, operating expense before depreciation and amortization increased \$1.0 million or 0.8 percent over the prior year. Operating salaries and benefits totaling \$76.9 million increased \$1.2 million, or 1.6 percent over the prior year. The operating salaries and benefits costs are part of the overall increase of \$0.4 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 \$90.7 million, a 0.1 percent increase over the prior year total of \$90.6 million. This increase is mostly attributable to the \$0.8 million, or 2.9 percent increase in benefits, as salaries and wages alone decreased \$0.7 million, or 1.2 percent. Legal services increased \$1.1 million, or 194.3 percent over the prior year primarily due to increased costs for arbitration, contracts and employee relation services.

Somewhat offsetting the increased cost in personnel services and legal services was the decreases of \$1.0 million, or 13.5 percent in utilities and \$0.9 million, or 5.2 percent in biosolids disposal. The major decrease in utilities was in power that decreased \$0.8 million from the prior year due to rate increases being less than what was anticipated. The biosolids disposal cost decrease was primarily due to the termination of an agreement with a private company contracted to process biosolids into an energy fuel.

Non-operating expense increased \$42.5 million, or 114.5 percent and is primarily reflective of the increase in capital distribution back to the Irvine Ranch Water District (IRWD) in FY 2012-13 of \$22.0 million over the prior year, as \$26.6 million of capital distribution was owed back to IRWD in FY 2012-13, as opposed to \$4.6 million in FY 2011-12. The decline in the reduction is reflective of IRWD's volume of sewage flow contributions coming into alignment with their corresponding equity share in the District's treatment plant. In addition, debt service interest payments totaling \$42.3 million increased \$13.6 million, or 47.4 percent over the prior year

Capital Facility Capacity Charges increased \$3.9 million, or 43.2 percent over the prior year due to the rebound in the economy and the increase activity in construction as total the total building permit valuation in Orange County increased 16.9 percent in Fiscal Year 2012-13 over the prior year.

Capital Assets

At June 30, 2013, the District had a net investment of \$2.432 billion in capital assets. This represents a net increase (including additions and deletions) of \$17.9 million or 0.7 percent over the prior year.

(Dollars in thousands)

	June 30, 2013	June 30, 2012	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 15,960	\$ 15,960	\$ -	0.0%
Construction in Progress	1,197,777	1,271,217	(73,440)	-5.8%
Sewage collection facilities	351,731	337,561	14,170	4.2%
Sewage treatment facilities	738,893	660,728	78,165	11.8%
Effluent disposal facilities	40,902	42,490	(1,588)	-3.7%
Solids disposal facilities	336	346	(10)	-2.9%
General and administrative facilities	84,394	83,088	1,306	1.6%
Assets acquired in excess of book value	2,221	2,879	(658)	-22.9%
Capital assets, net	\$ 2,432,214	\$ 2,414,269	\$ 17,945	0.7%

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

- \$10.9 million – Sludge Digester Rehabilitation at Plant No. 1
- \$ 9.3 million – Outfall Land Pipe and Outfall Overflow Booster Station Pipe Rehabilitation
- \$ 7.3 million – Rehabilitation of Solids Storage Silos A & B at Plant No. 2
- \$ 6.5 million – Sludge Dewatering and Odor Control at Plant No. 1
- \$ 6.4 million – Central Generation Engines Cooling Water System Replacement

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, 2013, the District had \$1.275 billion outstanding in COP debt, a net decrease of \$61.0 million, or 4.6 percent over the prior year. Other than the schedule of debt service payments, this decrease is due to the refunding of \$91.9 million of Series 2000 A and B variable rate debt with the issuance of \$66.9 million in fixed rate debt, Series 2012B Wastewater Refunding Revenue Obligations. In addition, Revenue Refunding Certificate Anticipation Notes, Series 2012C Certificates of Anticipation Notes (CANs) fixed rate debt was issued in the amount of \$131.7 million in October 2012 to refund the \$143.2 million outstanding principal balance of the CANs Series 2011B fixed rate debt.

Both Standard and Poor's Corporation and Fitch Ratings reaffirmed their AAA rating of the Orange County District in the past fiscal year. The District's long-range financing plan is designed to maintain this high rating. Over the next five years, the District is projecting an additional \$1.0 billion in future treatment plant and collection system capital improvements. In accordance with the District's long-term debt fiscal policy, the District will restrict long-term borrowing to capital improvements that cannot be financed from current revenue. However, no new debt issuances is 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 6.1 percent, a decrease from the rate of 7.9 percent a year ago.
- Inflation for Orange County in FY 2012-13 increased 2.0 percent based on the actual percentage change in the consumer price index according to the June 2013 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments decreased from the 2.8 percent earnings rate in FY 2011-12 to -0.6 percent for FY 2012-13.

All of these factors were considered in preparing the District's biennium budget beginning July 1, 2013.

The District's user fee schedule was increased by 4.8 percent for FY 2013-14 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 \$14.00, from \$294.00 to \$308.00. This rate increase was necessary to finance the District's cash flow needs as capital improvement outlays alone are projected to be \$141.6 million in FY 2013-14 and are projected to total \$2.1 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and provide for full secondary treatment standards.

Requests for Information

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

**ORANGE COUNTY SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS**

ORANGE COUNTY SANITATION DISTRICT

Statement of Net Position

June 30, 2013

(With Comparative Data for June 30, 2012)

	<u>2013</u>	<u>2012 (as restated)</u>
Current assets:		
Cash and cash equivalents	\$ 208,278,072	\$ 135,014,420
Investments	339,152,573	378,937,214
Accounts receivable, net of allowance for uncollectibles \$19,091	9,757,514	9,452,589
Accrued interest receivable	1,596,362	1,576,247
Connection fees receivable	1,565,534	647,485
Property tax receivable	1,363,536	1,542,223
Inventories	5,689,074	5,596,197
Prepaid expenses	600,214	858,826
Prepaid retirement	17,555,710	14,937,778
Total current assets	<u>585,558,589</u>	<u>548,562,979</u>
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	36,118,018	36,541,736
Investments	16,940,965	26,829,427
Accrued interest receivable	230,648	239,070
Unrestricted:		
Non-depreciable capital assets	1,213,736,882	1,287,176,876
Depreciable capital assets, net of accumulated depreciation	1,218,477,069	1,127,092,227
Prepaid insurance on outstanding debt payable	1,658,521	1,734,762
Due from other governmental agency	51,336,000	30,852,290
Other noncurrent assets, net	10,344	10,344
Total noncurrent assets	<u>2,538,508,447</u>	<u>2,510,476,732</u>
Total assets	<u>3,124,067,036</u>	<u>3,059,039,711</u>
Deferred outflow of resources:		
Deferred charges on refunding debt	20,722,872	24,491,763
Total assets and deferred outflow of resources	<u>3,144,789,908</u>	<u>3,083,531,474</u>
Current liabilities:		
Accounts payable	11,485,962	12,232,536
Accrued expenses	8,123,120	7,410,100
Retentions payable	8,286,811	2,045,987
Interest payable	23,153,100	21,839,400
Due to other governmental agency	48,700,573	47,659,381
Current portion of long-term obligations	178,515,737	185,784,283
Total current liabilities	<u>278,265,303</u>	<u>276,971,687</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	1,165,799,690	1,208,942,170
Total liabilities	<u>1,444,064,993</u>	<u>1,485,913,857</u>
Net position:		
Net investment in capital assets:		
Collection system	508,994,825	517,578,982
Treatment and disposal -Land	4,475,751	4,475,751
Treatment and disposal system	1,918,743,375	1,892,214,370
Capital assets related debt	<u>(1,251,916,008)</u>	<u>(1,288,302,786)</u>
Subtotal	1,180,297,943	1,125,966,317
Unrestricted	520,426,972	471,651,300
Total net position	<u>\$ 1,700,724,915</u>	<u>\$ 1,597,617,617</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, 2013
(With Comparative Data for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012 (as restated)</u>
Operating revenues:		
Service charges	\$ 303,399,529	\$ 259,490,532
Permit and inspection fees	1,176,106	1,030,329
Total operating revenues	<u>304,575,635</u>	<u>260,520,861</u>
Operating expenses other than depreciation and amortization:		
Salaries and benefits	76,878,551	75,641,767
Utilities	6,403,013	7,405,843
Supplies, repairs and maintenance	24,093,927	24,254,601
Contractual services	26,791,095	26,698,372
Directors' fees	144,713	145,562
Meetings and training	719,521	742,765
Feasibility studies	10,646,100	34,198,026
Other	4,140,333	3,232,535
Total operating expenses other than depreciation and amortization	<u>149,817,253</u>	<u>172,319,471</u>
Operating income before depreciation and amortization	154,758,382	88,201,390
Depreciation and amortization	<u>63,906,848</u>	<u>56,051,029</u>
Operating income	<u>90,851,534</u>	<u>32,150,361</u>
Non-operating revenues:		
Property taxes	79,239,497	67,882,072
Investment and interest income	(3,912,925)	15,747,493
Contributions from other government	2,054,154	7,722,571
Other	1,727,320	763,161
Total non-operating revenues	<u>79,108,046</u>	<u>92,115,297</u>
Non-operating expenses:		
Interest	42,314,928	28,700,431
Contributions to other government	26,590,533	4,615,468
Other	54,549	58,701
Loss on disposal of assets	10,689,755	3,758,398
Total non-operating expenses	<u>79,649,765</u>	<u>37,132,998</u>
Income before capital contributions	90,309,815	87,132,660
Capital Contributions;		
Capital facilities capacity charges	12,797,483	8,936,033
Change in net position	<u>103,107,298</u>	<u>96,068,693</u>
Total net position - beginning, as restated	<u>1,597,617,617</u>	<u>1,501,548,924</u>
Total net position - ending	<u>\$ 1,700,724,915</u>	<u>\$ 1,597,617,617</u>

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2013
(With Comparative Data for the Year Ended June 30, 2012)

	2013	2012 (as restated)
Cash flows from operating activities:		
Receipts from customers and users	\$ 305,300,505	\$ 251,972,581
Payments to employees	(77,697,268)	(73,257,661)
Payments to suppliers	(68,387,501)	(72,465,597)
Net cash provided by operations	159,215,736	106,249,323
Cash flows from noncapital financing activities:		
Proceeds from property taxes	79,418,183	67,748,326
Proceeds from various resources	1,674,942	729,471
Net cash provided by noncapital financing activities	81,093,125	68,477,797
Cash flows from capital and related financing activities:		
Capital facilities capacity charges	11,879,435	8,674,313
Additions to property, plant and equipment	(109,353,843)	(73,861,468)
Interest paid	(51,970,472)	(51,661,572)
Principal payments on debt obligation	(259,070,000)	(462,635,000)
Proceeds from debt issuances	216,506,206	401,099,196
Debt issuance costs	(838,884)	(824,812)
Net cash used in capital and related financing activities	(192,847,558)	(179,209,343)
Cash flows from investing activities:		
Proceeds from the sale of investments	8,932,206,118	8,625,518,492
Purchases of investments	(8,896,971,673)	(8,710,267,505)
SARI project (advance)/payments	(20,483,710)	5,147,710
Interest received	10,627,896	7,646,487
Net cash provided by (used in) investing activities	25,378,631	(71,954,816)
Net increase (decrease) in cash and cash equivalents	72,839,934	(76,437,039)
Cash and cash equivalents, beginning of year	171,556,156	247,993,195
Cash and cash equivalents, end of year	\$ 244,396,090	\$ 171,556,156
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 90,851,534	\$ 32,150,361
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	63,906,848	56,051,029
Bad debt expense (Net recoveries)	11,398	(29,691)
Feasibility studies	6,058,284	28,979,182
(Increase)/decrease in operating assets:		
Accounts receivable	(316,323)	988,449
Inventories	(30,340)	992,447
Prepaid and other assets	(2,359,320)	(709,697)
Increase/(decrease) in operating liabilities:		
Accounts payable	(746,578)	(2,490,064)
Accrued expenses	733,795	499,985
Retentions payable	-	(214,439)
Due to other governmental agency	1,041,192	(9,536,729)
Pension/OPEB/Catastrophe leave payable	347,732	360,710
Compensated absences	(136,296)	(212,750)
Other payable	(277,285)	116,907
Claims and judgments	131,095	(696,377)
Net cash provided by operations	\$ 159,215,736	\$ 106,249,323
<u>Noncash Activities:</u>		
Unrealized gain (loss) on the fair value of investments	\$ (14,438,658)	\$ 8,236,187
Contributions from (to) other government	(24,536,380)	3,107,103
Capital facilities capacity contribution	7,450,400	2,184,800
Feasibility studies with no cash effect	6,032,722	21,909,604

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

(1) Summary of Significant Accounting Policies

Reporting Entity

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

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

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

The accompanying financial statements present OCSD and its blended component unit, the Orange County Sanitation District Financing Corporation. The Corporation is a legally separate entity although in substance it is considered to be part of OCSD's operations. OCSD is considered to be financially accountable for the Corporation which is governed by a board comprised entirely of OCSD's board members. There is no requirement for separate financial statements of the Corporation; consequently, separate financial statements for the Corporation are not prepared. The Corporation had no financial activity during the fiscal year ended June 30, 2013, other than principal and interest payments on outstanding certificates of participation/ revenue obligations and notes (see Note 4).

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

Comparative Information

The financial statements include partial prior-year comparative information which has been restated for the adoption of GASB Statement No. 65. Such information does not include all of the

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2012, from which such partial information was derived.

Measurement Focus and Basis of Accounting

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

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

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

Operating Plans

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

Cash and Cash Equivalents

Investments with original maturities of three months or less when purchased are considered to be cash equivalents.

Investments

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

Accounts Receivable

Accounts receivable is shown net of the allowance for uncollectible receivables. Uncollectible receivables were \$19,091 at June 30, 2013. Unbilled sewer services through June 30, 2013 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, 2013

Inventory

Inventory, 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. Net interest costs are capitalized on projects. During the fiscal year ended June 30, 2013, net interest costs of \$7.6 million were capitalized.

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

Amortization

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

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

Restricted Assets

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

Deferred Outflows of Resources

For advance refundings resulting in defeasance of debt, the difference between the reacquisitions price and the net carrying amount of the old debts (i.e. deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. OCSD's deferred charges on the refunding debts at June 30, 2013 are \$20,722,872.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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, net of any insurance coverage under its self-insurance program when it is probable that a claim liability has been incurred and when the amount of the loss can be reasonably estimated. Claims payable includes an estimate for incurred but unreported claims. The distribution between current and long-term portions of the liability is based on historical trends.

