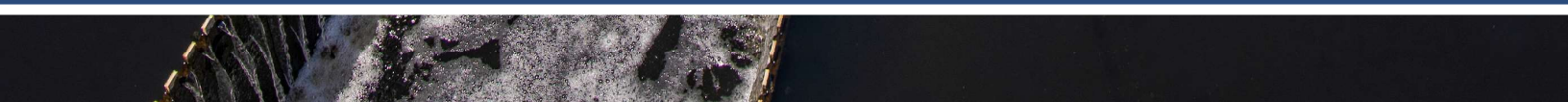




Orange County Sanitation District
**Comprehensive Annual
Financial Report**
for the year ended June 30, 2020



Orange County, California



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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

Prepared By:
Administrative Services Department
Financial Management Division

Wally Ritchie
Controller

(THIS PAGE LEFT INTENTIONALLY BLANK)

ORANGE COUNTY SANITATION DISTRICT
 Comprehensive Annual Financial Report
 Table of Contents
 For the Year Ended June 30, 2020

	<u>Page</u>
INTRODUCTORY SECTION (Unaudited):	
Letter of Transmittal.....	i-vii
GFOA Certificate of Achievement	viii
Board of Directors.....	ix
Organization Chart.....	x
Map of Service Area	xi
FINANCIAL SECTION:	
Independent Auditor's Report.....	1-2
Management Discussion and Analysis – Required Supplementary Information (Unaudited)	3-9
Basic Financial Statements:	
Statement of Net Position	12
Statement of Revenues, Expenses, and Change in Net Position	13
Statement of Cash Flows.....	14
Notes to Basic Financial Statements	15-48
Required Supplementary Information (Unaudited):	
Proportionate Share of the Net Pension Liability (Asset) – OCERS Pension Plan	50
Schedule of District Contributions – OCERS Pension Plan	51
Total Pension Liability – Additional Retiree Benefit Account.....	52
Changes in Total Pension Liability – Additional Retiree Benefit Account.....	53
Total OPEB Liability –Post-Employment Medical Benefits Plan.....	54
Changes in Total OPEB Liability –Post-Employment Medical Benefits Plan	55
Supplementary Information:	
Combining Area Schedule of Net Position.....	58
Combining Area Schedule of Revenues, Expenses, and Change in Net Position	59
Combining Area Schedule of Cash Flows	60
STATISTICAL SECTION (Unaudited):	
Net Position by Component – Last Ten Fiscal Years.....	62
Revenues and Gross Capital Contributions by Source – Last Ten Fiscal Years.....	63
Expenses by Type – Last Ten Fiscal Years	64
Change in Net Position – Last Ten Fiscal Years.....	65
Cash and Investment Reserve Balances – Last Ten Fiscal Years	66
Sewer Service Fees – Last Nine Fiscal Years and Next Fiscal Year.....	67
Number of Accounts and Revenues by Customer Class – Last Ten Fiscal Years	68
Principal Sewer Service Customers – Current Fiscal Year and Nine Years Ago	69
Ratio of Annual Debt Service to Total Expenses – Last Ten Fiscal Years	70
Debt Coverage Ratios – Last Ten Fiscal Years	71
Ratios of Outstanding Debt – Last Ten Fiscal Years	72
Comparison of the Volume of Wastewater Treated – Last Ten Fiscal Years	73
Authorized Full-time Equivalents by Function – Last Ten Fiscal Years	74
Biosolids Produced – Last Ten Fiscal Years.....	75
Capital Asset Statistics – Last Ten Fiscal Years.....	76
Demographic Statistics – Last Ten Fiscal Years.....	77
Estimated Population Served by Orange County Sanitation District	78
Principal Orange County Employers – Current Fiscal Year and Nine Years Ago.....	79
Operating Indicators	80
OTHER DATA & TRENDS (Unaudited):	
Cash and Investment Portfolio	82
Property Tax Rates – Direct and Overlapping Governments – Last Ten Fiscal Years.....	83
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	84
Property Tax and User Fee Levies and Collections – Last Ten Fiscal Years.....	85
Property Value and Construction – Last Ten Fiscal Years	86
Insurance in Force.....	87

(THIS PAGE LEFT INTENTIONALLY BLANK)

Orange County Sanitation District

10844 Ellis Avenue, Fountain Valley, CA 92708
714.962.2411 • www.ocsd.com

Serving:

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

October 28, 2020

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 (OCSD), Orange County, California for the fiscal year ended June 30, 2020. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2020 and was prepared by the Financial Management Division of OCSD'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 OCSD. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and changes in the financial position of OCSD. 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 OCSD's Board of Directors in accordance with the Governmental Accounting Standards Board (GASB). 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 OCSD is conducted annually by independent certified public accountants. OCSD selected the accounting firm of Macias Gini & O'Connell LLP to perform the audit for the year ended June 30, 2020. The auditor's report on OCSD'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 OCSD's basic financial statements for the year ended June 30, 2020.

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. OCSD provides wastewater treatment for an area of the County covering 479 square miles and serving a population of approximately 2.6 million, or 81 percent of the County's population. OCSD was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at OCSD'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.

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



OCSD is managed by an administrative organization composed of directors appointed by the agencies or cities which are serviced by OCSD. 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, receive 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 OCSD'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 pass on for purification or dispose of the treated wastewater and the separated solids in accordance with Federal, state, and local laws including the Environmental Protection Agency.

OCSD sewerage system includes approximately 388 miles of sewers that convey wastewater generated within OCSD's boundaries to OCSD's two wastewater treatment plants; Reclamation Plant No. 1 located in the City of Fountain Valley, and Treatment Plant No. 2 located in the City of Huntington Beach.

Plants No. 1 and No. 2 have secondary treatment capacities of 182 million gallons per day (mgd) and 150 mgd, respectively. In fiscal year 2020-21, both plants are projected to receive a combined average daily wastewater flow of 188 million gallons per day from residential, commercial, and industrial sources.

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

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

ECONOMIC CONDITIONS AND OUTLOOK

Before the COVID-19 pandemic and shutdown, California's economy was growing at a relatively low, but steady rate. The stay at home orders effectively shut down large portions of the State and Orange County economies.

According to the California Employment Development Department (EDD), Orange County saw a decrease of approximately 10.7 percent in payroll jobs from August 2019 to August 2020. During this same time period, unemployment in Orange County increased to 9.9 percent from 3.0 percent while the unemployment in California as a whole increased to 11.6 percent from 4.2 percent. In June 2020, Chapman University forecasted Orange County's 2020 total payroll employment to decrease 8.1 percent over the prior year, or the subtraction of 135,000 payroll jobs in 2020.

Despite the forecasted decrease in the Orange County job market, Chapman University continues to project a residential housing appreciation of 1.4 percent. Short-run increases can occur when inventories remain tight. Longer-run economic and demographic forces will eventually dominate the pricing equation, especially when affordability, as measured by the median home price-to-median income ratio, is projected to continue increasing.

According to Chapman University, residential permit valuation in the County is forecasted to decrease from an 8.9 percent decline in 2019 to a 15.3 percent decline in 2020.

The COVID-19 recession will affect all of California, including Orange County. Orange County is a relatively diverse economy that is not heavily dependent on any one sector, which mitigates the effect when particular sectors of the economy weaken.

MAJOR INITIATIVES

Following are the Sanitation District's current major initiatives as outlined in the General Manager's work plan for FY 2020-21:

1. Business Principles

- **Budget Control and Fiscal Discipline** – Provide the Administration Committee with an analysis of options, including an IRS Section 115 Trust for funding the Sanitation District's pension obligations by October 31, 2020.
- **Asset Management** – Update the Asset Management Plan by December 31, 2020 including an inventory of critical assets for each process area and the collection system; an evaluation of their condition and performance; and an updated implementation plan to maintain, rehabilitate, and replace these assets to meet the required levels of service at the lowest life cycle cost and at an acceptable level of risk.
- **Headquarters Project** – Complete site preparation for the new Headquarters facility, Project P1-128C, by June 30, 2021.
- **Cybersecurity/Safety** – Develop and conduct two emergency response and recovery drills for the interplant digester gas line and a cybersecurity breach by June 30, 2021.
- **Property Management** – Inspect real property, easements, and rights-of-way for encroachments and encumbrances which limit access or impede proper use of the right by December 31, 2020. Develop action plans by June 30, 2021 that restore long-term use for identified encroachments or encumbrances.

2. Environmental Stewardship

- **Energy Independence** – Overhaul two Central Generation Engines to begin the second 25-year operations cycle for the Central Generation Facilities by June 30, 2021.
- **Climate and Catastrophic Event Resilience** – Execute a contingency biosolids disposal agreement with Orange County Waste and Recycling to formally establish a local emergency failsafe biosolids disposal option by March 31, 2021.
- **Food Waste Treatment** – Complete market assessment for food waste feedstock co-digestion at OCSD. Solicit bids to construct the Interim Food Waste Facility at Plant No. 2, Project P2-124, by December 31, 2020.
- **Water Reuse** – Study alternatives to reduce the use of City Water in its operations by October 31, 2020 and implement water saving measures by June 30, 2021.
- **Environmental Water Quality, Stormwater Management and Urban Runoff** – Complete business process mapping for source control permit management, compliance data management, and Environmental Protection Agency compliant reporting to evaluate the current system and alternatives for enhancing the system. Complete final report and recommendations by March 31, 2021.