Property Taxes

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

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

Capital Facilities Capacity Charges

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

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, 2013, the outstanding commitments with contractors totaled \$176.0 million.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

Self-Insurance Plans

For the year ended June 30, 2013, OCSD was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation exposure is the \$750,000 deductible per occurrence under the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$250,000 per occurrence deductible (for most perils) under the outside excess property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$100,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. OCSD is self-insured for virtually all property damage from the peril of earthquake. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$250,000 per occurrence deductible (\$500,000 for employment practices liability) under the outside excess liability coverage to \$30 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$100,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. There are no significant changes in insurance coverage during the fiscal year ended June 30, 2013.

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OCSD are processed by outside insurance administrators. These claims are charged to claims expense based on amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. OCSD management believes that there are no unrecorded claims as of June 30, 2013 that would materially affect the financial position of OCSD.

Deferred Compensation Plan

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

Accounting Changes

The accompanying financial statements reflect the implementation of GASB Statements Nos. 63 and 65. Significant impacts of GASB Statement No. 63 include changing the title of the statement of net assets to the statement of net position and reformatting the statement of net position to add separate sections for *deferred inflows of resources* and *deferred outflows of resources*. Significant impacts of GASB Statement No. 65 include reclassifying as *deferred inflows of resources* and *deferred outflows of resources* certain balances that were previously reported as assets and liabilities. GASB Statement No. 65 also required that debt issuance costs (other than prepaid debt insurance) be reported as expense when incurred. The retroactive effect of implementing this change in reporting debt issuance costs resulted in a restatement of the beginning net position as described further in note 10. The effect on the previously issued financial statement as of June 30, 2011 resulted in an adjustment to ending net position from \$1,510,486,121 to \$1,501,548,924.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

(2) Cash and Investments

Cash and investments as of June 30, 2013 are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 208,278,072
Investments	<u>339,152,573</u>
Subtotal - current, unrestricted	<u>547,430,645</u>
Restricted:	
Cash and cash equivalents	36,118,018
Investments	<u>16,940,965</u>
Subtotal - restricted	<u>53,058,983</u>
Total cash and cash equivalents and investments	<u><u>\$ 600,489,628</u></u>

Cash and investments consist of the following as of June 30, 2013:

Cash on hand		\$ 3,000
Deposits with financial institutions		6,049,686
Managed portfolio - cash and investments		<u>541,377,959</u>
Subtotal - unrestricted cash and investments		547,430,645
Monies held by trustees:		
Cash and cash equivalents	\$ 36,118,018	
Investment contracts	<u>16,940,965</u>	
Subtotal - monies held by trustees		<u>53,058,983</u>
Grand total cash and investments		<u><u>\$ 600,489,628</u></u>

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

The following table identifies the investment types that are authorized by the California Government Code and OCSD's investment policy. This table, and the subsequent tables on pages 19–22 also identifies certain provisions of either the California Government Code or OCSD's investment policy (whichever is more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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	No limit	No limit
U.S. Treasury Obligations	Yes	5 years	No limit	No limit
California State Treasury Obligations	Yes	5 years	No limit	No limit
U.S. Agency Securities	Yes	5 years	No limit	No limit
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days / 31 days	15% / 25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	No limit
Repurchase Agreements	Yes	1 year	No limit	No limit
Reverse Repurchase Agreements	Yes	90 days ⁽²⁾	No limit	No limit
Corporate Medium-Term Notes	Yes	5 years	No limit	No limit
Mutual Funds	Yes	N/A	No limit	10%
Money Market Mutual Funds	Yes	N/A	15% ⁽²⁾	No limit
Mortgage Pass-Through Securities/CMO	Yes	5 years	20%	No limit
County Investment Pools	Yes	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	Yes	N/A	No limit	No limit

Notes

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

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

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

Investments Authorized by Debt Agreements

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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%	10%
Commercial Paper	270 days / 31 days	15% / 30%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	No limit	No limit
Corporate Medium-Term Notes	5 years	30%	No limit
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
Guaranteed Investment Contracts	N/A	No limit	No limit

Disclosures Relating to Interest Rate Risk

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

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

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2013.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
Short-Term Portfolio:			
U.S. Treasury Bills	\$ 36,537,817	0.230	2.76
U.S. Agency Securities	16,790,972	0.260	3.12
U.S. Treasury Notes	16,105,676	0.510	6.12
Repurchase Agreements	900,000	0.010	0.12
Local Agency Investment Fund (LAIF)	27,156,672	0.760	9.26
Money Market Mutual Funds	<u>612,616</u>	0.070	0.84
Short-term portfolio subtotal	<u>\$ 98,103,753</u>	0.430	5.16
Long-Term Portfolio:			
U.S. Treasury Bills	\$ 91,872,291	0.180	2.16
U.S. Treasury Notes	178,738,469	3.432	41.18
U.S. Treasury Inflation-Protected Securities (TIPS)	26,086,223	12.460	149.52
U.S. Agency Securities	70,489,383	0.400	4.80
U.S. Govt. Backed Mortgage Pools	414,131	3.640	43.68
Taxable Municipal Bonds	19,128,800	9.220	110.64
Tax-Exempt Municipal Bonds	570,525	13.270	159.24
Corporate Medium-Term Notes	38,350,969	3.230	38.76
Repurchase Agreements	8,800,000	0.010	0.12
Money Market Mutual Funds	601,502	0.080	0.96
Mortgage Pass-Through Securities/CMO	<u>8,221,913</u>	3.440	41.28
Long-term portfolio subtotal	<u>\$ 443,274,206</u>	2.980	35.76
Total Portfolio	<u><u>\$ 541,377,959</u></u>		

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, 2013.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
Money Market Mutual Funds:		
Blackrock Institutional Funds	\$ 32,271	56 days
US Bank Cash	23	N/A
US Bank Commercial Paper	31,632	N/A
US Bank Money Market Fund	75,039	N/A
Local Agency Investment Fund (LAIF)	35,979,053	278 day average
Investments held by fiscal agents:		
Guaranteed Investment Agreements:		
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 29, 2030
Bayerische Landesbank Girozentrale - 2009A COP	<u>7,422,965</u>	August 1, 2016
Fair Value of Investments Held by Fiscal Agents	<u><u>\$ 53,058,983</u></u>	

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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 \$8,432,892 including \$4,765,783 of mortgage pass-through securities and \$3,667,109 of U.S. agency securities.

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, 2013

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	\$ 349,340,476	
U.S. Agency Securities - GNMA	414,131	
Subtotal		\$ 349,754,607
Investments with no legal minimum rating:		
U.S. Agency Securities (other than GNMA):		
Rating of AA+ (Standard & Poor's)	87,562,294	
Not rated at fiscal year end	(281,939)	
Municipal Bonds:		
Rating of Aaa (Moody's)	1,358,868	
Rating of Aa1 (Moody's)	1,482,362	
Rating of Aa2 (Moody's)	1,508,312	
Rating of Aa3 (Moody's)	6,065,251	
Rating of AA- (Standard & Poor's)	440,504	
Rating of A1 (Moody's)	1,570,231	
Rating of A2 (Moody's)	361,752	
Rating of A3 (Moody's)	4,965,060	
Rating of A- (Fitch)	1,946,985	
Repurchase Agreements:		
Not rated at fiscal year end	9,700,000	
Local Agency Investment Fund (LAIF):		
Not rated at fiscal year end	63,135,725	
Investments with fiscal agents - Guaranteed Investment Contracts:		
Not rated at fiscal year end	16,940,965	
Subtotal		196,756,370
Investments with a legal minimum rating (or its equivalent) of A:		
Corporate Medium-Term Notes:		
Rating of A (Fitch)	6,444,107	
Rating of A2 (Moody's)	5,642,996	
Rating of A3 (Moody's)*	7,080,056	
Rating of Baa1 (Moody's)*	1,780,522	
Rating of BBB+ (Fitch)*	3,488,932	
Rating of Baa2 (Moody's)*	8,698,869	
Rating of BBB (Fitch)*	2,443,010	
Rating of Baa3 (Moody's)*	1,402,961	
Not rated at fiscal year end	1,369,516	
Commercial Paper:		
Rating of P-1 (Moody's)	31,655	
Money Market Mutual Funds:		
Rating of Aaa (Moody's)	1,087,615	
Rating of P-1 (Moody's)	80,910	
Not rated at fiscal year end	45,593	
Invested with fiscal agents:		
Rating of Aaa-mf (Moody's)	32,271	
Rating of P-1 (Moody's)	75,039	
Subtotal		39,704,052
Investments with a legal minimum rating (or its equivalent) of AA:		
Mortgage Pass-Through Securities/CMO:		
Rating of Aaa (Moody's)	243,707	
Rating of AA+ (Standard & Poor's)	7,412,034	
Rating of BBB (Fitch)*	120,205	
Rating of BB (Fitch)*	445,967	
Subtotal		8,221,913
Total		\$ 594,436,942

* 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, 2013

Concentration of Credit Risk

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

Custodial Credit Risk

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and OCSD's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of June 30, 2013, in accordance with OCSD's investment policy, none of OCSD's investments were held with a counterparty. All of OCSD's investments were held with an independent third party custodian bank registered in the name of the District. OCSD uses Bank of New York (BNY) Mellon as a third party custody and safekeeping service for its investment securities.

Investment in State Investment Pool

OCSD is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of OCSD's investment in this pool is reported in the accompanying financial statements at amounts based upon OCSD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. The amounts invested in LAIF are recorded as cash and cash equivalents at June 30, 2013.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

(3) Capital Assets

Capital asset activity for the year ended June 30, 2013 is as follows:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets not depreciated:				
Cost:				
Land	\$ 15,959,559	\$ -	\$ -	\$ 15,959,559
Construction in progress	1,271,217,317	97,589,532	(171,029,526)	1,197,777,323
Total nondepreciable assets	<u>1,287,176,876</u>	<u>97,589,532</u>	<u>(171,029,526)</u>	<u>1,213,736,882</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	604,574,936	30,229,828	(256,629)	634,548,135
Sewage treatment facilities	1,198,682,634	116,537,480	-	1,315,220,114
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	211,535,601	8,549,941	(284,302)	219,801,240
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>2,135,250,227</u>	<u>155,317,249</u>	<u>(540,931)</u>	<u>2,290,026,545</u>
Accumulated depreciation:				
Sewage collection facilities	(267,013,496)	(16,034,892)	231,070	(282,817,318)
Sewage treatment facilities	(537,954,196)	(38,372,708)	-	(576,326,904)
Effluent disposal facilities	(54,524,921)	(1,588,010)	-	(56,112,931)
Solids disposal facilities	(3,117,378)	(9,719)	-	(3,127,097)
General and administrative facilities	(128,447,575)	(7,243,810)	284,302	(135,407,083)
Excess purchase price over book value on acquired assets	(17,100,434)	(657,709)	-	(17,758,143)
Subtotal	<u>(1,008,158,000)</u>	<u>(63,906,848)</u>	<u>515,372</u>	<u>(1,071,549,476)</u>
Net depreciable assets	<u>1,127,092,227</u>	<u>91,410,401</u>	<u>(25,559)</u>	<u>1,218,477,069</u>
Net capital assets	<u>\$2,414,269,103</u>	<u>\$188,999,933</u>	<u>\$(171,055,085)</u>	<u>\$2,432,213,951</u>

Capital asset additions for the fiscal year ended June 30, 2013 are \$15.7 million less than the amount deleted from Construction in Progress primarily due to \$8.9 million of accumulated costs for canceled projects and \$5.1 million for feasibility studies that were removed from Construction in Progress and recorded as expense in accordance with generally accepted accounting principles.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2013

(4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2013:

	Arbitrage Payable	Compensated Absences	Claims and Judgments	Certificates of Participation / Revenue Obligations and Notes	Net Pension Obligation	Net OPEB Obligation	Totals
Balance, July 1	\$407,272	\$7,599,881	\$1,446,941	\$1,335,965,000	\$8,082,368	\$ 785,207	\$1,354,286,669
Additions	181,144	6,543,632	298,026	198,095,000	969,200	888,217	206,975,219
Deletions	(458,429)	(6,678,447)	(166,931)	(259,070,000)	(421,650)	(1,089,516)	(267,884,973)
Balance, June 30	129,987	7,465,066	1,578,036	1,274,990,000	8,629,918	583,908	1,293,376,915
Due within one year	-	(6,809,017)	(416,720)	(171,290,000)	-	-	(178,515,737)
Unamortized (discount)/premium	-	-	-	50,938,512	-	-	50,938,512
Long-term amount	<u>\$129,987</u>	<u>\$ 656,049</u>	<u>\$1,161,316</u>	<u>\$1,154,638,512</u>	<u>\$8,629,918</u>	<u>\$ 583,908</u>	<u>\$1,165,799,690</u>

Arbitrage Payable

The Tax Reform Act of 1986 (the Act) requires OCSD to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of OCSD's debt and interest earnings on the proceeds thereof are subject to the requirements of the Act. OCSD's liability at June 30, 2013 is \$129,987.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2013 is \$7,465,066 with an estimated \$6,809,017 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, 2013 and 2012:

	2012-13	2011-12
Claims and judgments payable at July 1	\$1,446,941	\$2,143,318
Claims incurred during the fiscal year	298,026	(297,894)
Payments on claims during the fiscal year	(166,931)	(398,483)
Claims and judgments payable at June 30	1,578,036	1,446,941
Less: current portion	(416,720)	(491,870)
Total long-term claims and judgments payable	<u>\$1,161,316</u>	<u>\$ 955,071</u>

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, 2013 are summarized as follows:

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

	Amount
2007A refunding certificates of participation	\$ 92,620,000
2007B certificates of participation	273,400,000
2008A refunding certificates of participation	19,195,000
2008B refunding certificates of participation	26,075,000
2009A certificates of participation	187,765,000
2010A wastewater revenue obligations	80,000,000
2010C wastewater revenue obligations	157,000,000
2011A wastewater refunding revenue obligations	140,195,000
2012A wastewater refunding revenue obligations	100,645,000
2012B wastewater refunding revenue obligations	66,395,000
2012C revenue refunding certificate anticipation notes	131,700,000
Total certificates of participation, revenue obligations and notes	<u>\$ 1,274,990,000</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, 2013, the coverage ratio for senior lien debt was 3.01.

August 2000 Refunding Certificates of Participation, Series 2000

On August 31, 2000, OCSD completed the sale of \$218,600,000 of refunding certificates of participation. The certificates were issued to refund the remaining outstanding principal balance of the 1990-92 Series A, B, and C certificates of participation and to reimburse OCSD for improvements made to the wastewater system.

On October 3, 2011, \$89,800,000 of the outstanding principal balance of the 2000 series A and B certificates was advance-refunded with the proceeds of the October 3, 2011 wastewater refunding revenue obligations series 2011A (see below) in a transaction accounted for as an in-substance defeasance. All of the \$89.8 million is held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2013, this \$89,800,000 represents the amount still outstanding on certificates of participation considered defeased.

On August 16, 2012, \$91,900,000 of the outstanding principal balance of the 2000 series A and B certificates was advance-refunded with the proceeds of the August 16, 2012 wastewater refunding revenue obligations series 2012B (see below) in a transaction accounted for as an in-substance defeasance. All of the \$91.9 million is held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2013, this \$91,900,000 represents the amount still outstanding on certificates of participation considered defeased.

May 2007 Refunding Certificates of Participation, Series 2007A

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2013 reserve of \$9,518,000 is held by Union Bank, the trustee, and meets the reserve requirement.

December 2007 Certificates of Participation, Series 2007B

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2013 reserve of \$19,845,935 is held by Union Bank, the trustee, and meets the reserve requirement.

May 2008 Refunding Certificates of Participation, Series 2008A

On May 29, 2008, OCSD completed the sale of \$77,165,000 of refunding certificates of participation. The certificates were issued to refund the \$85,505,000 outstanding principal balance of the 1992 Series certificates of participation. The interest rate on the refunding certificates is fixed and ranges from 2.95 percent to 4.0 percent. Annual principal payments are due on February 1, beginning February 1, 2009.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2013 reserve of \$7,728,142 is held by US Bank, the trustee, and meets the reserve requirement.

September 2008 Refunding Certificates of Participation, Series 2008B

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2013 reserve of \$2,784,195 is held by US Bank, the trustee, and meets the reserve requirement.

May 2009 Certificates of Participation, Series 2009A

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2013 reserve of \$13,134,823 is held by US Bank, the trustee, and meets the reserve requirement.

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Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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 ranges 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. Thus, the net interest rate on the obligations is fixed and ranges from 3.614 percent to 3.627 percent. Annual principal payments are due on February 1, beginning February 1, 2034.

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 ranges 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. Thus, the net interest rate on the obligations is fixed and ranges from 4.1275 percent to 4.16 percent. Annual principal payments are due on February 1, beginning February 1, 2031.

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 ranges from 3 percent to 5 percent. Annual principal payments are due on August 1 and February 1, beginning August 1, 2012.

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 ranges from 3 percent to 4 percent. Annual principal payments are due on February 1, beginning February 1, 2031.

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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 ranges from 3 to 5 percent. Annual principal payments are due on February 1, beginning February 1, 2019.

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$1.3 million. The total future payments for the new debt provide a net present value gain of approximately \$1.4 million to refund the old debt in payments.

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

October 2012 Revenue Refunding Certificate Anticipation Notes, Series 2012C

On October 30, 2012, OCSD completed the sale of \$131,700,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$143,205,000 outstanding principal balance of the 2011 Series B revenue refunding certificate anticipation notes. The interest rate on the notes is fixed at 2.0 percent. The notes will mature on October 30, 2013. OCSD expects the principal and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$31,000. The total future payments for the new debt provide a net present value loss of approximately \$274,000 to refund the old debt in payments.

The trust agreement for the certificates 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, 2013, including the Revenue Refunding Certificate Anticipation Notes, Series 2012C that currently matures in October 2013, are as follows:

There is no future revenue pledged to make the debt service payments.

Year Ending June 30,	Principal	Estimated Interest	Total
2014	\$ 171,290,000	\$ 52,856,296	\$ 224,146,296
2015	27,875,000	48,998,310	76,873,310
2016	29,405,000	47,833,915	77,238,915
2017	35,575,000	46,463,482	82,038,482
2018	33,170,000	44,865,681	78,035,681
2019-2023	164,725,000	201,988,082	366,713,082
2024-2028	181,515,000	161,657,089	343,172,089
2029-2033	298,610,000	112,243,731	410,853,731
2034-2038	226,820,000	47,119,421	273,939,421
2039-2043	103,525,000	8,812,095	112,337,095
2044	2,480,000	59,711	2,539,711
Total	\$ 1,274,990,000	\$ 772,897,813	\$ 2,047,887,813

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

Certificates of Participation Defeasance for Fiduciary Activities

In prior years, various certificates of participation were defeased by placing the proceeds of revenue refunding obligations in an escrow account to provide for all future debt service payments on the old debts. Accordingly, the escrow account assets and the related liabilities for these defeased debts are not reflected in the Sanitation District's financial statements. At June 30, 2013, the following represents the amounts still outstanding on debt obligations considered defeased:

\$ 280,000,000 August 2003 Certificates of Participation, Series 2003

(5) Net Position

The difference between assets and deferred outflows and liabilities and deferred inflows is reported as net position. Net position is classified as restricted, unrestricted, or net investment in capital assets. Net position at June 30, 2013 consisted of the following:

	June 30, 2013
Net investment in capital assets:	
Capital assets, net of accumulated depreciation	\$ 2,432,213,951
Outstanding debt issued to acquire capital assets, net of: unamortized bond discount, deferred amount on refundings, and unspent proceeds	(1,251,916,008)
Subtotal	1,180,297,943
Unrestricted:	
All other unrestricted	520,426,972
Total net position	<u>\$ 1,700,724,915</u>

(6) Pension Benefits

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

Pension Plan

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

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

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

Contributions: As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. Employees covered by Plans B, G, H, and U are required to contribute 5.76% - 11.58%, 8.28% - 14.51%, 7.92% - 14.51%, and 5.50% - 12.25%, respectively, of their annual compensation to OCERS. OCSD is required to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees' compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. For the fiscal years ended June 30, 2013, 2012, and 2011, the "Annual Required Contribution" equaled the contributions actually made. Required contributions, which are actuarially determined, are set by OCERS.

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

	For the Fiscal Year Ending		
	June 30, 2011	June 30, 2012	June 30, 2013
Total payroll costs	\$ 62,107,324	\$ 62,603,878	\$ 61,878,748
Payroll costs of employees covered by OCERS	59,787,560	60,419,910	59,832,408
Contribution requirements:			
Contributed by employees	4,422,908	4,566,386	4,462,869
Contributed by the District on behalf of employees	2,078,679	2,089,868	1,923,875
Total employee required contribution	6,501,587	6,656,254	6,386,744
District required contribution	14,370,158	15,767,050	16,363,917
Total contribution	<u>\$ 20,871,745</u>	<u>\$ 22,423,304</u>	<u>\$ 22,750,661</u>
Total actual contribution as a percent of the "Annual Required Contribution (ARC)"	100.00%	100.00%	100.00%
Employee required contribution as a percent of covered payroll	10.87%	11.02%	10.67%
District required contribution as a percent of covered payroll	24.04%	26.10%	27.35%
Total contribution as a percent of all participating entities' contributions	3.66%	3.60%	3.90%

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

OCSD medical plan. The plan is currently paying benefits to 188 retirees. The plan is included in OCSD's financial statements; stand-alone financial statements are not issued for the plan.

Benefits: Employees who retire receive \$10 per month for every year of service up to a maximum of 25 years, or \$250 per month. This amount is independent of salary and is fixed at retirement. Because the District cannot ensure the use of the benefit for payment of eligible health insurance expenditures, the benefit is taxable to the retiree. Survivor benefits are provided in the event that a retiree pre-deceases his/her spouse. For retirees hired prior to July 1, 1988, OCSD provides health insurance coverage for 2½ months per year of service (see Note 7 – Other Postemployment Benefits). ARBA benefits begin immediately after this benefit ends. For those hired on or after July 1, 1988, ARBA benefits begin immediately upon retirement and continue for life. Employees hired into the OCEA bargaining group after August 1, 2011 are ineligible for this benefit.

Funding: There are no employee contributions for this plan; OCSD covers 100% of the cost. An actuarial evaluation was performed as of July 1, 2011, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year and an inflation rate of 2.5% were used; no salary adjustment was used due to the flat dollar nature of the benefit. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan.

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

<u>Annual Pension Cost</u>			
<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/11	842,288	39.0%	7,471,180
6/30/12	978,398	37.5%	8,082,368
6/30/13	969,200	43.5%	8,629,918

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

<u>Actuarial Valuation Date</u>	<u>Entry Age 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>
6/30/2005 *	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2007	7,395,472	-	7,395,472	-	49,788,835	14.9%
6/30/2009	8,904,499	-	8,904,499	-	57,681,058	15.4%
6/30/2011	10,753,718	-	10,753,718	-	60,419,910	17.8%

*Actuarial valuation not performed for this year.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

The annual pension cost and net pension obligation for the year ended June 30, 2011, 2012 and 2013 were as follows:

	For the Fiscal Year Ending		
	June 30, 2011	June 30, 2012	June 30, 2013
Annual required contribution	\$ 946,999	\$ 1,090,849	\$ 1,090,849
Interest on net pension obligation	347,849	373,559	404,118
Adjustment to annual required contribution	(452,560)	(486,010)	(525,767)
Annual pension cost	842,288	978,398	969,200
Contributions made	(328,083)	(367,210)	(421,650)
Increase in net pension obligation	514,205	611,188	547,550
Net pension obligation, beginning of year	6,956,975	7,471,180	8,082,368
Net pension obligation, end of year	<u>\$ 7,471,180</u>	<u>\$ 8,082,368</u>	<u>\$ 8,629,918</u>

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

(7) Other Postemployment Benefits

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

As of the date of the latest actuarial valuation (7/1/11), there were 593 active employees, 72 retirees paying premiums, and 64 retirees whose premium is fully paid by OCSD. Premiums ranged between \$171 and \$3,368 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. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom the District pays for a period (see above). An actuarial evaluation was performed as of July 1, 2011, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date, assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used. The rate of increase for healthcare premium was set as 7.0% for the 2012-13 fiscal year, and 7.0% for years thereafter. 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 2012-13, OCSD contributed \$1,089,516 and retirees contributed \$506,749 to cover current year expenditures.

Annual OPEB Cost and Net OPEB Obligation: The annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in 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, 2013

The following OPEB cost and net OPEB obligation was determined for the years ended June 30, 2013, 2012, and 2011:

	June 30, 2011	June 30, 2012	June 30, 2013
Annual required contribution	\$ 819,692	\$ 900,035	\$ 900,035
Interest on net OPEB obligation	41,579	51,784	39,260
Adjustment to annual required contribution	(54,096)	(67,373)	(51,078)
Annual OPEB cost	807,175	884,446	888,217
Contributions made	(603,074)	(1,134,925)	(1,089,516)
Increase (decrease) in net OPEB obligation	204,101	(250,479)	(201,299)
Net OPEB obligation, beginning of year	831,585	1,035,686	785,207
Net OPEB obligation, end of year	<u>\$ 1,035,686</u>	<u>\$ 785,207</u>	<u>\$ 583,908</u>

The District's annual OPEB cost contributed and the net OPEB obligation for the years ended 2013, 2012, and 2011 are shown in the following table.

<u>Annual OPEB Cost</u>				
Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/11	807,175	603,074	74.7%	1,035,686
6/30/12	884,446	1,134,925	128.3%	785,207
6/30/13	888,217	1,089,516	122.7%	583,908

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
7/1/2005*	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2007	-	9,949,638	9,949,638	0%	49,788,835	19.98%
7/1/2009	-	8,799,624	8,799,624	0%	57,684,058	15.25%
7/1/2011	-	10,706,789	10,706,789	0%	60,419,910	17.72%

*GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was implemented on June 30, 2008 and thus earlier valuations were not done.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, compares whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial liabilities for benefits.

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

The ARC for the current year was determined as part of the 7/1/11 actuarial valuation using the Projected Unit Credit cost method. The actuarial assumptions include a 5% investment rate of return (changed from 6% for the 7/1/07 valuation), an annual rate of inflation of 2.5%, and an annual healthcare cost trend rate of 7%. The UAAL is being amortized ratably over 30 years. Inflation assumptions are included as part of the healthcare cost trend. No benefit increase is anticipated and the benefit is unaffected by changes in salary.

(8) 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, 2013, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$2,220,857.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 on January 1, 1986 whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, which contribution of \$2,054,153 was recorded in 2013. 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. As the flows decreased during the year, a return of capital contributions of \$26,590,533 to Revenue Area 14 was recognized and reported as contributions to other government in 2013. These capital contributions

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

received from or credited to IRWD for their agreed-upon share of capital assets and equity share in OCSD's Joint Works Treatment Facilities are calculated as prescribed in the agreements.

In addition, a separate agreement for transfer of IRWD's wastewater solids residuals to OCSD was entered on April 28, 2010. IRWD agreed to pay OCSD a charge for interim solids handling charge which include annual capital and quarterly operating expense components designed to compensate OCSD for IRWD's share of the cost of operating and maintaining the existing facilities for the treatment of solids. As a result, a total of \$14,764,044 in solids handling charges was reported as operating revenue in Consolidated Revenue Area in 2013.

Any amounts credited to IRWD are not refunded in cash but are held as a credit to satisfy future contributions required of IRWD resulting in a balance due to other governmental agency of \$48,700,573 as of June 30, 2013.

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2013; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$8.8 million. This cash reserve requirement is recognized as a liability to IRWD.

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

Relocation of the Santa Ana Regional Interceptor: On June 29, 2010, the District entered into an agreement to lend the Orange County Flood Control District (OCFCD) 60 percent of the amount of the contract awarded to design and construct the relocation of the Santa Ana Regional Interceptor, but not to exceed \$72 million. On December 18, 2012, a new agreement was executed that superseded the prior agreement and reduced the District's maximum loan obligation to \$59,036,400 based on lower than expected construction costs. OCFCD agrees to repay the loan from any subvention funds received by OCFCD, with the total balance repaid by no later than July 1, 2022. Repayment installments will be made within 30 days equal to 60 percent of any subvention funds received by OCFCD. Interest shall accrue on the unpaid balance from July 1, 2018 at an annual interest rate of two percent until the unpaid balance has been repaid. As of June 30, 2013, \$51,336,000 has been loaned to OCFCD, leaving the District with an outstanding obligation to loan an additional amount not to exceed \$7,700,400.