3. Wastewater Management

- **Chemical Sustainability** – The Sanitation District will develop a plan to maintain at least two suppliers for Iron based coagulants at all times with a final report out to the Board of Directors by June 30, 2021.

- **Biosolids Management** – Conduct an annual review of the regulatory aspects of the OCSD Biosolids Management Plan to adjust for evolving regulations for contaminants of emerging concern and update contingency options as needed. Provide an informational update to the Board of Directors by June 30, 2021.
- **Constituents of Emerging Concern** – Continue OCSD's leadership role in developing analytical capability, advocating for sound science and regulations, and identification of significant sources in constituents of emerging concerns such as per- and polyfluoroalkyl (PFAS) and microplastics. Provide an informational briefing to the Board of Directors by June 30, 2021. Provide preliminary results from the California State Water Resources Control Board investigative order for PFAS by June 30, 2021.

4. **Workplace Environment**

- **COVID-19 Pandemic Response and Recovery** – Continue to respond to the COVID-19 pandemic with operations remaining in full permit compliance while providing a safe workplace and complying with the Center for Disease Control and Prevention health official guidance, and applicable employment and labor laws. Develop a “reopening plan” and present it to the Board of Directors by September 30, 2020.
- **Safety and Physical Security** – Complete implementation of an Industrial Hygiene Program and a Job Safety Analysis program to meet the Voluntary Protection Program requirements by June 30, 2021.
- **Classification and Compensation Study** – Begin preparations for an agency wide Classification and Compensation Study by completing a Request for Proposal for a specialized vendor and accessing, discussing, and meeting and conferring regarding the 17 survey agencies by June 30, 2021.
- **Succession Planning** – Conduct two specialized training classes for supervisors, managers, and executive management team members and provide organizational awareness coursework via OCSD University for all employees with a final report out on June 30, 2021.

Strategic Planning

In November 2019, the Board of Directors adopted a new comprehensive strategic plan to steer OCSD's efforts. The Strategic Plan developed by the Board of Directors and staff defines the strategic initiatives to be pursued by OCSD and provides a basis for long-term financial, capital, and operational planning. In addition, it provides for long-term continuity of vision as Board and staff members change over the many years it takes to deliver public works infrastructure.

Driven by our Mission, Vision and Core Values, this Strategic Plan continues OCSD's aggressive efforts to protect the public health of the more than 2.6 million people we serve while protecting the environment where we live.

The Strategic Plan is broken down into four broad categories with fourteen topic areas that define our responsibilities and the services we provide. These areas are:

- Business Principles
 - Budget Control and Fiscal Discipline
 - Asset Management
 - Cybersecurity
 - Property Management
- Environmental Stewardship
 - Energy Independence
 - Climate and Catastrophic Event Resiliency
 - Food Waste Treatment
 - Water Reuse

- Environmental Water Quality, Stormwater Management and Urban Runoff
- Wastewater Management
 - Chemical Sustainability
 - Biosolids Management
 - Constituents of Emerging Concern
- Workplace Environment
 - Resilient Staffing
 - Safety and Physical Security

The Strategic Plan is not a radical departure from the current direction, but rather the well-defined iterative update to the direction of OCSD. With the adoption of the Strategic Plan, staff will be updating the Asset Management Plan, Capital Improvement Plan, and Financial Plan that are the basis of a two-year budget that will be adopted by the Board of Directors. The Budget goals and the General Manager's work plan are the accountability steps that measure achievable progress toward the strategic initiatives listed in the Strategic Plan.

SERVICE EFFORTS AND ACCOMPLISHMENTS

The following service efforts and accomplishments were achieved by OCSD during the year ended June 30, 2020:

- **Utility of the Future Award** – 2020 Water Environmental Research Foundation, National Association of Clean Water Agencies, Water Environment Federation and Environmental Protection Agency
- **Platinum Peak Performance Award** – 2020 National Association of Clean Water Agencies
- **2019 Excellence Award in Information Technology Practices** from the Municipal Information Systems Association of California (MISAC)
- **American Inhouse Design Award** – Graphic Design USA
- **Grand Prize** – 2020 American Academy of Environmental Engineers & Scientists
- **Turning Red Tape into Red Carpet, Orange County Business Council**, Interim Food Waste Receiving Facility
- **Investment Policy Certification** – California Municipal Treasurers Association (CMTA)
- **Certificate of Achievement for Excellence in Financial Reporting** – Government Finance Officers Association (GFOA)
- **District Transparency Certificate of Excellence** – Special District Leadership Foundation
- **Distinguished Budget Presentation Award** – GFOA
- **Excellence in Procurement** – California Association of Public Procurement Officers
- **SARBS/CWEA 2019**
 - **Quarter Century Award**, Tony Lee
 - **1st Place Community Engagement and Outreach Project of the Year**, Large, State College Sewer Construction Outreach Program (Project Lead Daisy Covarrubias)
 - **Collections System 2nd Place**, Medium
 - **Laboratory Person of the Year 1st Place**, Dawn Myers
 - **Laboratory Person of the Year 2nd Place**, Arturo Diaz
 - **Operator of the Year 2nd Place**, Jennifer Alexander
 - **SARBS Spotlight Award**, Cindy Murra
 - **2020 PICK Award**, Professionalism, Integrity, Contribution, Knowledge

- **1st Place Winner Community Engagement and Outreach**
- **2nd Place Winner Community Engagement and Outreach: Project of the Year**

ACCOUNTING AND BUDGETARY CONTROLS

OCSD's accounting records are maintained on the accrual basis. In developing and evaluating OCSD'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 OCSD's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Each year OCSD'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 OCSD 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. OCSD 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: A cash flow criterion has been established at a level 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 criterion 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: An operating contingency criterion has been established to provide for non-recurring operating expenditures that were not anticipated when the annual budget was considered and adopted. The level of this criterion will be established at an amount equal to ten percent of the current fiscal year's annual operating budget.

Capital Improvement Reserve: A capital improvement criterion has been maintained to fund annual increments of the capital improvement program. The target level of this criterion has been established at one half of the average annual cash outlay of the capital improvement program through the year 2030. 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: A catastrophic loss or self-insurance criterion has been maintained for property damage including fire, flood, and earthquake, for general liability and for workers' compensation. This reserve criterion is intended to work with purchased insurance policies, FEMA, and State disaster reimbursements. Based on the plant infrastructure replacement value, the level of this criterion has been set to fund the Sanitation District's non-reimbursed costs, estimated to be \$100 million.

Capital Replacement/Renewal Reserve Policy: A capital replacement/renewal criterion policy has been established to provide funding to replace or refurbish the current collection, treatment, and recycling facilities at the end of their useful economic lives. The current replacement value of these facilities is estimated to be \$10.8 billion. The reserve criterion level had been established at \$75 million.

Debt Service Reserves: A debt service criterion policy has been established at ten percent of the outstanding certificate of participation (COP) issues. Other debt service reserves are required to be under the control of a Trustee by the provisions of the certificate of participation issues. These funds are not available for the general needs of the Sanitation District and must be maintained at specified levels.

Accumulated Funds exceeding the targets specified by OCSD policy will be maintained for Capital Improvements and Rate Stabilization. These funds will be applied to future years' CIP needs due to the timing of the actual CIP outlays, in order to maintain rates or to moderate annual fluctuations.

As of June 30, 2020, OCSD was in compliance with the Accumulated Funds and Reserves Policy with designated cash and investments totaling \$881 million, and have been earmarked for the following specific purposes in accordance with OCSD's reserve policy:

Designated Cash and Investments

Designated For Cash Flow Contingency	\$178 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	552 million
Designated For Debt Service Requirements	<u>94 million</u>
Total Designated Cash and Investments	<u>\$ 881 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 OCSD's Comprehensive Annual Financial Report for the year ended June 30, 2019. This was the twenty-fifth consecutive year that OCSD 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 Kim Cardenas, Accounting Supervisor, who assisted in its preparation. I would also like to thank OCSD's Board of Directors and the General Manager for their interest and support in conducting the financial operations of OCSD in a responsible and progressive manner.

Respectfully submitted,



Wally Ritchie
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, 2019

Christopher P. Morill

Executive Director/CEO

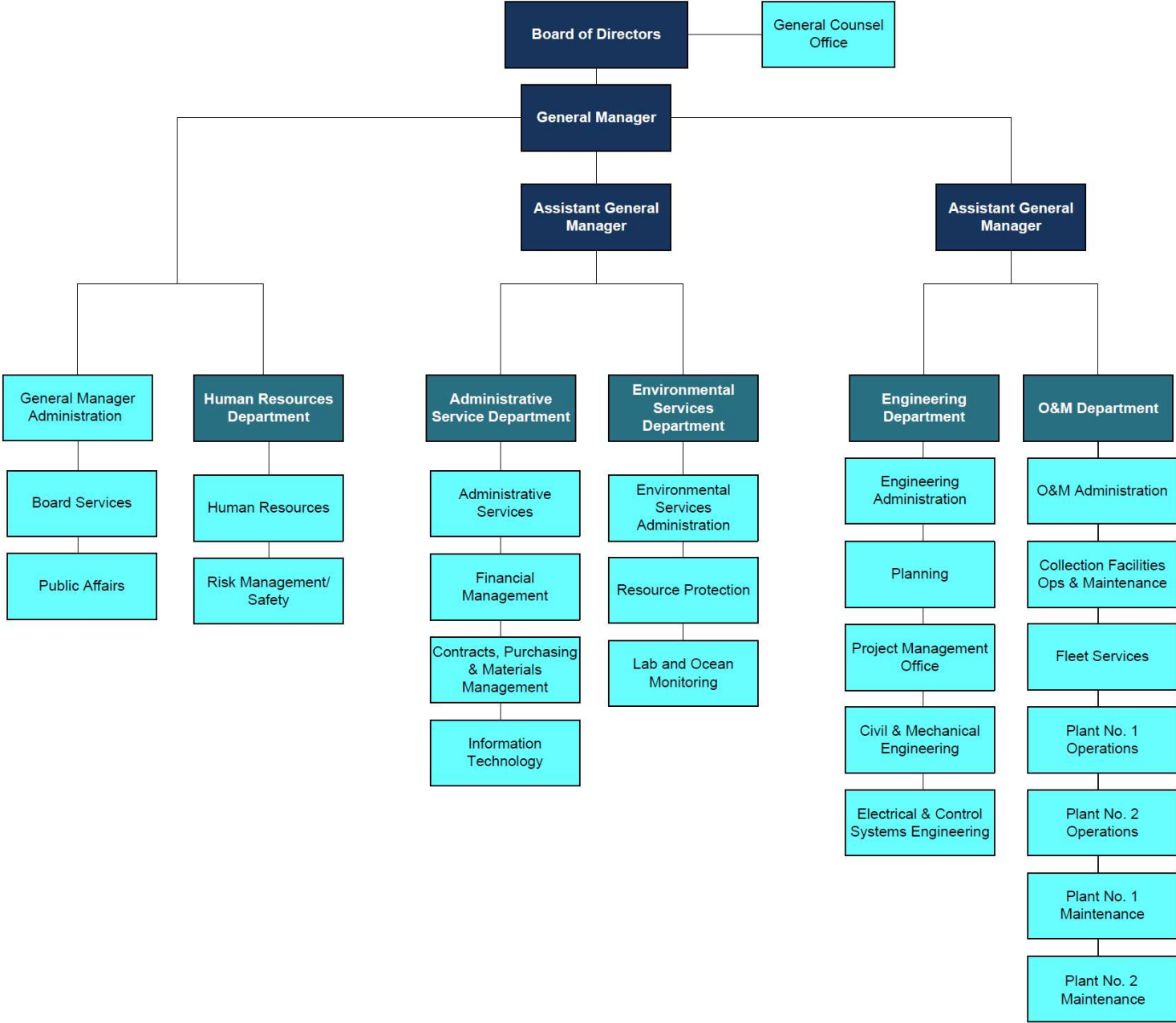
ORANGE COUNTY SANITATION DISTRICT

Board of Directors
As of June 30, 2020

<u>Agency</u>	<u>Active Director</u>	<u>Alternate Director</u>
Cities:		
Anaheim	Lucille Kring	Denise Barnes
Brea	Glenn Parker	Cecilia Hupp
Buena Park	Fred Smith	Connor Traut
Cypress	Mariellen Yarc	Stacy Berry
Fountain Valley	Steve Nagel	Patrick Harper
Fullerton	Jesus Silva	Jan Flory
Garden Grove	Steve Jones	John O'Neill
Huntington Beach	Erik Peterson	Lyn Semeta
Irvine	Christina Shea	Anthony Kuo
La Habra	Tim Shaw	Rose Espinoza
La Palma	Peter Kim	Nitesh Patel
Los Alamitos	Richard Murphy	Dean Grose
Newport Beach	Brad Avery	Joy Brenner
Orange	Mark Murphy	Kim Nichols
Placentia	Chad Wanke	Ward Smith
Santa Ana	Nelida Mendoza	David Penaloza
Seal Beach	Sandra Massa-Lavitt	Schelly Sustarsic
Stanton	David Shawver	Carol Warren
Tustin	Allan Bernstein	Chuck Puckett
Villa Park	Robert Collacott	Chad Zimmerman
Sanitary Water Districts:		
Costa Mesa Sanitary District	James M. Ferryman	Robert Ooten
Midway City Sanitary District	Andrew Nguyen	Margie Rice
Irvine Ranch Water District	John Withers	Douglas Reinhart
Yorba Linda Water District	Brooke Jones	Phil Hawkins
County Areas:		
Member of the Board of Supervisors	Doug Chaffee	Donald Wagner

ORANGE COUNTY SANITATION DISTRICT

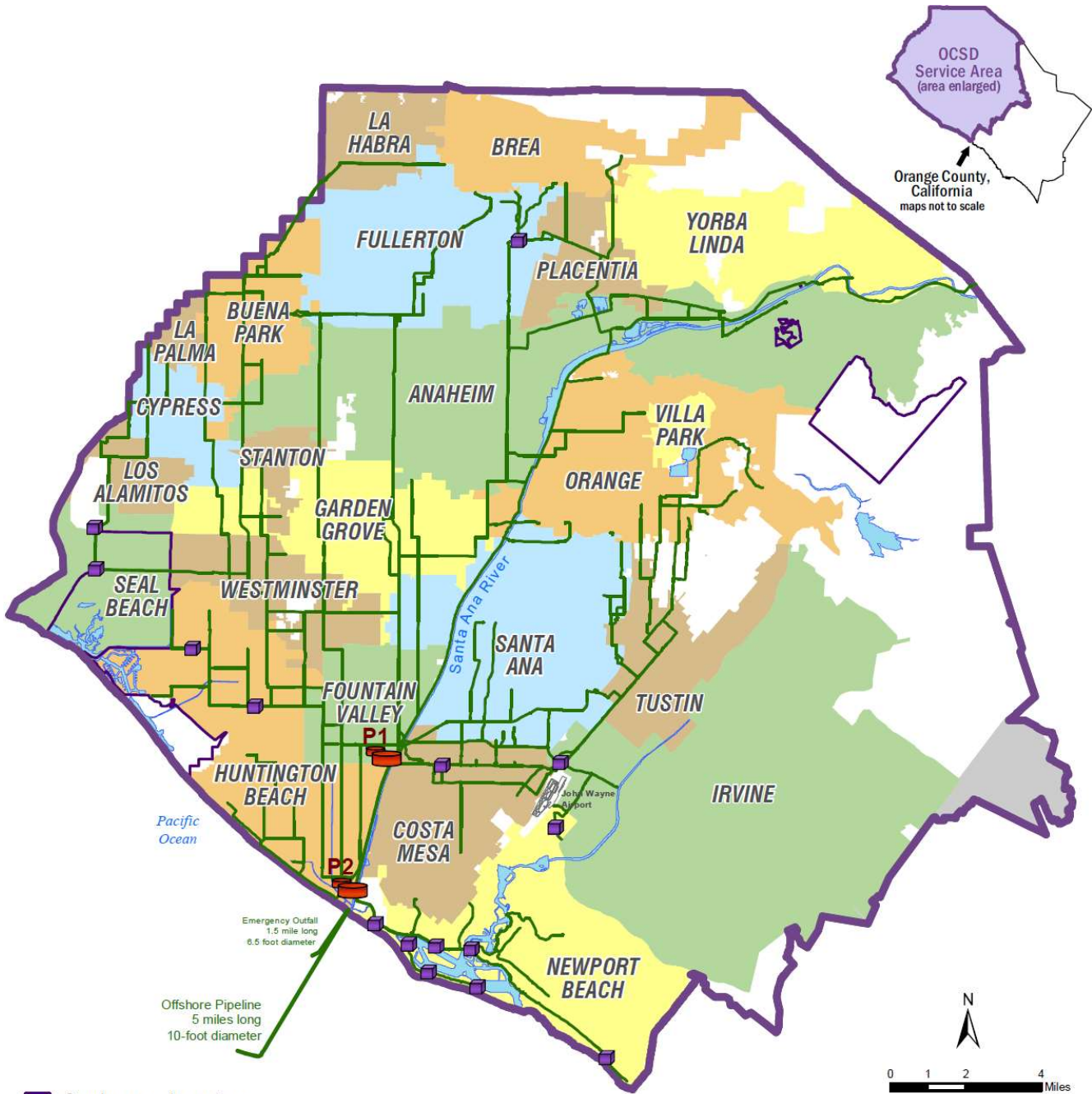
Organizational Chart
As of June 30, 2020








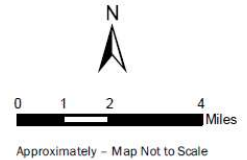
ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2020



-  Service area boundary
-  Sewer pipelines
-  Reclamation Plant No. 1 (P1)
Treatment Plant No. 2 (P2)
-  Pump 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. All Rights Reserved.
Revised December 2019

(THIS PAGE LEFT INTENTIONALLY BLANK)



Independent Auditor's Report

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

We have audited the accompanying financial statements of the Orange County Sanitation District (OCSD) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise OCSD's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OCSD'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 OCSD's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Sanitation District, as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Macias Gini & O'Connell LLP

Newport Beach, California
October 28, 2020

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020

This section of the financial statements of the Orange County Sanitation District (OCSD) is management's narrative overview and analysis of the financial activities of OCSD for the fiscal year ended June 30, 2020. 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, 2020, OCSD's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$2,539.0 million (net position). Of this amount, \$861.0 million represents unrestricted net position, which may be used to meet OCSD's ongoing obligations to citizens and creditors.
- Total net position increased \$178.5 million, or 7.6 percent over the prior year.
- Net capital assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$4.9 million, or 0.2 percent over the prior year.
- Net investment in capital assets increased \$30.3 million, or 1.8 percent over the prior year.
- Unrestricted net position increased \$148.2 million, or 20.8 percent over the prior year.
- Total outstanding bonded debt decreased by \$32.7 million, or 3.4 percent from the prior year, to \$940.1 million.