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2013

(10) Restatement- adoption of new accounting standard

During the year ended June 30, 2013, OCSD implemented GASB Statement No. 65. The implementation of GASB Statement No. 65 required that debt issuance costs (other than prepaid bond insurance) be reported as expense when incurred. The retroactive effect of implementing this change in reporting debt issuance costs resulted in a restatement of the beginning net position. The following is a summary of the effect of this adjustment:

	<u>For the Fiscal Year Ended</u>
	<u>June 30, 2012</u>
Deferred charges - beginning, as previously reported	\$ 9,934,078
Debt issuance costs adjustment	<u>(8,199,316)</u>
Deferred charges - beginning, as restated	<u>\$ 1,734,762</u>
Interest expenses, as previously reported	\$ 29,438,312
Debt issuance costs amortization	<u>(737,881)</u>
Interest expenses, as restated	<u>\$ 28,700,431</u>
Total net position - beginning, as previously reported	\$1,605,816,933
Debt issuance costs adjustment	<u>(8,199,316)</u>
Total net position - beginning, as restated	<u><u>\$1,597,617,617</u></u>

(11) Subsequent Events

On October 16, 2013, the District issued Revenue Refunding Certificate Anticipation Notes (CANs) Series 2013A, in the amount of \$129,625,000. The notes were issued to pay off all of the CANs Series 2012C. The true interest cost on the CANs Series 2013A, maturing on October 16, 2014, is 0.173756%.

**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Net Position

June 30, 2013

With Comparative Totals for June 30, 2012

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2013	2012 (as restated)
Current assets:				
Cash and cash equivalents	\$ 18,528,852	\$ 189,749,220	\$ 208,278,072	\$ 135,014,420
Investments	30,171,721	308,980,852	339,152,573	378,937,214
Accounts receivable, net of allowance for uncollectibles \$19,091	-	9,757,514	9,757,514	9,452,589
Accrued interest receivable	-	1,596,362	1,596,362	1,576,247
Connection fees receivable	-	1,565,534	1,565,534	647,485
Property tax receivable	-	1,363,536	1,363,536	1,542,223
Inventories	-	5,689,074	5,689,074	5,596,197
Prepaid expenses	-	600,214	600,214	858,826
Prepaid retirement	-	17,555,710	17,555,710	14,937,778
Total current assets	48,700,573	536,858,016	585,558,589	548,562,979
Noncurrent assets:				
Restricted:				
Cash and cash equivalents	-	36,118,018	36,118,018	36,541,736
Investments	-	16,940,965	16,940,965	26,829,427
Accrued interest receivable	-	230,648	230,648	239,070
Unrestricted:				
Non-depreciable capital assets	19,101,581	1,194,635,301	1,213,736,882	1,287,176,876
Depreciable capital assets, net of accumulated depreciation	28,617,766	1,189,859,303	1,218,477,069	1,127,092,227
Prepaid insurance on outstanding debt payable	-	1,658,521	1,658,521	1,734,762
Due from other governmental agency	-	51,336,000	51,336,000	30,852,290
Other noncurrent assets, net	-	10,344	10,344	10,344
Total noncurrent assets	47,719,347	2,490,789,100	2,538,508,447	2,510,476,732
Total assets	96,419,920	3,027,647,116	3,124,067,036	3,059,039,711
Deferred outflow of resources:				
Deferred charges on refunding debt	-	20,722,872	20,722,872	24,491,763
Total assets and deferred outflow of resources	96,419,920	3,048,369,988	3,144,789,908	3,083,531,474
Current liabilities:				
Accounts payable	-	11,485,962	11,485,962	12,232,536
Accrued expenses	-	8,123,120	8,123,120	7,410,100
Retentions payable	-	8,286,811	8,286,811	2,045,987
Interest payable	-	23,153,100	23,153,100	21,839,400
Due to other governmental agency	48,700,573	-	48,700,573	47,659,381
Current portion of long-term obligations	-	178,515,737	178,515,737	185,784,283
Total current liabilities	48,700,573	229,564,730	278,265,303	276,971,687
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	-	1,165,799,690	1,165,799,690	1,208,942,170
Total liabilities	48,700,573	1,395,364,420	1,444,064,993	1,485,913,857
Net position:				
Net investment in capital assets:				
Collection system	17,791,272	491,203,553	508,994,825	517,578,982
Treatment and disposal -Land	406,846	4,068,905	4,475,751	4,475,751
Treatment and disposal system	29,521,229	1,889,222,146	1,918,743,375	1,892,214,370
Capital assets related debt	-	(1,251,916,008)	(1,251,916,008)	(1,288,302,786)
Subtotal	47,719,347	1,132,578,596	1,180,297,943	1,125,966,317
Unrestricted	-	520,426,972	520,426,972	471,651,300
Total net position	\$ 47,719,347	\$ 1,653,005,568	\$ 1,700,724,915	\$ 1,597,617,617

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013
With Comparative Totals for June 30, 2012

	Revenue	Consolidated	Totals	
	Area No. 14	Revenue Area	2013	2012 (as restated)
Operating revenues:				
Service charges	\$ 8,772,327	\$ 294,627,202	\$ 303,399,529	\$ 259,490,532
Permit and inspection fees	8,106	1,168,000	1,176,106	1,030,329
Total operating revenues	<u>8,780,433</u>	<u>295,795,202</u>	<u>304,575,635</u>	<u>260,520,861</u>
Operating expenses other than depreciation and amortization:				
Salaries and benefits	1,035,499	75,843,052	76,878,551	75,641,767
Utilities	125,837	6,277,176	6,403,013	7,405,843
Supplies, repairs and maintenance	716,679	23,377,248	24,093,927	24,254,601
Contractual services	7,399,831	19,391,264	26,791,095	26,698,372
Directors' fees	16,163	128,550	144,713	145,562
Meetings and training	10,312	709,209	719,521	742,765
Feasibility studies	105,596	10,540,504	10,646,100	34,198,026
Other	50,804	4,089,529	4,140,333	3,232,535
Total operating expenses other than depreciation and amortization	<u>9,460,721</u>	<u>140,356,532</u>	<u>149,817,253</u>	<u>172,319,471</u>
Operating income (loss) before depreciation and amortization	(680,288)	155,438,670	154,758,382	88,201,390
Depreciation and amortization	<u>2,567,791</u>	<u>61,339,057</u>	<u>63,906,848</u>	<u>56,051,029</u>
Operating income (loss)	<u>(3,248,079)</u>	<u>94,099,613</u>	<u>90,851,534</u>	<u>32,150,361</u>
Non-operating revenues:				
Property taxes	1,977,025	77,262,472	79,239,497	67,882,072
Investment and interest income	(355,267)	(3,557,658)	(3,912,925)	15,747,493
Contributions from other government	2,054,154	-	2,054,154	7,722,571
Other	13,161	1,714,159	1,727,320	763,161
Total non-operating revenues	<u>3,689,073</u>	<u>75,418,973</u>	<u>79,108,046</u>	<u>92,115,297</u>
Non-operating expenses:				
Interest	-	42,314,928	42,314,928	28,700,431
Contributions to other government	26,590,533	-	26,590,533	4,615,468
Other	698	53,851	54,549	58,701
Loss on disposal of assets	208,392	10,481,363	10,689,755	3,758,398
Total non-operating expenses	<u>26,799,623</u>	<u>52,850,142</u>	<u>79,649,765</u>	<u>37,132,998</u>
Income (loss) before transfer and capital contributions	(26,358,629)	116,668,444	90,309,815	87,132,660
Capital Contributions:				
Capital facilities capacity charges	-	12,797,483	12,797,483	8,936,033
Change in net position	(26,358,629)	129,465,927	103,107,298	96,068,693
Total net position - beginning, as restated	<u>74,077,976</u>	<u>1,523,539,641</u>	<u>1,597,617,617</u>	<u>1,501,548,924</u>
Total net position - ending	<u>\$ 47,719,347</u>	<u>\$ 1,653,005,568</u>	<u>\$ 1,700,724,915</u>	<u>\$ 1,597,617,617</u>

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Cash Flows
For the Year Ended June 30, 2013
With Comparative Totals for June 30, 2012

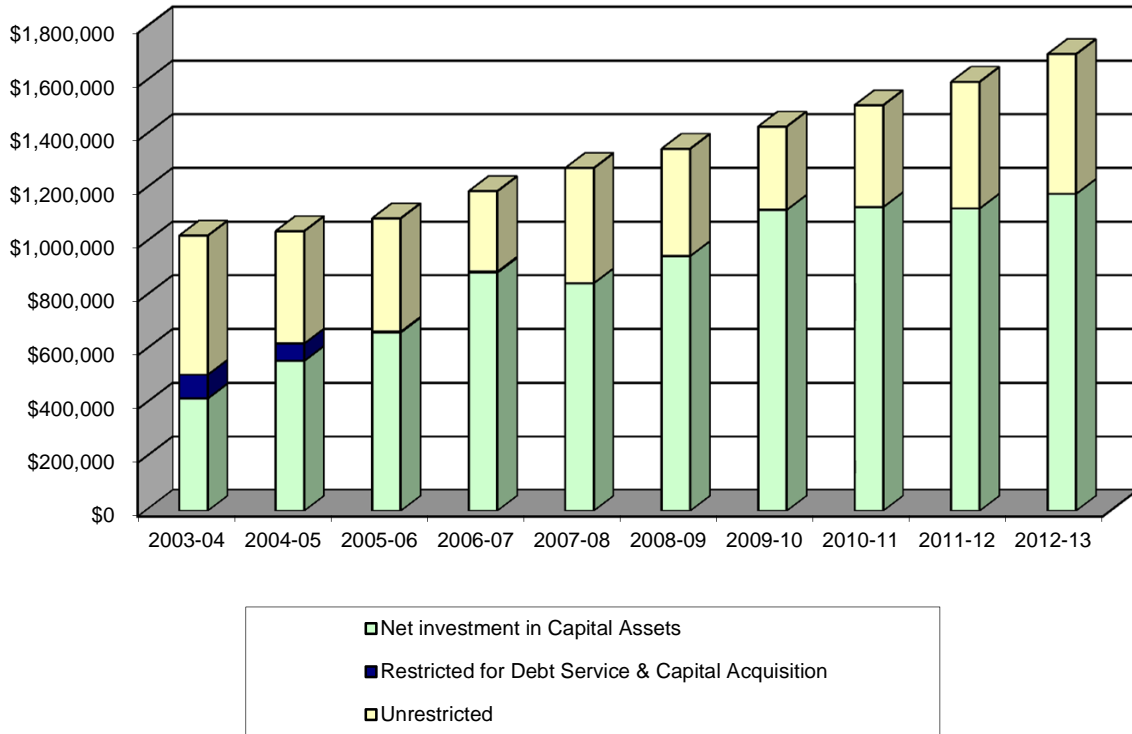
	Revenue	Consolidated	Eliminations	Totals	
	Area No. 14	Revenue Area		2013	2012 (as restated)
Cash flows from operating activities:					
Receipts from customers and users	\$ 9,821,625	\$ 295,478,880	\$ -	\$ 305,300,505	\$ 251,972,581
Payments to employees	(1,051,662)	(76,645,606)	-	(77,697,268)	(73,257,661)
Payments to suppliers	(8,362,571)	(60,024,930)	-	(68,387,501)	(72,465,597)
Net cash provided by operations	407,392	158,808,344	-	159,215,736	106,249,323
Cash flows from noncapital financing activities:					
Proceeds from property taxes	1,977,025	77,441,158	-	79,418,183	67,748,326
Proceeds from various resources	14,633	1,660,309	-	1,674,942	729,471
Net cash provided by noncapital financing activities	1,991,658	79,101,467	-	81,093,125	68,477,797
Cash flows from capital and related financing activities:					
Capital facilities capacity charges	-	11,879,435	-	11,879,435	8,674,313
Additions to property, plant and equipment	23,533,789	(87,370,049)	(45,517,583)	(109,353,843)	(73,861,468)
Disposal of property, plant, and equipment	-	(20,981,203)	20,981,203	-	-
Interest paid	-	(51,970,472)	-	(51,970,472)	(51,661,572)
Principal payments on debt obligation	-	(259,070,000)	-	(259,070,000)	(462,635,000)
Proceeds from debt issuances	-	216,506,206	-	216,506,206	401,099,196
Debt issuance costs	-	(838,884)	-	(838,884)	(824,812)
Contribution to other government	(24,536,380)	-	24,536,380	-	-
Net cash used in capital and related financing activities	(1,002,591)	(191,844,967)	-	(192,847,558)	(179,209,343)
Cash flows from investing activities:					
Proceeds from the sale of investments	804,410,561	8,127,795,557	-	8,932,206,118	8,625,518,492
Purchases of investments	(800,727,451)	(8,096,244,222)	-	(8,896,971,673)	(8,710,267,505)
SARI project (advance)/payments	-	(20,483,710)	-	(20,483,710)	5,147,710
Interest received	929,226	9,698,670	-	10,627,896	7,646,487
Net cash provided by (used in) investing activities	4,612,336	20,766,295	-	25,378,631	(71,954,816)
Net increase (decrease) in cash and cash equivalents	6,008,795	66,831,139	-	72,839,934	(76,437,039)
Cash and cash equivalents, beginning of year	12,520,057	159,036,099	-	171,556,156	247,993,195
Cash and cash equivalents, end of year	\$ 18,528,852	\$ 225,867,238	\$ -	\$ 244,396,090	\$ 171,556,156
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (3,248,079)	\$ 94,099,613	\$ -	\$ 90,851,534	\$ 32,150,361
Adjustments to reconcile operating income (loss) to net cash provided by operations:					
Depreciation and amortization	2,567,791	61,339,057	-	63,906,848	56,051,029
Bad debt expense (Net recoveries)	-	11,398	-	11,398	(29,691)
Feasibility studies	46,488	6,011,796	-	6,058,284	28,979,182
(Increase)/decrease in operating assets:					
Accounts receivable	-	(316,323)	-	(316,323)	988,449
Inventories	-	(30,340)	-	(30,340)	992,447
Prepaid and other assets	-	(2,359,320)	-	(2,359,320)	(709,697)
Increase/(decrease) in operating liabilities:					
Accounts payable	-	(746,578)	-	(746,578)	(2,490,064)
Accrued expenses	-	733,795	-	733,795	499,985
Retentions payable	-	-	-	-	(214,439)
Due to other governmental agency	1,041,192	-	-	1,041,192	(9,536,729)
Pension/OPEB/Catastrophe leave payable	-	347,732	-	347,732	360,710
Compensated absences	-	(136,296)	-	(136,296)	(212,750)
Other payable	-	(277,285)	-	(277,285)	116,907
Claims and judgments	-	131,095	-	131,095	(696,377)
Net cash provided by operations	\$ 407,392	\$ 158,808,344	\$ -	\$ 159,215,736	\$ 106,249,323
Noncash Activities:					
Unrealized gain (loss) on the fair value of investments	\$ (1,284,493)	\$ (13,154,165)		\$ (14,438,658)	\$ 8,236,187
Contributions from (to) other government	(24,536,380)	-		(24,536,380)	3,107,103
Capital facilities contribution	-	7,450,400		7,450,400	2,184,800
Feasibility studies with no cash effect	46,486	5,986,236		6,032,722	21,909,604