Overview of the Basic Financial Statements

OCSD 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, OCSD'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 GASB Codification of Governmental Accounting and Financial Reporting Standards, OCSD's financial statements include a Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; and a Statement of Cash Flows.

The Statement of Net Position includes OCSD's assets, deferred outflows of resources, liabilities, and deferred inflows of resources; and provides information about the nature and amounts of investments in resources (assets) and the obligations to OCSD's creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of OCSD, and assessing the liquidity and financial flexibility of OCSD.

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

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

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020

Net Position

As previously noted, net position increased \$178.5 million, or 7.6 percent over the net position for FY 2018-19, to \$2,539.0 million in FY 2019-20.

(Dollars in thousands)

	June 30, 2020	June 30, 2019	Increase (Decrease)	Percentage Increase (Decrease)
Assets				
Current and other assets	\$ 964,535	\$ 789,769	\$ 174,766	22.1%
Net capital assets	2,674,201	2,669,309	4,892	0.2%
Total assets	3,638,736	3,459,078	179,658	5.2%
Deferred outflows of resources				
	63,213	122,683	(59,470)	-48.5%
Total assets and deferred outflows of resources				
	3,701,949	3,581,761	120,188	3.4%
Liabilities				
Current liabilities	138,390	109,982	28,408	25.8%
Noncurrent liabilities	991,389	1,065,679	(74,290)	-7.0%
Total liabilities	1,129,779	1,175,661	(45,882)	-3.9%
Deferred inflows of resources				
	33,160	45,598	(12,438)	-27.3%
Total liabilities and deferred inflows of resources				
	1,162,939	1,221,259	(58,320)	-4.8%
Net position				
Net investment in capital assets	1,678,041	1,647,723	30,318	1.8%
Unrestricted	860,969	712,779	148,190	20.8%
Total net position	\$ 2,539,010	\$ 2,360,502	\$ 178,508	7.6%

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020

Current and other assets increased \$174.8 million, or 22.1 percent, due primarily to net cash provided by operations of \$169.0 million, proceeds from property taxes of \$104.2 million, OCERS net pension asset of \$49.4 million, net investment activities and other items of \$21.8 million, receipt of capital facilities capacity charges of \$20.1 million, interest received of \$17.5 million, and contributions from other governments of \$6.5 million, offset by capital outlays of \$136.6 million, interest paid of \$44.4 million, and bonded debt retirements of \$32.7 million.

Net capital assets increased \$4.9 million, or 0.2 percent, due mostly to the ongoing capital improvement program construction in progress additions of \$118.2 million and capital equipment of \$1.8 million, offset by depreciation of \$113.9 million and \$1.2 million of prior capital project expenses that were written off as expense. Included in total capital outlay additions is the Ocean Outfall System Rehabilitation with incurred project costs of \$19.8 million FY 2019-20 and a total project budget of \$166.0 million. This project will rehabilitate the Ocean Outfall Booster Station at Plant No. 2, construct a new Low Flow Pump Station and a Plant Water Pump Station, and replace existing electrical switchgear at CenGen.

Collection system projects include the Newhope-Placentia Trunk Replacement. The Newhope-Placentia Trunk Replacement incurred outlays of \$23.0 million in FY 2019-20 with a total project budget of \$112.0 million through the projected completion in FY 2021-22. This project will increase the size of approximately 35,000 feet of the trunk line from Yorba Linda Boulevard to Orangewood Avenue. The upsized sewer will accommodate flows from the newly abandoned Yorba Linda Pump Station and the newly interconnected Atwood Sub-trunk.

See page 8 for the Schedule of Capital Assets and listing of other major capital additions for FY 2019-20.

Deferred outflows of resources decreased \$59.5 million, or 48.5 percent from the prior year, primarily due to a \$55.7 million decrease in pension deferred outflows attributable to the change in projected and actual earnings on pension plan investments and changes of actuarial assumptions and other inputs, as well as a decrease of \$3.8 million for the difference between carrying amount of the retired debt and the acquisition price of COP Series.

Deferred inflows of resources decreased \$12.4 million, or 27.3 percent under the prior year, primarily as a result of the change in projected and actual earnings on pension plan investments and differences between expected and actual experiences.

Net investment in capital assets increased \$30.3 million, or 1.8 percent over the prior year, primarily as a result of the net increase in capital assets of \$4.9 million coupled with a \$25.4 million decrease in related debt.

Unrestricted net position increased \$148.2 million, or 20.8 percent, due to the overall increase in net position of \$178.5 million, offset by the increase in net investment in capital assets of \$30.3 million.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020

Change in Net Position

Net position increased \$12.8 million in FY 2019-20, or 7.7 percent over the prior year's increase in net position.

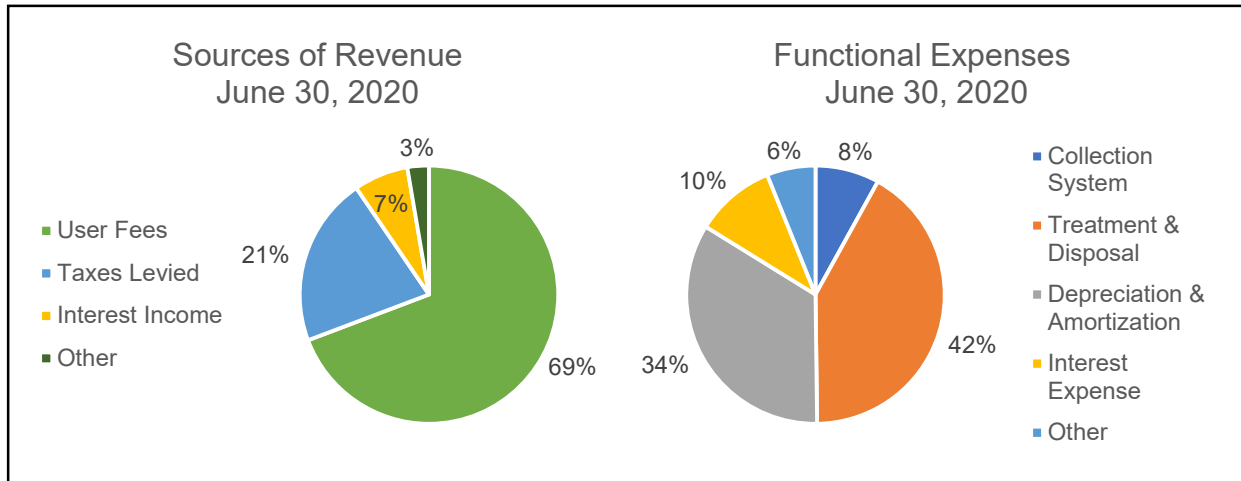
(Dollars in thousands)

	June 30, 2020	June 30, 2019	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service charges	\$ 339,895	\$ 317,291	\$ 22,604	7.1%
Permit and inspection fees	1,169	1,199	(30)	-2.5%
Total operating revenues	<u>341,064</u>	<u>318,490</u>	<u>22,574</u>	<u>7.1%</u>
Non-operating revenues				
Property taxes	104,492	99,534	4,958	5.0%
Investment and interest income	33,669	29,102	4,567	15.7%
Contrib. from other governments	10,535	27,800	(17,265)	-62.1%
Other	2,637	2,162	475	22.0%
Total non-operating revenues	<u>151,333</u>	<u>158,598</u>	<u>(7,265)</u>	<u>-4.6%</u>
Total revenues	<u>492,397</u>	<u>477,088</u>	<u>15,309</u>	<u>3.2%</u>
Expenses:				
Operating expense other than depreciation and amortization	168,333	166,586	1,747	1.0%
Depreciation and amortization	113,888	102,239	11,649	11.4%
Non-operating expense	54,261	63,582	(9,321)	-14.7%
Total expenses	<u>336,482</u>	<u>332,407</u>	<u>4,075</u>	<u>1.2%</u>
Income before capital contributions	<u>155,915</u>	<u>144,681</u>	<u>11,234</u>	<u>7.8%</u>
Capital facilities capacity charges	22,593	21,032	1,561	7.4%
Increase in net position	<u>178,508</u>	<u>165,713</u>	<u>12,795</u>	<u>7.7%</u>
Beginning net position	2,360,502	2,194,789	165,713	7.6%
Ending net position	<u>\$ 2,539,010</u>	<u>\$ 2,360,502</u>	<u>\$ 178,508</u>	<u>7.6%</u>

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

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

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020



Operating revenues increased \$22.6 million, or 7.1 percent in FY 2019-20 from the prior year, primarily due to a 1.2 percent increase in the average sewer user fee rate and a decrease in user fee rebates issued over the prior year, as well as an increase in service charges to IRWD.