**ORANGE COUNTY SANITATION DISTRICT
STATISTICAL SECTION**

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

<u>Contents</u>	<u>Pages</u>
Financial Position and Trends These schedules contain current and trend information to help the reader understand OCSD's financial position and how OCSD's financial performance and well-being have changed over time.	44 - 48
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	49 - 51
Debt Capacity These schedules present information to help the reader assess the affordability of OCSD's current levels of outstanding debt and OCSD's ability to issue additional debt in the future. All of OCSD's debt is recorded in a proprietary fund; consequently, many of the schedules which are applicable to governmental funds are not presented.	52 - 55
Operating Information These schedules contain data to help the reader understand how the information in OCSD's financial report relates to the services it provides and the activities it performs.	56 - 59
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	60 - 63

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

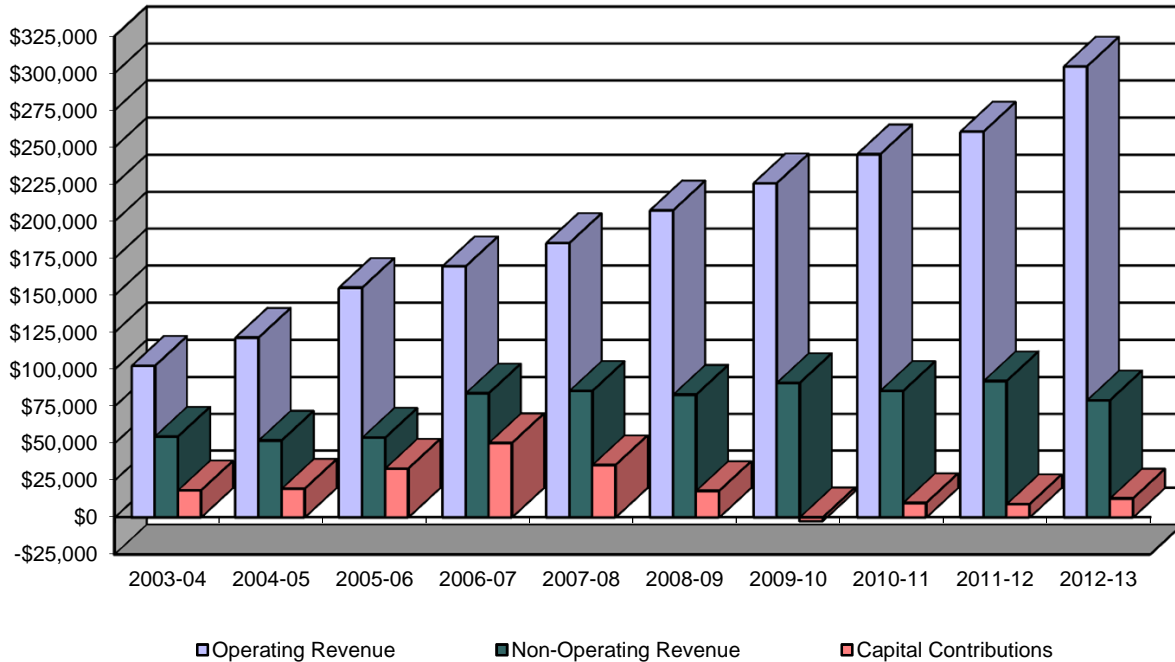


<u>Fiscal Year</u>	<u>Net investment in Capital Assets</u>	<u>Restricted for Debt Service & Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Position</u>
2003-04	\$ 418,267	\$ 88,519	\$ 517,346	\$ 1,024,132
2004-05	558,391	64,514	418,342	1,041,247
2005-06	664,060	3,003	422,036	1,089,099
2006-07	886,463	3,904	299,370	1,189,737
2007-08	847,426	-	428,561	1,275,987
2008-09	948,869	-	399,452	1,348,321
2009-10	1,121,057	-	310,016	1,431,073
2010-11	1,131,063	-	379,423	1,510,486
2011-12	1,125,966	-	471,651	1,597,617
2012-13	1,180,298	-	520,427	1,700,725 (1)

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

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

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

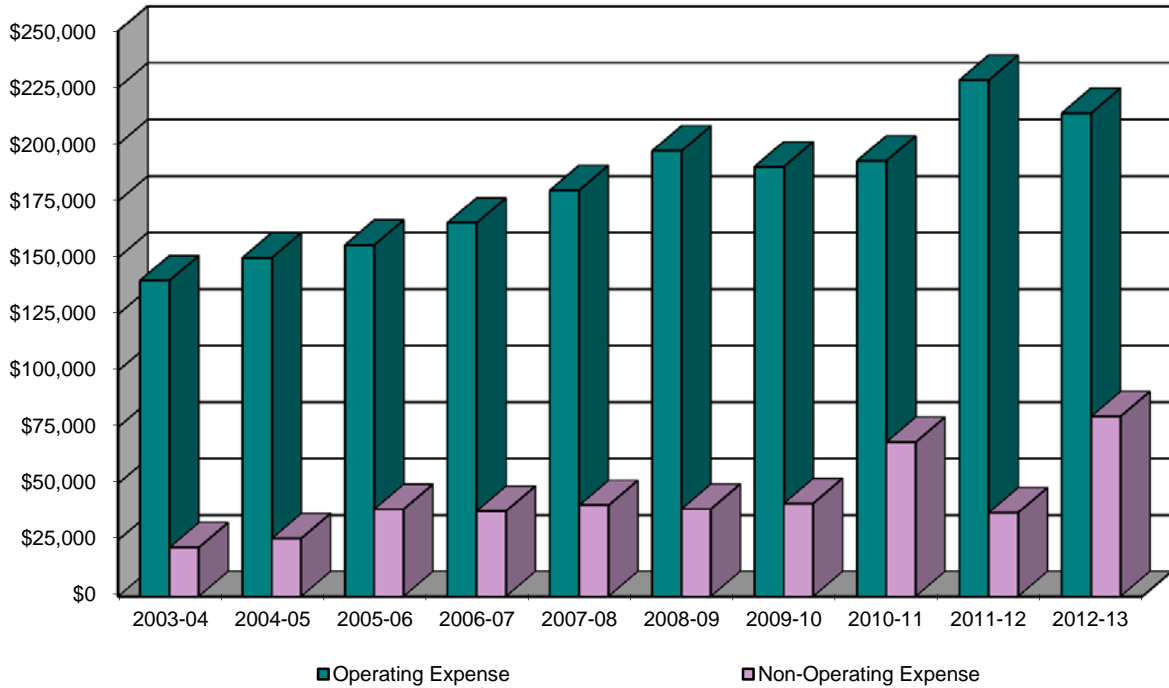


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2003-04	\$ 101,995	\$ 332	\$ 102,327	\$ 46,943	\$ 6,786	\$ 928	\$ 54,657	\$18,243
2004-05	120,917	498	121,415	35,764	15,118	1,051	51,933	19,350
2005-06	154,291	874	155,165	39,958	10,426	3,477	53,861	32,990
2006-07	167,790	1,866	169,656	60,565	22,243	1,068	83,876	50,207
2007-08	184,180	1,196	185,376	65,210	20,235	13	85,458	35,408
2008-09	206,422	895	207,317	66,427	14,836	1,634	82,897	17,937
2009-10	225,059	629	225,688	64,759	19,166	6,939	90,864	(2,406)
2010-11	244,465	784	245,249	64,307	10,092	11,015	85,414	9,800
2011-12	259,491	1,030	260,521	67,882	15,747	8,486	92,115	8,936
2012-13	303,400	1,176	304,576	79,240	(3,913)	3,781	79,108	12,797

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

ORANGE COUNTY SANITATION DISTRICT

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

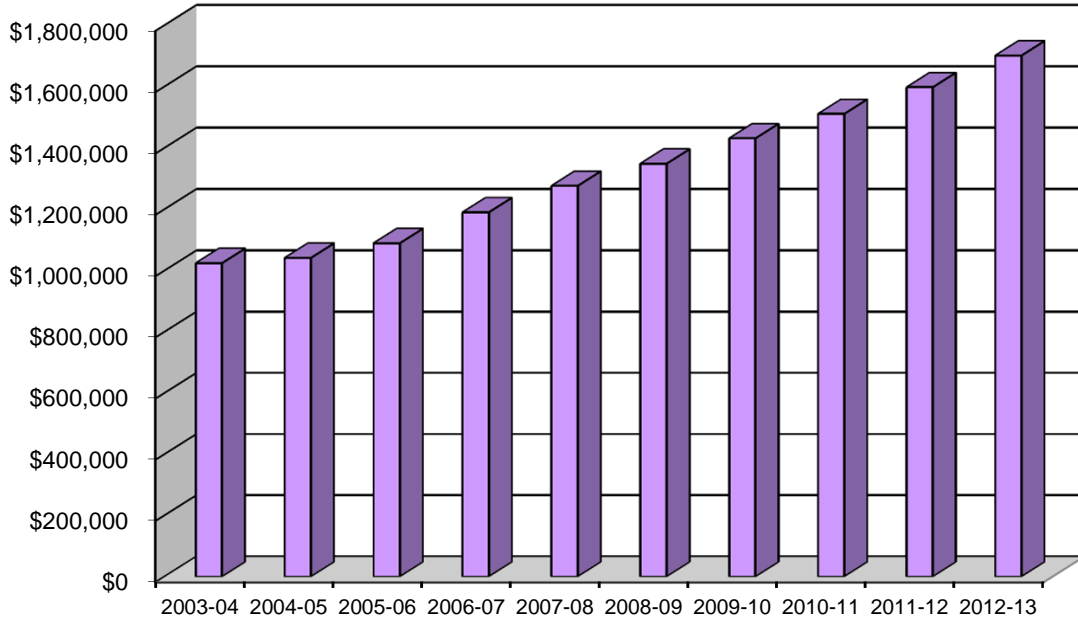


Fiscal Year	Operating Expense				Total Operating	Non - Operating Expense		Total Non-Operating
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort		Interest Expense	Other	
2003-04	\$ 48,711	\$ 5,408	\$ 41,284	\$ 44,412	\$ 139,815	\$ 15,524	\$ 6,102	\$ 21,626
2004-05	53,048	6,473	42,325	48,095	149,941	17,470	8,172	25,642
2005-06	53,246	7,563	44,823	49,887	155,519	20,078	18,567	38,645
2006-07	57,802	8,072	46,281	53,111	165,266	21,747	16,089	37,836
2007-08	67,629	8,092	56,169	47,767	179,657	22,517	17,818	40,335
2008-09	67,498	7,242	89,816	32,520	197,076	24,899	13,842	38,741
2009-10	69,652	6,934	61,499	52,036	190,121	27,537	13,736	41,273
2010-11	73,112	6,948	63,328	49,288	192,676	29,129	39,245	68,374
2011-12	75,642	7,405	89,272	56,051	228,370	28,700	8,433	37,133
2012-13	76,878	6,403	66,536	63,907	213,724	42,315	37,335	79,650

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
2003-04	\$ 175,227	\$ 161,441	\$ 13,786	\$1,010,347	\$ 1,024,133
2004-05	192,698	175,583	17,115	1,024,133	1,041,248
2005-06	242,016	194,164	47,852	1,041,248	1,089,100
2006-07	303,739	203,102	100,637	1,089,100	1,189,737
2007-08	306,242	219,992	86,250	1,189,737	1,275,987
2008-09	308,151	235,817	72,334	1,275,987	1,348,321
2009-10	314,146	231,394	82,752	1,348,321	1,431,073
2010-11	340,463	261,050	79,413	1,431,073	1,510,486
2011-12	361,572	265,503	96,069	1,501,549 ⁽¹⁾	1,597,618
2012-13	396,481	293,374	103,107	1,597,618 ⁽¹⁾	1,700,725

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

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

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

Fiscal Year	Cash Flow Contingency	Self- Insurance	Capital Improvement Program	Debt Service Requirements	Total
2003-04	\$ 71	\$ 57	\$ 390	\$ 88	\$ 606
2004-05	71	57	242	65	472
2005-06	132	57	196	105	490
2006-07	132	57	104	79	372
2007-08	149	57	219	108	533
2008-09	172	57	172	133	534
2009-10	185	57	102	129	473
2010-11	187	57	176	141	561
2011-12	196	57	186	138	577
2012-13	174	57	234	135	600

Notes:

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

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

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

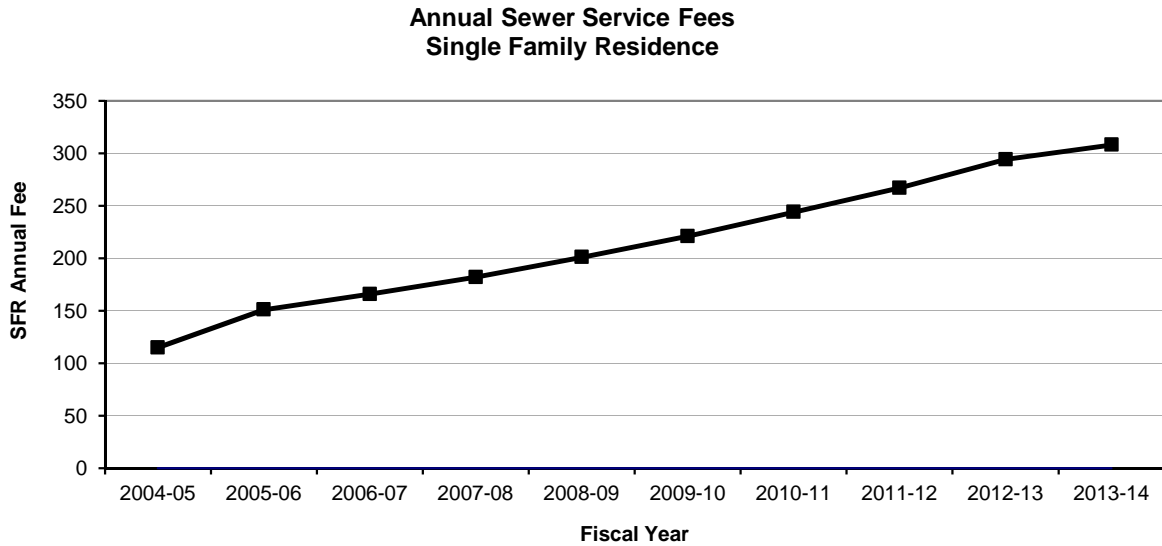
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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

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

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

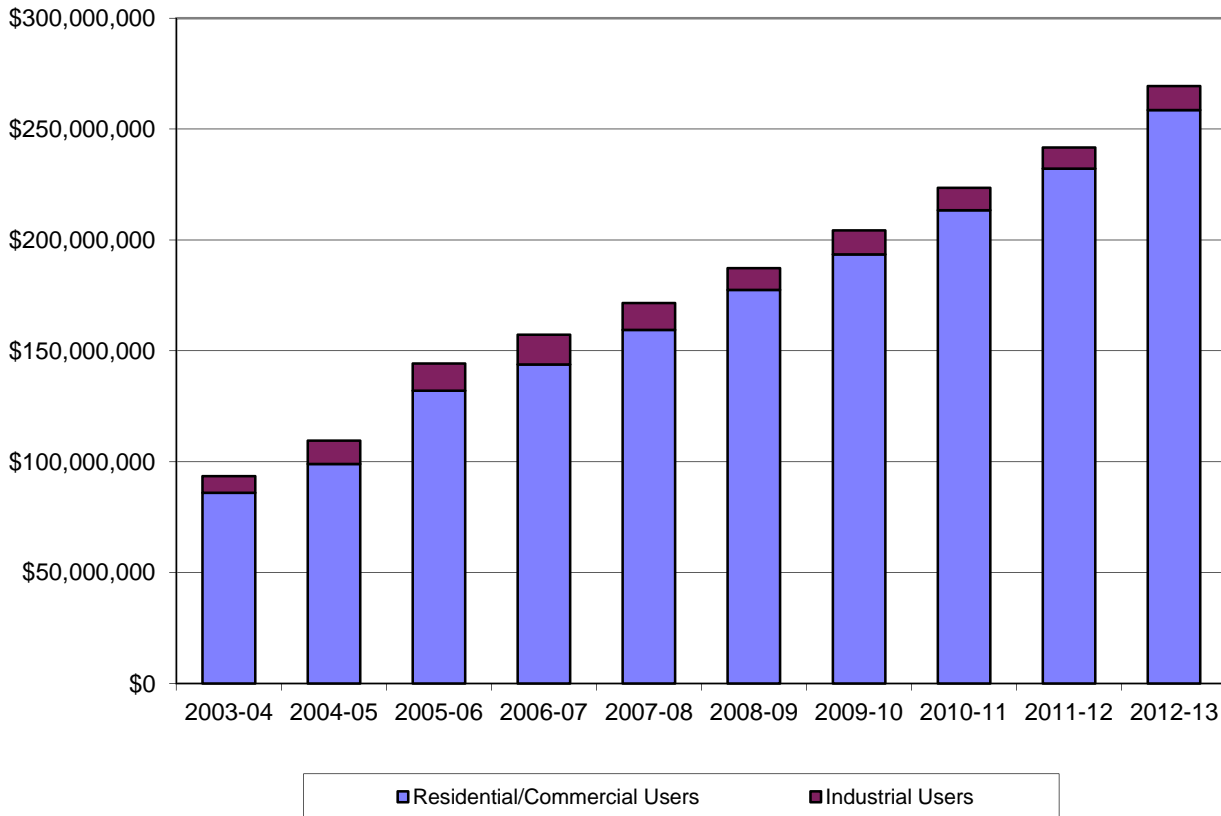
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2004-05	\$ 115.00
2005-06	151.00
2006-07	165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00
2012-13	294.00
2013-14	308.00



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

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

Fiscal	Residential/Commercial			Industrial		
	Number of Equivalent Single-Family Dwellings	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues	Number of Customer Accounts	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues
2003-04	860,156	86.0	92%	530	7.5	8%
2004-05	860,634	99.0	90%	568	10.5	10%
2005-06	872,859	132.0	92%	557	12.2	8%
2006-07	867,035	143.8	91%	531	13.4	9%
2007-08	875,739	159.4	93%	520	12.1	7%
2008-09	882,747	177.4	95%	515	9.9	5%
2009-10	875,442	193.5	95%	487	10.8	5%
2010-11	874,130	213.3	95%	479	10.1	5%
2011-12	869,709	232.2	96%	516	9.5	4%
2012-13	879,443	258.6	96%	527	10.8	4%



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

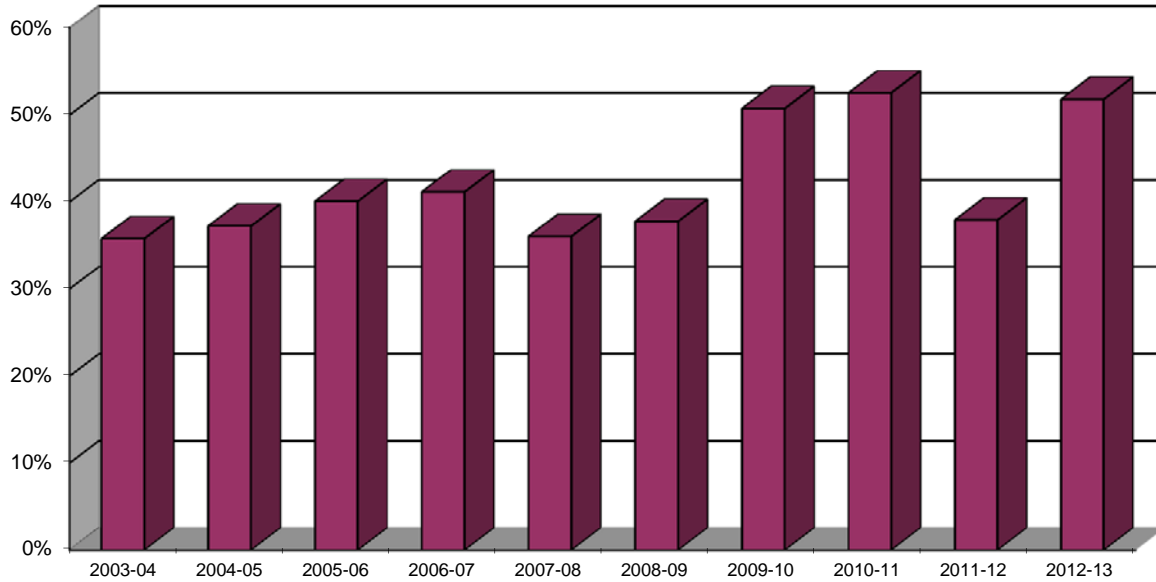
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Current Fiscal Year and Nine Years Ago

User	Fiscal Year Ended 6/30/13			Fiscal Year Ended 6/30/04		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
Stremicks Heritage Foods, LLC	\$ 986,405	1	0.33%	\$ 510,594	2	0.50%
House Foods America Corp.	953,542	2	0.31%	385,662	5	0.38%
Kimberly-Clark Worldwide, Inc.	903,947	3	0.30%	368,243	6	0.36%
Dean Foods Co. of CA Inc.	890,943	4	0.29%			
MCP Foods, Inc.	870,130	5	0.29%	454,965	4	0.45%
Pulmuone Wildwood, Inc.	574,797	6	0.19%			
Schreiber Foods Inc.	473,289	7	0.16%			
Jazz Semiconductor	446,894	8	0.15%			
Nor-Cal Beverage Co. Inc (NCB)	416,000	9	0.14%			
Pepsi-Cola Bottling Group	394,930	10	0.13%			
Alstyle Apparel-Activewear Mfg.				583,330	1	0.57%
Disneyland Resort & Park				458,792	3	0.45%
U.S. Dyeing & Finishing, Inc.				290,228	7	0.28%
Disneyland Resort --DCA				252,466	8	0.25%
Van Law Food Products, Inc.				237,297	9	0.23%
Knotts Berry Farm Foods				189,281	10	0.19%
	<u>\$ 6,910,877</u>		<u>2.29%</u>	<u>\$ 3,730,858</u>		<u>3.66%</u>

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

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

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



<u>Fiscal Year</u>	<u>Principal (1)</u>	<u>Interest</u>	<u>Total Debt Service (3)</u>	<u>Total Operating Expenses (2)</u>	<u>Ratio of Debt Service to Total Operating Expenses</u>
2003-04	\$ 11,610	\$ 22,508	\$ 34,118	\$ 95,403	35.76%
2004-05	12,040	25,871	37,911	101,846	37.22
2005-06	12,755	29,563	42,318	105,632	40.06
2006-07	13,465	32,673	46,138	112,155	41.14
2007-08	11,025	36,484	47,509	131,890	36.02
2008-09	21,305	40,840	62,145	164,556	37.77
2009-10	24,030	46,052	70,082	138,085	50.75
2010-11	25,895	49,426	75,321	143,388	52.53
2011-12	14,370	50,975	65,345	172,319	37.92
2012-13	23,965	53,640	77,605	149,817	51.80

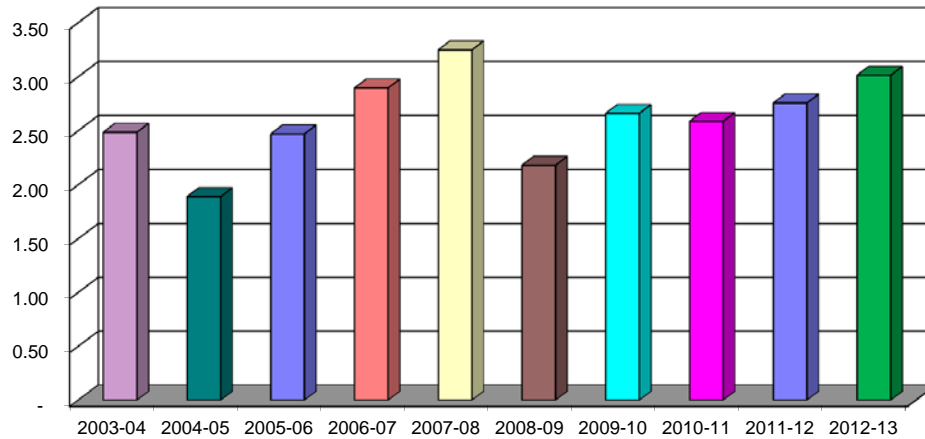
Notes

- (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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Operating & Non-operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 86.0	\$ 99.0	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5	\$ 213.3	\$ 232.2	\$ 258.6
Service Charges, Net of Refunds-Local	-	-	-	-	-	5.6	5.6	5.7	5.7	5.8
Industrial Sewer Service Charges	7.5	10.5	12.2	13.4	12.1	9.9	10.8	10.1	9.5	10.8
Revenue Area No. 14 Fees	5.8	6.9	5.3	5.2	7.1	10.3	10.2	21.4	18.0	12.5
Ad Valorem Taxes	46.9	35.8	40.0	60.6	65.2	66.4	64.8	64.3	67.9	77.3
Interest Earnings	6.8	15.1	10.4	22.2	20.2	14.8	19.2	10.1	15.7	(3.6)
Other Revenues	13.0	6.1	9.2	8.3	6.9	5.8	12.5	5.7	3.6	22.3
Total Revenues	166.0	173.4	209.1	253.5	270.9	290.2	316.6	330.6	352.6	383.7
Operating Expenses (1)	95.4	101.8	105.6	112.2	131.9	164.6	138.1	143.4	172.3	149.8
Net Revenues	\$ 70.6	\$ 71.6	\$ 103.5	\$ 141.3	\$ 139.0	\$ 125.6	\$ 178.5	\$ 187.2	\$ 180.3	\$ 233.9
Debt Service Requirements										
Principal Payments	11.6	12.0	12.8	13.5	11.0	21.3	24.0	25.9	14.4	24.0
Interest Payments	16.8	25.9	29.1	35.3	31.8	36.3	43.1	46.5	51.0	53.6
Total Debt Service Requirements	\$ 28.4	\$ 37.9	\$ 41.9	\$ 48.8	\$ 42.8	\$ 57.6	\$ 67.1	\$ 72.4	\$ 65.4	\$ 77.6
Coverage Ratios	2.49	1.89	2.47	2.90	3.25	2.18	2.66	2.59	2.76	3.01
Ending Reserves (2)	\$ 518.0	\$ 407.0	\$ 385.0	\$ 293.0	\$ 425.0	\$ 401.0	\$ 344.0	\$ 420.0	\$ 439.0	\$ 465.0

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, 2013

2012-13 Assessed Valuation (Land & Improvements Only): \$316,353,025,518

OVERLAPPING TAX AND ASSESSMENT DEBT (Based on all property assessed valuation of \$321,277,049,229):

	Total Debt 6/30/13	% Applicable (1)	District's Share of Debt 6/30/13
Metropolitan Water District of Southern California	\$165,085,000	15.288%	\$ 25,238,195
Coast Community College District	648,598,698	99.359	644,411,180
North Orange County Joint Community College District	213,394,001	97.467	207,988,731
Rancho Santiago Community College District	293,246,944	98.989	290,282,217
Brea-Olinda and Laguna Beach Unified School Districts	49,844,029	99.997 & 15.008	24,758,213
Garden Grove Unified School District	127,000,160	100.	127,000,160
Los Alamitos Unified School District School Facilities Improvement District No. 1	68,521,127	96.581	66,178,390
Newport Mesa Unified School District	241,779,150	100.	241,779,150
Placentia-Yorba Linda Unified School District	263,061,996	98.979	260,376,133
Saddleback Valley Unified School District	121,645,000	12.264	14,918,543
Santa Ana Unified School District	296,779,272	100.	296,779,272
Tustin Unified School District School Facilities Improvement District No. 2002-1	55,441,785	99.961	55,420,163
Tustin Unified School District School Facilities Improvement District No. 2008-1	72,725,000	99.960	72,695,910
Tustin Unified School District School Facilities Improvement District No. 2012-1	35,000,000	99.974	34,990,900
Anaheim Union High School District	105,183,955	100.	105,183,955
Fullerton Joint Union High School District	52,312,910	91.574	47,905,024
Huntington Beach Union High School District	210,579,998	99.015	208,505,785
School Districts	429,195,870	97.430-100.	428,497,707
City of Anaheim	2,605,000	99.217	2,584,603
Irvine Ranch Water District Improvement Districts	525,674,320	Various	525,673,064
Rossmoor Community Services District Special Tax Obligations	355,000	100.	355,000
Bonita Canyon Community Facilities District No. 98-1	37,735,000	100.	37,735,000
Irvine Unified School District Community Facilities Districts	391,373,130	100.	391,373,130
Tustin Unified School District Community Facilities Districts	248,552,675	100.	248,552,675
City of Tustin Community Facilities Districts	77,570,000	100.	77,570,000
Other Community Facilities Districts	335,764,820	99.993-100.	335,762,647
Orange County Assessment Districts	88,708,296	100.	88,708,296
City of Irvine 1915 Act Bonds	810,693,000	100.	810,693,000
Other 1915 Act bonds	17,558,436	100.	17,558,436
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$5,689,475,479
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	\$190,546,000	75.094%	\$ 143,088,613
Orange County Pension Obligations	306,287,244	75.094	230,003,343
Orange County Board of Education Certificates of Participation	15,770,000	75.094	11,842,324
Brea-Olinda Unified School District Certificates of Participation	24,285,000	99.977	24,279,414
Orange Unified School District Certificates of Participation and Benefit Obligations	123,838,644	97.887	121,215,741
Placentia-Yorba Linda Unified School District Certificates of Participation	107,935,670	98.979	106,833,647
Santa Ana Unified School District Certificates of Participation	78,885,880	100.	78,885,880
Other Unified School District Certificates of Participation	57,956,650	Various	56,418,472
Union High School District Certificates of Participation	119,204,185	Various	116,736,983
School District Certificates of Participation	68,109,320	Various	67,650,266
City of Anaheim General Fund Obligations	539,077,465	99.217	534,856,488
City of Costa Mesa General Fund Obligations	30,435,000	100.	30,435,000
City of Garden Grove General Fund Obligations	18,410,000	100.	18,410,000
City of Huntington Beach General Fund and Judgment Obligations	50,194,000	98.769	49,576,112
City of La Habra General Fund Obligations	19,025,000	100.	19,025,000
City of Santa Ana General Fund Obligations	88,860,000	100.	88,860,000
Other City General Fund Obligations	239,106,034	Various	218,429,274
Orange County Sanitation District	0	100.	0 (2)
Municipal Water District of Orange County Water Facilities Corporation	10,035,000	70.195	7,044,068
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$1,923,590,625
Less: City of Anaheim self-supporting obligations			524,914,945
Other City self-supporting obligations			28,507,522
MWDOC Water Facilities Corporation (100% self-supporting)			7,044,068
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$1,363,124,090
OVERLAPPING TAX INCREMENT DEBT:	\$1,223,304,604	58.172-100. %	\$1,216,282,420
GROSS COMBINED TOTAL DEBT			\$8,829,348,524 (3)
NET COMBINED TOTAL DEBT			\$8,268,881,989