Non-operating revenues decrease of \$7.3 million, or 4.6 percent, primarily consists of a \$17.3 million or 62.1 percent decrease in contributions from other governments, reflective of the decrease in the integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD. This decrease is offset by a \$5.0 million or 5.0 percent increase in property taxes revenue due to the increase in total assessed valuation of 5.8 percent over the prior year, a \$4.5 million or 15.7 percent increase in investment and interest income as a result of higher account balances held in the investment portfolios, and a \$0.5 million or 22.0 percent increase in other revenues attributable to a retrospective insurance adjustment.

Operating expense before depreciation and amortization increased \$1.7 million, or 1.0 percent from the prior year. The majority of this increase is from a \$12.3 million or 38.7 percent rise in supplies, repairs and maintenance, attributable to delayed rehabilitation projects for primary and secondary clarifiers, increases in basic repairs and maintenance costs, and Central Generation engine overhaul. This increase is offset by a \$6.6 million or 69.0 percent decrease in other expenses primarily from a reduction in reserves for claims and judgments and a \$1.4 million or 5.6 percent decrease in contractual services resulting from lower biosolids removal costs due to new dewatering centrifuges that replaced aging belt presses. Additionally, salaries and benefits decreased by \$2.6 million or 3.0 percent over the prior year. When including the salaries and benefits capitalized within the capital improvement program, total operating salaries and benefits costs were \$99.9 million, a \$3.0 million or 2.9 percent decrease from the prior year total of \$102.9 million. This decrease is reflective of the \$5.9 million or 32.5 percent decrease in retirement expenses as a result of the change in projected and actual earnings on pension plan investments and changes of assumptions, somewhat offset by a \$2.6 million or 3.6 percent increase in salaries and wages.

Non-operating expense decreased \$9.3 million, or 14.7 percent, primarily resulting from the prior year \$23.2 million transfer of local sewer service fee assets and replacement funds to the City of Santa Ana, a \$4.2 million or 76.4 percent decrease in loss on disposal of capital assets, and a decrease in interest expense of \$0.6 million or 1.8 percent from the prior year total of \$34.5 million. Offsetting this decrease is the increase of \$16.4 million in contributions to other governments for the integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD and an increase of \$2.3 million in other non-operating expenses due to project 2-41-8 SARI rock removal.

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020

Capital facility capacity charges increased \$1.6 million, or 7.4 percent from the prior year, due to an increase in rates and connection fees collected from cities, offset by less supplemental capital facilities capacity charges assessed to industrial dischargers than last year.

Capital Assets

At June 30, 2020, OCSD had a net investment of \$2.7 billion in capital assets. This represents a net increase (including additions and deletions) of \$4.9 million, or 0.2 percent over the prior year.

**Schedule of Capital Assets
(Net of Depreciation and Amortization)**

(Dollars in thousands)

	June 30, 2020	June 30, 2019	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 41,967	\$ 41,967	\$ -	0.0%
Construction in progress	363,931	521,832	(157,901)	-30.3%
Sewage collection facilities	494,680	508,164	(13,484)	-2.7%
Sewage treatment facilities	1,668,008	1,485,491	182,517	12.3%
Effluent disposal facilities	30,240	31,696	(1,456)	-4.6%
Solids disposal facilities	268	278	(10)	-3.6%
General and administrative facilities	75,107	79,881	(4,774)	-6.0%
Capital assets, net	\$ 2,674,201	\$ 2,669,309	\$ 4,892	0.2%

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

- \$23.0 million Newhope-Placentia Trunk Replacement
- \$19.8 million Ocean Outfall System Rehabilitation
- \$12.0 million Primary Treatment Rehabilitation at Plant No. 2
- \$ 9.8 million Headworks Rehabilitation and Expansion at Plant No. 1
- \$ 6.5 million Safety Improvements Program
- \$ 5.6 million Headquarters Complex and Site Security at Plant No. 1
- \$ 5.2 million Westminster Blvd Force Main Replacement
- \$ 4.5 million Sludge Dewatering and Odor control at Plant 1
- \$ 4.4 million Sludge Dewatering and Odor Control at Plant 2
- \$ 3.4 million Digester Gas Facilities Rehabilitation

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

ORANGE COUNTY SANITATION DISTRICT
Management Discussion and Analysis (Unaudited)
June 30, 2020

Debt Administration

At June 30, 2020, OCSD had \$940.1 million outstanding in bonded debt, a net decrease of \$32.7 million, or 3.4 percent from the prior year. This reduction consisted of the accumulation of principal payments made in accordance with the schedule of debt service payments.

During OCSD's most recent debt refundings, Moody's, Standard and Poor's, and Fitch Ratings all reaffirmed their AAA rating of the Orange County Sanitation District. OCSD's long-range financing plan is designed to maintain this high rating. Over the next five years, OCSD is projecting over \$1.2 billion in future treatment plant and collection system capital improvements. In accordance with OCSD's long-term debt fiscal policy, OCSD will restrict long-term borrowing to capital improvements that cannot be financed from current revenue. No new debt issuances are being proposed over the next five years to assist with the funding of the system improvements scheduled over this time period. For more information on long-term debt activities, see Note 4 of the Notes to Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

- The coronavirus pandemic decimated the U.S, California, and Orange County economies in 2020. There is uncertainty in how quickly California will ease restrictions to reopen the economy and if there will be renewed shutdowns. Orange County tourism and sales tax revenues have been hard hit and are affecting many government entity revenue streams. OCSD does not rely on sales or tourism related taxes for revenue.
- The unemployment rate within the County of Orange is at 13.6 percent in June 2020, an increase from the rate of 3.0 percent in June 2019.
- Inflation for the Los Angeles-Long Beach-Anaheim area increased 1.4 percent in June 2020 over the prior year June 2019 based on the actual percentage change in the consumer price index according to the U. S. Department of Labor, Bureau of Labor Statistics.
- The yield on investments decreased from the 2.0 percent earnings rate in FY 2018-19 to 0.4 percent for FY 2019-20.

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

As members of the community, we understand the financial impacts of COVID-19 on Orange County and that many of our ratepayers have incurred great losses.

The Board of Directors voted to adopt the two-year budget and not raise the sewer fee for FY 2020-21 as originally approved in OCSD's five-year rate schedule. The Single Family Residential (SFR) fee, which is the underlying rate for all other user rates, is applicable to OCSD's largest customer base: the SFR fee remained at \$339.00 instead of increasing by 1.2 percent or \$4.00 to \$343.00. The rate increase has been eliminated for FY 2020-21 in response to COVID-19 and will resume in FY 2021-22. The revenue from sewer fees is necessary to support OCSD's cash flow needs including \$174.3 million in operating costs, \$72.8 million in debt service costs and \$164.8 million in capital improvement outlays in 2020-21. Capital Improvement costs are projected to total \$2.7 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and maintain full secondary treatment standards.

Requests for Information

The financial report is designed to provide a general overview of OCSD'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.

(THIS PAGE LEFT INTENTIONALLY BLANK)

**ORANGE COUNTY SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS**

ORANGE COUNTY SANITATION DISTRICT

Statement of Net Position

June 30, 2020

Current assets:	
Cash and cash equivalents	\$ 106,562,503
Investments	774,218,874
Accounts receivable, net of allowance for uncollectibles \$304,619	15,585,233
Accrued interest receivable	3,261,437
Connection fees receivable	4,276,297
Property tax receivable	1,841,207
Inventories	6,852,604
Prepaid expenses	2,473,418
Total current assets	<u>915,071,573</u>
Noncurrent assets:	
Restricted:	
Cash and cash equivalents held by fiscal agents	6,998
Unrestricted:	
Non-depreciable capital assets	405,898,190
Depreciable capital assets, net of accumulated depreciation	2,268,302,719
Other noncurrent assets, net	10,344
Net pension asset - OCERS	49,446,615
Total noncurrent assets	<u>2,723,664,866</u>
Total assets	<u>3,638,736,439</u>
Deferred outflows of resources:	
Deferred charges on defeasances	25,162,613
Deferred outflows related to pensions	38,050,031
Total deferred outflows of resources	<u>63,212,644</u>
Total assets and deferred outflows of resources	<u>3,701,949,083</u>
Current liabilities:	
Accounts payable	16,007,700
Accrued expenses	16,259,932
Retentions payable	4,475,945
Interest payable	17,582,050
Due to other governmental agency	34,613,820
Current portion of long-term obligations	49,450,092
Total current liabilities	<u>138,389,539</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations	967,470,844
Total OPEB liability	2,483,644
Total pension liability - ARBA	21,434,655
Total noncurrent liabilities	<u>991,389,143</u>
Total liabilities	<u>1,129,778,682</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	33,160,310
Total liabilities and deferred inflows of resources	<u>1,162,938,992</u>
Net position:	
Net investment in capital assets	1,678,041,015
Unrestricted	860,969,076
Total net position	<u>\$ 2,539,010,091</u>