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

Ratios to:	Total Overlapping Tax and Assessment/Increment Debt	Gross Combined Total Debt	Net Combined Total Debt
Land and Improvement Assessed Valuation	1.80%	2.79%	2.61%
All Property Assessed Valuation	N/A	2.75%	2.57%
Redevelopment Incremental Valuation (\$40,027,068,327)	3.04%	N/A	N/A

Source: California Municipal Statistics

ORANGE COUNTY SANITATION DISTRICT

Ratios of Outstanding Debt

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>(5) Total Outstanding Debt</u>	<u>(3) Median Family Income (1)</u>	<u>Debt as a Percentage of Median Family Income</u>	<u>(4) Population Estimate (2)</u>	<u>Debt per Capita</u>
2003-04	\$ 632,515,587	\$ 74,200	0.012%	2,441,350	259.08
2004-05	620,520,145	75,700	0.012%	2,467,850	251.44
2005-06	807,809,704	78,300	0.010%	2,481,540	325.53
2006-07	801,389,769	78,700	0.010%	2,505,180	319.89
2007-08	1,096,049,542	84,100	0.008%	2,522,820	434.45
2008-09	1,262,936,747	86,100	0.007%	2,539,990	497.22
2009-10	1,306,255,753	87,200	0.007%	2,563,170	509.63
2010-11	1,427,792,453	84,200	0.006%	2,457,571	580.98
2011-12	1,376,404,782	85,300	0.006%	2,472,122	556.77
2012-13	1,325,928,512	84,100	0.006%	2,491,268	532.23

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)
2003-04	238	1,068.43	\$ 139,815	\$ 21,626	\$ 102,327	\$ 54,657
2004-05	243	1,095.79	149,941	25,642	121,415	51,933
2005-06	235	1,216.77	155,519	38,645	155,165	53,861
2006-07	229	1,268.38	165,266	37,836	169,656	83,876
2007-08	221	1,541.18	179,657	40,335	185,376	85,458
2008-09	211	1,576.67	197,076	38,741	207,317	82,897
2009-10	196	1,588.72	190,121	41,273	225,688	90,864
2010-11	207	1,816.62	192,676	68,374	245,249	85,414
2011-12	201	1,871.47	228,370	37,133	260,521	92,115
2012-13	200	1,906.01	213,724	79,650	304,576	79,108

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

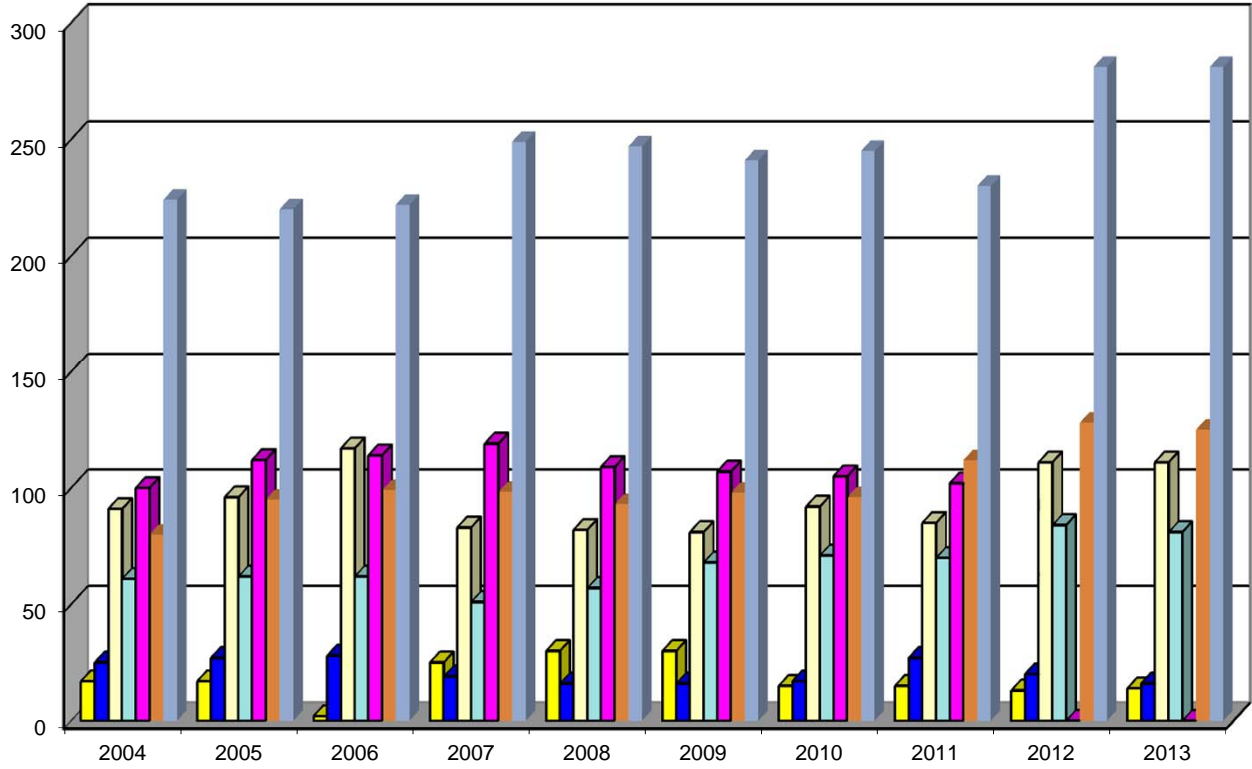
Total expenses in FY 2012-13 increased \$131.9 million, or 81.7 percent since FY 2003-04, primarily as a result of (1) OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012, and (2) OCSD's decision to eliminate most bacteria from the ocean outfall discharge by disinfecting the effluent beginning in FY 2002-03 at an additional cost in chemicals of \$7 million annually.

Maintenance, chemicals, utilities, and other operating costs represent 20 percent of the increase, primarily due to the increase in the levels of treatment referred to above and an increase of feasibility studies in FY 2012-13. Depreciation expense represents another 15 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2012-13, personnel expenses rose 1.6 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized decreased by 9 in FY 2012-13.

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

Source: Orange County Sanitation District.

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

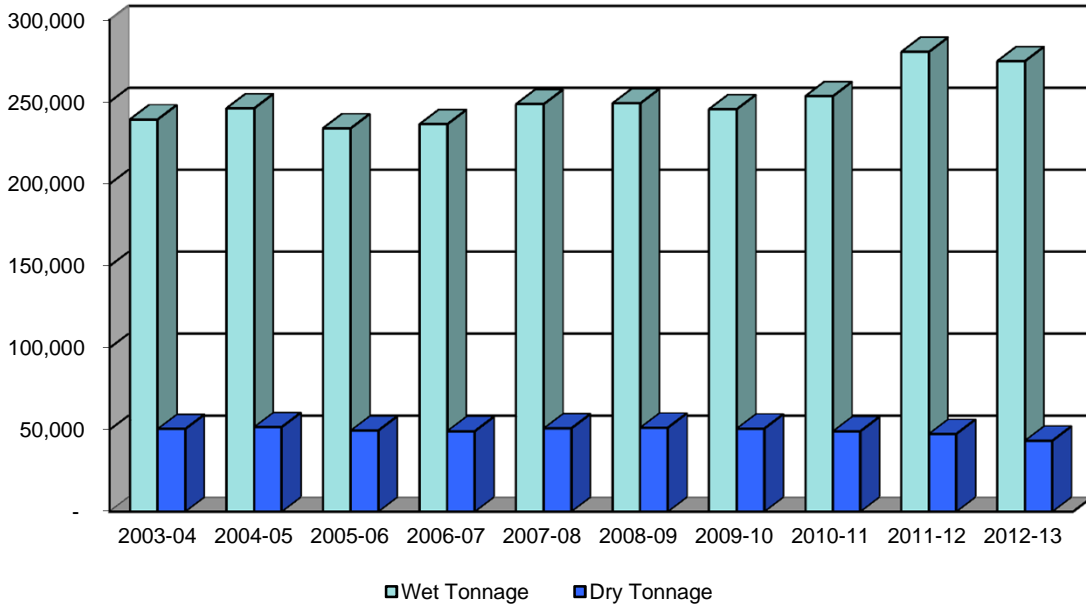


General Management	Human Resources	Administrative Services	Facilities Support Services
Technical Services	Engineering	Operations and Maintenance	

	Fiscal Year Ending June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Management	17	17	2	25	30	30	15	15	13	14
Human Resources	25	27	28	19	16	16	17	27	20	16
Administrative Services	91	96	117	83	82	81	92	85	111	111
Facilities Support Services	61	62	62	51	57	68	71	70	84	81
Technical Services	100	112	114	119	109	107	105	102	-	-
Engineering	80	95	99	98	93	98	96	112	128	125
Operations and Maintenance	224	220	222	249	247	241	245	230	281	281
Total FTE's	598	629	644	644	634	641	641	641	637	628

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>
2003-04	239,426	50,519
2004-05	246,194	51,700
2005-06	233,996	49,554
2006-07	236,460	49,184
2007-08	248,717	50,884
2008-09	249,202	51,342
2009-10	245,668	50,799
2010-11	253,557	49,133
2011-12	280,572	47,556
2012-13	274,957	43,365

Source: Orange County Sanitation District's Environmental Compliance & Regulatory Affairs 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)
2003-04	650	20	276	170
2004-05	620	18	306	170
2005-06	584	16	366	200
2006-07	581	16	372	200
2007-08	568	17	372	200
2008-09	582	17	372	212
2009-10	579	17	372	212
2010-11	587	17	372	212
2011-12	572	17	372	332
2012-13	572	17	372	332

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
2003-04	3,017,000	\$ 130,621,396 (3)	\$ 43,295	\$ 74,200	517,000	3.6%
2004-05	3,047,000	139,408,948 (3)	45,753	75,700	514,000	3.9%
2005-06	3,072,000	150,598,354 (3)	49,023	78,300	510,114	3.7%
2006-07	3,090,000	153,446,641 (3)	49,659	78,700	503,955	3.9%
2007-08	3,108,000	155,925,156 (3)	50,169	84,100	503,492	5.3%
2008-09	3,135,000	145,247,447 (3)	46,331	86,100	504,136	9.3%
2009-10	3,166,000	147,138,449 (3)	46,475	87,200	502,239	9.5%
2010-11	3,030,000	154,131,535 (3)	50,868	84,200	502,903	9.2%
2011-12	3,056,000	160,482,000 (4)	52,514	85,300	502,195	7.9%
2012-13	3,082,000	168,966,400 (4)	54,824	84,100	501,801	6.1%

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, 2013

	Population as of <u>January 1, 2013</u>
Anaheim	345,432
Brea	41,319
Buena Park	82,034
Costa Mesa	111,335
Cypress	48,571
Fountain Valley	56,182
Fullerton	138,283
Garden Grove	173,081
Huntington Beach	192,672
Irvine	230,647
La Habra	61,174
La Palma	15,825
Los Alamitos	11,526
Newport Beach	86,436
Orange	139,049
Placentia	51,910
Santa Ana	330,004
Seal Beach	23,961
Stanton	38,428
Tustin	77,951
Villa Park	5,899
Westminster	90,931
Yorba Linda	<u>66,523</u>
Subtotal Cities	2,419,173
Estimated Population Served in Unincorporated Areas	<u>72,095</u>
	<u><u>2,491,268</u></u>

Source: 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 6/30/13</u>			<u>Fiscal Year Ended 6/30/04</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (4)</u>
Walt Disney Co.	25,000	1	1.63%	21,000	1	1.40%
University of California, Irvine	21,800	2	1.42%	15,500	3	1.03%
County of Orange	17,257	3	1.13%	17,597	2	1.17%
St. Joseph Health System	11,679	4	0.76%	8,975	5	0.60%
Boeing Co.	6,873	5	0.45%	11,160	4	0.74%
Kaiser Permanente	6,300	6	0.41%			
Bank of America Corp.	6,000	7	0.39%			
Memorial Care Health System	5,545	8	0.36%			
Target Corp.	5,400	9	0.35%	5,436	10	0.36%
Cedar Fair LP	5,200	10	0.34%			
Albertsons Inc.				8,700	6	0.58%
Tenet Healthcare Corp.				8,389	7	0.56%
YUM! Brands Inc.				6,500	8	0.43%
SBC Communications, Inc.				5,658	9	0.38%
Total	111,054		7.24%	108,915		7.25%

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 1,533,100 as of June 2013.
- (4) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,498,600 as of June 2004.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators

June 30, 2013

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

Consolidated Revenue Area

County of Orange (unincorporated areas)

Cities:

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

Special Districts:

Midway City Sanitary District
Costa Mesa Sanitary District

Revenue Area No. 14

County of Orange (unincorporated areas)

Cities:

Irvine
Orange
Tustin

Special District:

Irvine Ranch Water District

Governing Body:	25-member Board of Directors
Authorized Full-Time Equivalent Employees:	628
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:	2.5 million
Total Miles of Sewers (including force mains):	572 miles
Number of Pumping Stations:	17

Wastewater System Treatment Capacities (Million Gallons per Day)

	<u>Actual Flows</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>
Plant 1	97	204	182
Plant 2	<u>103</u>	<u>168</u>	<u>150</u>
Total	<u>200</u>	<u>372</u>	<u>332</u>

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

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

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

ORANGE COUNTY SANITATION DISTRICT

Cash and Investment Portfolio

As of June 30, 2013

	Cost		Market Value	% of Total	Net Unrealized
	Shares Par	Base	Base		Gain/(Loss) Base
INVESTMENT PORTFOLIO:					
CASH & CASH EQUIVALENTS (U.S. DOLLAR):					
CASH EQUIVALENTS	\$ 104,812.50	\$ 104,812.50	\$ 45,593.44	0.01%	\$ (59,219.06)
FEDERAL HOME LOAN BANK - 1 YR OR LESS	27,000,000.00	26,997,978.75	26,997,978.75	5.25%	-
FEDERAL HOME LOAN MORTGAGES - 1 YR OR LESS	6,122,000.00	6,116,097.37	6,116,097.37	1.19%	-
FNMA ISSUES - 1YR OR LESS	50,200,000.00	50,181,546.50	50,181,546.50	9.76%	-
REPURCHASE AGREEMENTS	18,300,000.00	18,300,000.00	18,300,000.00	3.56%	-
SHORT TERM INVESTMENT FUNDS (US REGULATED)	1,087,614.64	1,087,614.64	1,087,614.64	0.21%	-
TREASURY BILLS - 1YR OR LESS	130,531,000.00	130,509,993.61	130,509,993.61	25.38%	-
CASH	-	80,909.74	80,909.74	0.02%	-
PENDING TRADES	-	(28,653,458.77)	(28,653,458.77)	-5.57%	-
SUBTOTAL - CASH & CASH EQUIVALENTS	233,345,427.14	204,725,494.34	204,666,275.28	39.80%	(59,219.06)
FIXED INCOME SECURITIES (U.S. DOLLAR):					
ABS - HOME EQUITY	825,321.91	737,083.91	809,878.42	0.16%	72,794.51
ABS - SMALL BUSINESS ADMINISTRATION	412,610.32	412,610.32	451,049.10	0.09%	38,438.78
ABS - STUDENT LOANS	281,566.57	280,881.03	282,504.16	0.05%	1,623.13
AUTOMOBILES & COMPONENTS	1,545,000.00	1,763,478.45	1,577,321.40	0.31%	(186,157.05)
BANKING & FINANCE	27,300,000.00	28,119,783.26	26,995,177.93	5.25%	(1,124,605.33)
CMO - US AGENCIES	89,873.85	89,873.85	90,777.08	0.02%	903.23
COLLATERALIZED MORTGAGE OBLIGATION COMM	626,050.80	627,664.83	634,014.17	0.12%	6,349.34
COMMIT TO PURCHASE FNMA POOLS	18,400,000.00	18,712,812.50	18,430,874.00	3.58%	(281,938.50)
FHLMC MULTICLASS	2,534,428.62	2,782,944.12	2,810,384.04	0.55%	27,439.92
FHLMC POOLS	4,806.54	4,689.39	5,123.00	0.00%	433.61
FNMA POOLS	4,083,272.07	4,080,452.86	4,261,525.44	0.83%	181,072.58
FNMA REMIC	2,165,008.47	2,192,277.85	2,217,904.46	0.43%	25,626.61
FOOD BEVERAGE & TOBACCO	1,600,000.00	1,854,144.00	1,844,528.00	0.36%	(9,616.00)
GNMA MULTI FAMILY POOLS	397,037.76	396,949.81	414,131.15	0.08%	17,181.34
HEALTH CARE	1,300,000.00	1,318,052.00	1,326,884.00	0.26%	8,832.00
INSURANCE	1,400,000.00	1,655,274.00	1,641,801.00	0.32%	(13,473.00)
MUNI • MEDICAL	500,000.00	508,595.00	570,525.00	0.11%	61,930.00
OIL & GAS	100,000.00	100,000.00	100,356.00	0.02%	356.00
TAXABLE MUNICIPALS	16,440,000.00	16,738,875.89	19,128,799.80	3.72%	2,389,923.91
U.S. TIPS	22,394,914.50	29,588,673.87	26,086,223.37	5.07%	(3,502,450.50)
US GOVERNMENTS	196,610,000.00	198,766,956.80	194,844,144.60	37.89%	(3,922,812.20)
UTILITY • ELECTRIC	2,697,000.00	2,983,751.61	2,956,105.00	0.57%	(27,646.61)
UTILITY • TELEPHONE	1,000,000.00	1,077,847.33	1,170,530.00	0.23%	92,682.67
WHOLE LOAN- CMO - COLLATERALIZED MTG OBLIG	904,595.11	904,591.01	904,450.37	0.18%	(140.64)
SUBTOTAL - FIXED INCOME SECURITIES	303,611,486.52	315,698,263.69	309,555,011.49	60.20%	(6,143,252.20)
TOTAL INVESTMENT PORTFOLIO	\$ 536,956,913.66	520,423,758.03	514,221,286.77	100.00%	\$ (6,202,471.26)
DEMAND DEPOSITS AND CASH ON HAND		6,052,686.44	6,052,686.44		
MONIES HELD WITH FISCAL AGENTS		53,058,983.21	53,058,983.21		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		27,149,254.88	27,156,672.24		
TOTAL CASH AND INVESTMENTS		\$ 606,684,682.56	\$ 600,489,628.66		

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

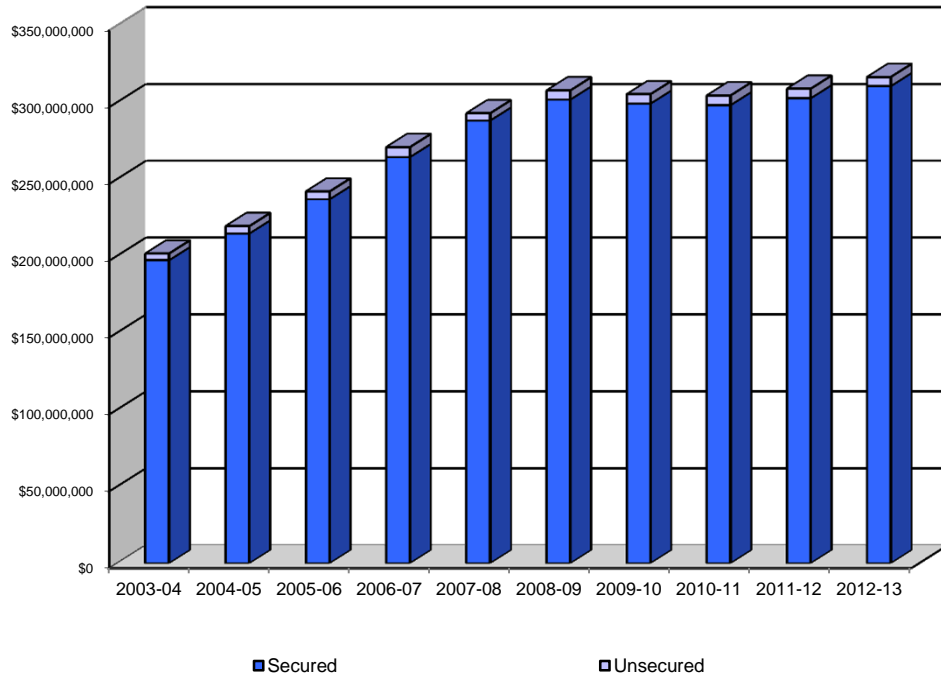
<u>Fiscal Year</u>	<u>Basic Levy</u>	<u>Tax Rate</u>		<u>OCSD's Average Share of Basic Levy</u>
		<u>OCSD 1958 General Obligation Bonds</u>	<u>Total Tax Rate</u>	
2003-04	1.00%	0.00%	1.00%	1.68%
2004-05	1.00%	0.00%	1.00%	1.67%
2005-06	1.00%	0.00%	1.00%	1.65%
2006-07	1.00%	0.00%	1.00%	1.65%
2007-08	1.00%	0.00%	1.00%	1.63%
2008-09	1.00%	0.00%	1.00%	1.64%
2009-10	1.00%	0.00%	1.00%	1.63%
2010-11	1.00%	0.00%	1.00%	1.64%
2011-12	1.00%	0.00%	1.00%	1.64%
2012-13	1.00%	0.00%	1.00%	1.64%

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

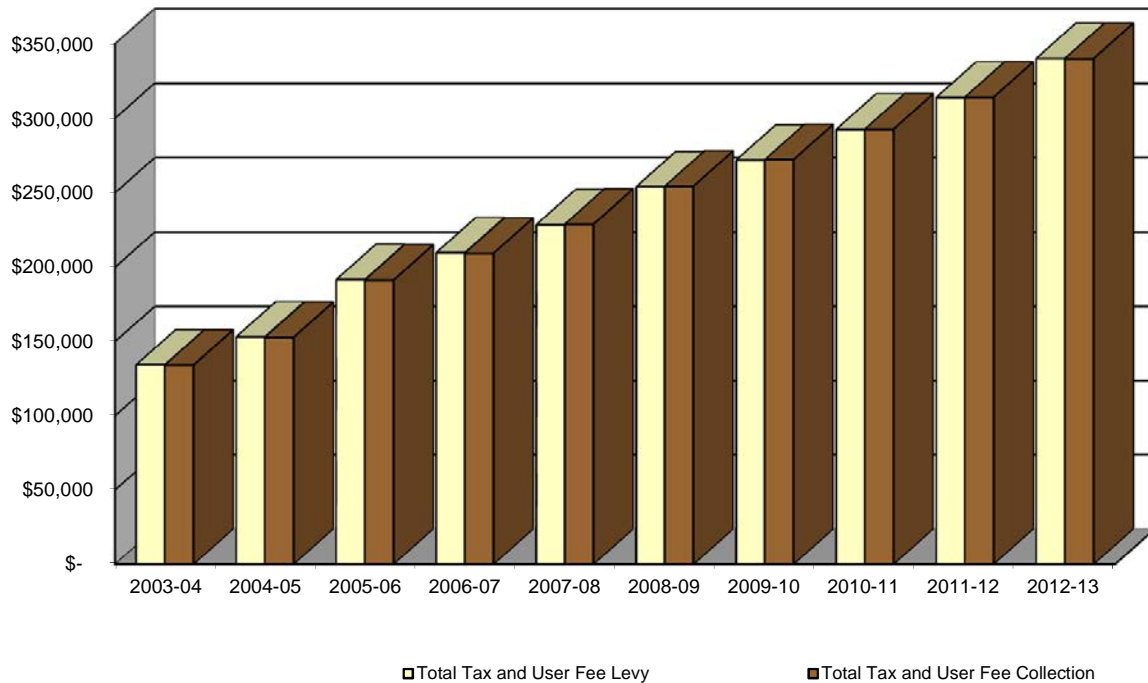


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2003-04	197,143,000	4,309,000	201,452,000	6.66%
2004-05	214,529,000	4,743,000	219,272,000	8.85%
2005-06	236,826,573	5,023,423	241,849,996	10.30%
2006-07	264,241,033	6,452,111	270,693,144	11.93%
2007-08	288,051,467	4,681,838	292,733,305	8.14%
2008-09	301,717,479	5,894,003	307,611,482	5.08%
2009-10	299,038,654	6,116,530	305,155,184	-0.80%
2010-11	298,099,034	6,238,834	304,337,868	-0.27%
2011-12	302,526,970	6,163,979	308,690,949	1.43%
2012-13	310,451,986	5,901,040	316,353,026	2.48%

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

Source: Orange County Auditor - Controller's Office.

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



Fiscal Year	Total Tax and User Fee Levy	ERAF III Deduction	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	O/S Delinquencies	% of Delinquencies to Tax Levy	(1) RDA Pass-Through Payments
2003-04	\$ 134,389	\$ -	\$ 134,132	99.81	\$ 94	\$ 134,226	99.88	\$ 241	0.18	\$ -
2004-05	153,187	(16,198)	152,745	99.71	92	152,837	99.77	257	0.17	-
2005-06	191,711	(16,198)	191,290	99.78	122	191,412	99.84	421	0.22	-
2006-07	209,766	-	209,206	99.73	215	209,421	99.84	560	0.27	-
2007-08	228,622	-	228,635	100.01	329	228,964	100.15	(13)	(0.01)	-
2008-09	254,092	-	254,106	100.01	395	254,501	100.16	(14)	(0.01)	-
2009-10	272,050	-	272,110	100.02	226	272,336	100.11	(60)	(0.02)	-
2010-11	292,646	-	292,689	100.01	120	292,809	100.06	(43)	(0.01)	-
2011-12	314,077	-	314,133	100.02	121	314,254	100.06	(56)	(0.02)	3,116
2012-13	340,298	-	340,156	99.96	64	340,220	99.98	142	0.04	14,687

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.

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>		
2003-04	\$ 287,923,828	2004	\$ 1,132,848	9,322	\$ 2,243,642	\$ 3,376,490	
2004-05	311,802,395	2005	1,494,759	7,206	2,100,436	3,595,195	
2005-06	342,576,859	2006	2,400,569	8,371	2,316,948	4,717,517	
2006-07	381,007,391	2007	2,005,198	7,072	1,792,270	3,797,468	
2007-08	412,669,779	2008	1,439,120	3,159	1,037,713	2,476,833	
2008-09	428,809,224	2009	952,480	2,200	855,193	1,807,673	
2009-10	422,965,596	2010	1,151,929	3,091	1,029,407	2,181,336	
2010-11	420,751,575	2011	1,300,019	4,807	1,236,973	2,536,992	
2011-12	424,769,642	2012	1,269,448	6,862	1,627,262	2,896,710	
2012-13	432,902,274	2013	1,351,842	8,931	1,949,511	3,301,353 (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, 2013

<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	Not Applicable	Not Applicable	Self-insured
<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); Starr Indemnity & Liability (\$20 million layer excess \$10 million)	\$250,000 \$500,000 for EPLI	\$30 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	\$750,000 Each Accident	Unlimited statutory coverage each accident, each employee \$5 million employer's liability
<u>Pollution Liability</u>			
	CSAC Excess Insurance Authority Program	\$100,000	\$10,000,000 per loss
<u>Watercraft</u>			
Liability	Northern Assurance Co. of Am.	\$15,000	\$10 million
Hull & Machinery	Northern Assurance Co. of Am.	\$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
FINANCIAL MANAGEMENT DIVISION**

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Fountain Valley, California 92708-7018

714.962.2411

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06/30/13