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2020

Operating revenues:	
Service charges	\$ 339,895,508
Permit and inspection fees	1,168,554
	<u>341,064,062</u>
Total operating revenues	<u>341,064,062</u>
Operating expenses other than depreciation and amortization:	
Salaries and benefits	82,916,642
Utilities	8,622,358
Supplies, repairs and maintenance	44,062,629
Contractual services	24,624,668
Feasibility studies	5,113,211
Other	2,993,614
	<u>168,333,122</u>
Total operating expenses other than depreciation and amortization	<u>168,333,122</u>
Operating income before depreciation and amortization	172,730,940
Depreciation and amortization	113,887,828
	<u>58,843,112</u>
Operating income	<u>58,843,112</u>
Non-operating revenues:	
Property taxes	104,491,530
Investment and interest income	33,669,185
Contributions from other governments	10,535,138
Other	2,637,274
	<u>151,333,127</u>
Total non-operating revenues	<u>151,333,127</u>
Non-operating expenses:	
Interest	33,832,605
Contributions to other governments	16,408,665
Other	2,725,028
Loss on disposal of assets	1,295,446
	<u>54,261,744</u>
Total non-operating expenses	<u>54,261,744</u>
Income before capital contributions	155,914,495
Capital contributions:	
Capital facilities capacity charges	22,593,121
	<u>178,507,616</u>
Change in net position	<u>178,507,616</u>
Total net position - beginning	2,360,502,475
	<u>2,360,502,475</u>
Total net position - ending	<u>\$ 2,539,010,091</u>

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2020

Cash flows from operating activities:	
Receipts from customers and users	\$ 374,305,112
Payments to employees	(118,367,068)
Payments to suppliers	(86,927,267)
Net cash provided by operating activities	169,010,777
Cash flows from noncapital financing activities:	
Proceeds from property taxes	104,236,994
Payments for other activities	(90,298)
Net cash provided by noncapital financing activities	104,146,696
Cash flows from capital and related financing activities:	
Capital facilities capacity charges	20,051,888
Additions to capital assets	(136,578,436)
Interest paid	(44,351,789)
Principal payments on debt obligations	(32,730,000)
Contributions from other governments	6,533,131
Net cash used in capital and related financing activities	(187,075,206)
Cash flows from investing activities:	
Proceeds from the sale of investments	386,346,275
Purchases of investments	(459,325,245)
Interest received	17,507,225
Net cash used in investing activities	(55,471,745)
Net increase in cash and cash equivalents	30,610,522
Cash and cash equivalents, beginning of year	75,958,979
Cash and cash equivalents, end of year	\$ 106,569,501
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 58,843,112
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	113,887,828
Bad debt expense (net recoveries)	(45,354)
(Increase)/decrease in operating assets:	
Accounts receivable	(1,838,656)
Inventories	(920,236)
Due from other governmental agency	465,886
Prepaid expenses	(506,972)
Increase/(decrease) in operating liabilities:	
Accounts payable	3,728,708
Accrued expenses	(198,810)
Due to other governmental agency	34,613,820
Net pension/OPEB liabilities	(36,840,589)
Compensated absences	941,645
Claims and judgments	(3,119,605)
Net cash provided by operating activities	\$ 169,010,777
<u>Noncash activities:</u>	
Unrealized gain on the fair value of investments	\$ 16,701,780
Capital assets acquired through accounts payable	(4,171,751)
Capital facilities capacity charges acquired	2,541,233

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

(1) Summary of Significant Accounting Policies

Reporting Entity

The Orange County Sanitation District (OCSD) is a public agency which owns and operates certain wastewater facilities in order to provide regional wastewater collection, treatment, and disposal services to approximately 2.6 million people in the northern and central portion of the County of Orange, California. OCSD is overseen by a Board 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 (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, 2020, 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).

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Measurement Focus and Basis of Accounting

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

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

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

Operating Plans

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

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable is reported net of the allowance for uncollectible receivables. Uncollectible receivables were \$304,619 at June 30, 2020. Unbilled sewer services through June 30, 2020 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, 2020

Inventories

Inventories, which are held for consumption and not resale, are stated at cost on a weighted-average basis and are 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 donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement, which are recorded at acquisition value at the time received. Cost includes labor; materials; outside services; vehicle and equipment usage; other ancillary costs consisting of direct charges such as engineering, purchasing, supervision, or fringe benefits. Interest costs, net of interest earnings, have been capitalized on projects prior to fiscal year 2017-2018. Commencing with fiscal year 2017-2018, OCSD early implemented GASB Statement No. 89, where interest costs incurred before the end of the construction period are no longer capitalized.

Depreciation of plant and equipment is provided for over the estimated useful lives of the assets using the straight-line method in accordance with generally accepted accounting principles. OCSD also considers the guidelines of estimated useful lives as recommended in the State of California Controller's Uniform System of Accounts for Waste Disposal Districts, which range from 3 to 75 years. The following are estimated useful lives for major classes of depreciable assets: Sewage collection facilities – 50 years, Sewage treatment facilities – 40 years, Sewage disposal facilities – 40 years, General plant and administrative structures – 40 years, and other General plant and administrative facilities and equipment – 4 to 25 years.

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.

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).

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Deferred Charges on Defeasances

For advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt (i.e. deferred charges) is reported as a deferred outflow of resources and amortized to interest expense based on the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is shorter. OCSD's deferred charges on the refunding debt at June 30, 2020 are \$25,162,613.

Net Position

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

Net Investment in Capital Assets – This amount consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets and excludes unspent debt proceeds. Deferred outflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also are included in this component of net position.

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

Compensated Absences

OCSD's employees, other than operations and maintenance personnel, are granted vacation and sick leave in varying amounts with maximum accumulations of 200 hours and 560 hours for vacation and sick days earned but unused, respectively. Operations and maintenance personnel accrue between 80 and 250 personal leave hours per year depending on years of service, which can be accumulated up to a maximum of 440 hours. All accrued and unused vacation or personal leave is paid to the employee upon termination or retirement of the employee. Accrued and unused sick leave is paid to the employee at a percentage rate based on years of service, as stated in the Memorandum of Understanding for each bargaining group.

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

Claims and Judgments

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

Pensions

OCSD has two defined benefit pension plans for retirees: the plan maintained through and by the Orange County Employees Retirement System (OCERS) and the Additional Retiree Benefit Account (ARBA) administered directly by OCSD. For purposes of measuring the net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of OCSD's cost sharing multiple-employer plan with the OCERS plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by OCERS. Benefit payments (including refunds of employee contributions) are recognized when due and payable in

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

accordance with the benefit terms. Investments are reported at fair value. A deferred outflow of resources and deferred inflow of resources related to pensions result from changes in the components of the net pension liability and are applicable to a future reporting period (Note 5).

Property Taxes

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

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

Capital Facilities Capacity Charges

Capital facilities capacity charges represent fees imposed at the time a structure is newly connected to OCSD's system, directly or indirectly, or an existing structure or category of use is increased. This charge is to pay for OCSD 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.

Self-Insurance Plans

For the year ended June 30, 2020, OCSD was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation exposure is the \$1,000,000 deductible per occurrence under the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$500,000 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 \$250,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. The self-insurance portion of the property damage exposure covering earthquake is the 5% per structure, minimum \$5,000,000 deductible with outside excess insurance coverage to \$25 million on covered structures. OCSD has insured a number of key structures against the peril of earthquake, all other structures are completely self-insured. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$500,000 per occurrence deductible under the outside excess liability coverage to \$40 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$75,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. There were no significant changes in insurance coverage during fiscal year ended June 30, 2020.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OCSD are processed by General Counsel or an outside claim administrator. These claims are charged to claims expense based on estimated or known amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. Workers' compensation reserves are actuarially determined and general liability estimated loss accruals are estimated using past experience adjusted for current trends and any other factors that would modify past experience. The estimate of the claims liability also includes any amounts for incremental and nonincremental claim adjustment expenses. OCSD management believes that there are no unrecorded claims as of June 30, 2020 that would materially affect the financial position of OCSD.

Deferred Compensation Plan

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

New Accounting Pronouncements

OCSD early implemented GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 90, *Majority Equity Interests* for the fiscal year ended June 30, 2020 by adopting GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed various GASB pronouncements by at least one year. Implementation of these Standards did not materially impact OCSD's financial statements.

The following GASB Statements have been issued but are not yet effective for the year ended June 30, 2020. OCSD is assessing what financial statement impact, if any, these Statements will have:

- GASB Statement No. 87, *Leases*, effective for the fiscal year ending June 30, 2022.
- GASB Statement No. 92, *Omnibus 2020*, effective upon issuance for the requirements related to the effective date of GASB Statement No. 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments. The other requirements will be effective for the fiscal year ending June 30, 2022.
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective for the fiscal year ending June 30, 2023.
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, effective for the fiscal year ending June 30, 2022.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

(2) Cash and Investments

Cash and investments as of June 30, 2020 are classified within the accompanying Statement of Net Position as follows:

Statement of Net Position:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 106,562,503
Investments	<u>774,218,874</u>
Subtotal - current, unrestricted	880,781,377
Restricted:	
Cash and cash equivalents	<u>6,998</u>
Total cash and cash equivalents and investments	<u><u>\$ 880,788,375</u></u>

Cash and investments consist of the following as of June 30, 2020:

Cash on hand	\$ 6,500
Deposits with financial institutions	9,056,262
Managed portfolio - cash and investments	<u>871,718,615</u>
Subtotal - unrestricted cash and investments	880,781,377
Monies held by trustees:	
Cash and cash equivalents	<u>6,998</u>
Grand total cash and investments	<u><u>\$ 880,788,375</u></u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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

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

Notes

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

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

(3) As allowed by California Government Code Section 53601, the Board of Directors has adopted a policy of a maximum maturity of 5 years for investments purchased by OCSD's external money manager for the long-term investment portfolio. The duration of the long-term investment portfolio can never exceed 60 months. Investments purchased for the short-term portfolio are subject to the maturity restrictions noted in this table.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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 identify certain provisions of the debt covenant agreements that address interest rate risk, credit risk, and concentration of credit risk.

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

Disclosures Relating to Interest Rate Risk

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2020.

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
Short-Term Portfolio:			
U.S. Treasury Bills	\$ 99,428,600	0.441	5.29
Local Agency Investment Fund	72,372,513	0.522	6.26
U.S. Treasury Notes	37,106,350	0.168	2.02
U.S. Agency Securities	23,290,773	0.253	3.03
Corporate Medium-Term Notes	7,817,805	0.556	6.68
Supranationals	6,008,330	0.292	3.50
Money Market Mutual Funds	3,643,086	-	-
Certificates of Deposit	1,507,395	0.638	7.65
Short-term portfolio subtotal	<u>\$ 251,174,852</u>	<u>0.401</u>	<u>4.81</u>
Long-Term Portfolio:			
U.S. Treasury Notes	\$ 191,364,585	2.840	34.08
U.S. Agency Securities*	187,763,073	2.833	33.99
Corporate Medium-Term Notes	144,063,379	2.483	29.79
Supranationals	36,932,396	1.967	23.61
Asset Backed Securities/CMO*	30,260,229	0.804	9.65
U.S. Treasury Inflation-Protected Securities (TIPS)	11,731,592	4.049	48.59
U.S. Treasury Bills	9,997,900	0.153	1.84
Money Market Mutual Funds	6,486,692	-	-
Taxable Municipal Bonds	1,829,068	0.453	5.44
U.S. Govt. Backed Mortgage Pools (GNMA)*	114,849	3.281	39.37
Long-term portfolio subtotal	<u>\$ 620,543,763</u>	<u>2.547</u>	<u>30.56</u>
Total Portfolio	<u><u>\$ 871,718,615</u></u>		
* Includes highly sensitive securities.			

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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, 2020.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
Money Market Mutual Funds:		
First American Government Obligations Fund	\$ 5,456	43 days
BlackRock Institutional Funds	1,542	42 days
Total fair value of investments held by fiscal agents	<u>\$ 6,998</u>	

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

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

- **Mortgage-backed securities:** These securities are subject to early payment in a period of declining interest rates. The resulting reduction in expected total cash flows affects the fair value of these securities, making them highly sensitive to change in interest rates. At fiscal year end, the fair value of investments in mortgage-backed securities totaled \$2,099,218 including \$981,882 of mortgage pass-through securities, \$1,002,487 of U.S. agency securities, and \$114,849 of U.S. government backed mortgage pools.

Fair Value of Investments

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

At June 30, 2020, OCSD had the following fair value measurements for its managed investment portfolio:

Investment Type	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Unobservable Inputs Level 3
Investments in Short-Term Portfolio:				
U.S. Treasury Bills	\$ 99,428,600	\$ -	\$ 99,428,600	\$ -
U.S. Treasury Notes	37,106,350		37,106,350	-
U.S. Agency Securities	23,290,773	-	23,290,773	-
Corporate Medium-term Notes	7,817,805	-	7,817,805	-
Supranationals	6,008,330	-	6,008,330	-
Certificates of Deposits	1,507,395	-	1,507,395	-
Investments in Long-Term Portfolio:				
U.S. Treasury Notes	191,364,585	-	191,364,585	-
U.S. Agency Securities	187,763,073	-	187,763,073	-
Corporate Medium-term Notes	144,063,379	-	144,063,379	-
Supranationals	36,932,396	-	36,932,396	-
Asset Backed Securities/CMO	30,260,229	-	30,260,229	-
US Treasury Inflation Protected Securities (TIPS)	11,731,592	-	11,731,592	-
U.S. Treasury Bills	9,997,900	-	9,997,900	-
Taxable Municipal Bonds	1,829,068	-	1,829,068	-
U.S. Government Backed Mortgage Pools	114,849	-	114,849	-
Fair Value Hierarchy Totals		\$ -	\$ 789,216,324	\$ -
Investments Not Subject To Fair Value Hierarchy:				
Local Agency Investment Fund (LAIF)*	72,372,513			
Money Market Mutual Funds*	3,643,086			
Money Market Mutual Funds**	6,486,692			
Total Portfolio	\$ 871,718,615			

* Invested in Short-Term Portfolio
** Invested in Long-Term Portfolio

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

Monies held by trustees (fiscal agents) that are invested in money market mutual funds are reported at carrying cost.

Disclosures Relating to Credit Risk

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2020

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	\$ 349,629,027
U.S. Agency Securities - GNMA	114,849
Subtotal	<u>\$ 349,743,876</u>
Investments with no legal minimum rating:	
U.S. Agency Securities (other than GNMA):	
Rating of Aaa (Moody's)	12,924,736
Rating of AA+ (Standard & Poor's)	174,838,337
Rating of P-1 (Moody's)	23,290,773
Municipal Bonds:	
Rating of Aa1 (Moody's)	1,415,764
Rating of Aa3 (Moody's)	413,304
Certificates of Deposits;	
Rating of P-1 (Moody's)	1,507,395
Local Agency Investment Fund (LAIF):	
Not rated	72,372,513
Subtotal	<u>286,762,822</u>
Investments with a legal minimum rating (or its equivalent) of A:	
Corporate Medium-Term Notes:	
Rating of Aa1 (Moody's)	8,454,859
Rating of AA+ (Fitch)	3,086,686
Rating of Aa2 (Moody's)	10,511,356
Rating of AA (Standard & Poor's)	3,034,470
Rating of AA- (Standard & Poor's)	7,238,623
Rating of Aa3 (Moody's)	1,107,750
Rating of A1 (Moody's)	17,339,227
Rating of A+ (Fitch)	6,843,320
Rating of A2 (Moody's)	38,386,511
Rating of A (Standard & Poor's)	8,450,765
Rating of A- (Standard & Poor's)*	30,064,684
Rating of A3 (Moody's)*	14,407,785
Rating of BBB+ (Standard & Poor's)*	2,948,428
Not rated	6,720
Subtotal	<u>151,881,184</u>
Investments with a legal minimum rating (or its equivalent) of AA:	
Asset Backed Securities/CMO:	
Rating of Aaa (Moody's)	25,482,093
Rating of AAA (Standard & Poor's)	3,778,933
Rating of AA+ (Standard and Poor's)	880,203
Rating of BBB (Fitch)*	107,618
Rating of B (Standard & Poor's)*	11,382
Supranational Obligations:	
Rating of Aaa (Moody's)	37,941,976
Rating of P-1 (Moody's)	4,998,750
Subtotal	<u>73,200,955</u>
Investments with a legal minimum rating (or its equivalent) of AAA:	
Money Market Mutual Funds:	
Rating of Aaa (Moody's)	10,129,778
Invested with fiscal agents:	
Rating of Aaa-mf (Moody's)	6,998
Subtotal	<u>10,136,776</u>
Total	<u>\$ 871,725,613</u>

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Concentration of Credit Risk

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

As of June 30, 2020, OCSD had the following investments representing five percent or more of total investments:

Name of Issuer	Fair Value	% of Total
Federal Home Loan Bank System (FHLB)	\$ 77,837,049	8.93%
Federal National Mortgage Association (FNMA)	\$ 79,922,212	9.17%

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 fair 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, 2020, in accordance with OCSD’s investment policy, none of OCSD’s investments were held with a counterparty. All of OCSD’s investments were held with an independent third party custodian bank registered in the name of OCSD. OCSD uses US Bank 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, 2020.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

(3) Capital Assets

Capital asset activity for the year ended June 30, 2020 is as follows:

	Beginning Balance at July 1, 2019	Additions / Transfers	Deletions / Transfers	Ending Balance at June 30, 2020
Capital assets not depreciated:				
Cost:				
Land	\$ 41,967,355	\$ -	\$ -	\$ 41,967,355
Construction in progress	521,831,634	118,173,084	(276,073,883)	363,930,835
Total nondepreciable assets	<u>563,798,989</u>	<u>118,173,084</u>	<u>(276,073,883)</u>	<u>405,898,190</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	886,790,503	6,184,550	-	892,975,053
Sewage treatment facilities	2,478,726,934	267,623,249	(22,366)	2,746,327,817
Effluent disposal facilities	96,972,016	-	-	96,972,016
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	257,168,345	2,872,831	(892,849)	259,148,327
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>3,743,100,034</u>	<u>276,680,630</u>	<u>(915,215)</u>	<u>4,018,865,449</u>
Accumulated depreciation:				
Sewage collection facilities	(378,625,640)	(19,669,198)	-	(398,294,838)
Sewage treatment facilities	(993,236,473)	(85,105,837)	22,366	(1,078,319,944)
Effluent disposal facilities	(65,276,356)	(1,456,254)	-	(66,732,610)
Solids disposal facilities	(3,185,408)	(9,718)	-	(3,195,126)
General and administrative facilities	(177,287,240)	(7,646,821)	892,849	(184,041,212)
Excess purchase price over book value on acquired assets	(19,979,000)	-	-	(19,979,000)
Subtotal	<u>(1,637,590,117)</u>	<u>(113,887,828)</u>	<u>915,215</u>	<u>(1,750,562,730)</u>
Net depreciable assets	<u>2,105,509,917</u>	<u>162,792,802</u>	<u>-</u>	<u>2,268,302,719</u>
Net capital assets	<u>\$2,669,308,906</u>	<u>\$280,965,886</u>	<u>\$(276,073,883)</u>	<u>\$2,674,200,909</u>

For the fiscal year ended June 30, 2020, capital asset additions of \$276.7 million in depreciable capital assets are \$0.6 million more than the \$276.1 million transferred from Construction in Progress due to capital equipment purchases of \$1.8 million, partially offset by \$1.2 million of prior capital project expenses that were written off as expense.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

(4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2020:

	Beginning Balance, July 1	Additions	Deletions	Ending Balance, June 30	Due within one year	Long-term amount
Compensated absences	\$ 8,022,669	\$7,620,959	\$ (6,679,314)	\$ 8,964,314	\$ 7,749,164	\$ 1,215,150
Claims and judgments	6,860,326	405,346	(3,524,951)	3,740,721	600,560	3,140,161
Certificates of participation, revenue obligations & notes	972,780,000	-	(32,730,000)	940,050,000	30,430,000	909,620,000
Unamortized premium	77,722,373	-	(13,556,472)	64,165,901	10,670,368	53,495,533
Totals	\$1,065,385,368	\$8,026,305	\$(56,490,737)	\$1,016,920,936	\$49,450,092	\$967,470,844

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2020 is \$8,964,314 with an estimated \$7,749,164 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, 2020 and 2019:

	2019-20	2018-19
Claims and judgments payable at July 1	\$6,860,326	\$4,436,087
Claims incurred during the fiscal year	405,346	2,820,028
Changes in estimates for claims of prior years	(3,122,401)	-
Payments on claims during the fiscal year	(402,550)	(395,789)
Claims and judgments payable at June 30	3,740,721	6,860,326
Less: current portion	(600,560)	(673,070)
Total long-term claims and judgments payable	\$3,140,161	\$6,187,256

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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, 2020 are summarized as follows:

	Amount
2010A wastewater revenue obligations	\$ 80,000,000
2010C wastewater revenue obligations	157,000,000
2011A wastewater refunding revenue obligations	75,370,000
2012A wastewater refunding revenue obligations	100,645,000
2012B wastewater refunding revenue obligations	25,560,000
2014A wastewater refunding revenue obligations	63,930,000
2015A wastewater refunding revenue obligations	127,510,000
2016A wastewater refunding revenue obligations	141,465,000
2017A wastewater refunding revenue obligations	66,370,000
2018A revenue refunding certificate anticipation notes	102,200,000
Total certificates of participation, revenue obligations, and notes	<u>\$ 940,050,000</u>

Outstanding Certificates of Participation / Revenue Obligations and Notes

All of the outstanding debt of OCSD is senior lien debt with rate covenants that require a minimum coverage ratio of 1.25. The minimum coverage ratio is the ratio of net annual revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2020, the coverage ratio for senior lien debt was 4.24.

May 2010 Wastewater Revenue Obligations, Series 2010A

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

December 2010 Wastewater Revenue Obligations, Series 2010C

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

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

October 2011 Wastewater Refunding Revenue Obligations, Series 2011A

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

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

March 2012 Wastewater Refunding Revenue Obligations, Series 2012A

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

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

August 2012 Wastewater Refunding Revenue Obligations, Series 2012B

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

August 2014 Wastewater Refunding Revenue Obligations, Series 2014A

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

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

February 2015 Wastewater Refunding Revenue Obligations, Series 2015A

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

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

March 2016 Wastewater Refunding Revenue Obligations, Series 2016A

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

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

February 2017 Wastewater Refunding Revenue Obligations, Series 2017A

On February 1, 2017, OCSD completed the sale of \$66,370,000 of wastewater refunding revenue obligations. The obligations were issued to refund \$91,620,000 of the outstanding principal balance of 2007 Series A certificates of participation. The stated interest rate on the obligations is fixed at 5 percent. Annual principal payments are due on February 1, beginning February 1, 2021 through February 1, 2030.

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

November 2018 Revenue Refunding Certificate Anticipation Notes, Series 2018A

On November 1, 2018, OCSD completed the sale of \$102,200,000 of revenue refunding certificate anticipation notes. The notes were issued to fully refund the \$109,875,000 outstanding principal balance of the 2016 Series B revenue refunding certificate anticipation notes. The interest rate on the notes is fixed at 5 percent. The notes will mature on August 15, 2021. OCSD expects the principal and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

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

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation, revenue obligations, and anticipation notes as of June 30, 2020, including the Revenue Refunding Certificate Anticipation Notes, Series 2018A that currently matures in August 2021, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2021	\$ 30,430,000	\$ 42,408,369	\$ 72,838,369
2022	130,605,000	38,331,869	168,936,869
2023	29,805,000	34,371,619	64,176,619
2024	31,140,000	33,041,769	64,181,769
2025	32,655,000	31,517,369	64,172,369
2026-2030	184,345,000	133,803,696	318,148,696
2031-2035	262,945,000	83,325,554	346,270,554
2036-2040	192,615,000	30,174,855	222,789,855
2041-2044	45,510,000	3,534,752	49,044,752
Total	<u>\$ 940,050,000</u>	<u>\$ 430,509,852</u>	<u>\$ 1,370,559,852</u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

(5) Pension Benefits

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

A summary of pension amounts for OCSD's plans at June 30, 2020 is presented below:

	OCERS	ARBA	Total
Net pension asset - OCERS	\$ 49,446,615	\$ -	\$ 49,446,615
Deferred outflows - pensions	34,617,009	3,433,022	38,050,031
Total pension liability - ARBA	-	21,434,655	21,434,655
Deferred inflows - pensions	31,219,913	1,940,397	33,160,310
Pension expenses	11,505,954	1,583,988	13,089,942

A. Orange County Employees Retirement System (OCERS)

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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

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

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

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

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

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

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

At the December 31, 2019 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	508
Inactive employees entitled to but not yet receiving benefits	135
Active employees	<u>608</u>
Total	<u><u>1,251</u></u>

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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

Contributions to the Plan from OCSD were \$8,739,661 for the year ended June 30, 2020. An additional \$38,000,000 was contributed to pay down OCSD's Net Pension Liability.

Contribution rates in effect for the fiscal year ended June 30, 2020 are as follows:

	Plan G	Plan H	Plan B	Plan U
Employer Contribution Rate, 7/1/19 - 6/30/20	13.30%	13.30%	11.25%	10.37%
Employee Contribution Rate, 7/1/19 - 6/30/20 (2)	7.14-12.79% (1)	6.69-12.79% (1)	7.52-13.02%	7.28-14.49%
Paid by Employer for Employee	3.50%	3.50%	0.00%	0.00%

(1) Net of employer paid portion of 3.5%.

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

For the year ended June 30, 2020, the contributions and average employer's contribution rate as a percentage of covered payroll were as follows:

Plans	Employer Contributions	Employee (Paid by Employer) Contributions	Average Employer Contribution Rate (%)
Plan G	\$ 14,314	\$ 3,767	0.03%
Plan H	5,413,897	1,410,906	9.79%
Plan B	758,267	-	1.09%
Plan U	2,553,183	-	3.66%
Total	<u>\$ 8,739,661</u>	<u>\$ 1,414,673</u>	

Pension Assets / Liabilities: As of June 30, 2020, OCSD reported a net pension asset of \$49,446,615 for its proportionate share of OCERS' net pension liability. The net pension asset was measured as of December 31, 2019 and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. OCSD's proportion of the net pension asset was based on a projection of OCSD's long-term share of contributions to the pension plan relative to the projected contribution of all participating employers, actuarially determined.

At December 31, 2019, OCSD's proportion of the net pension liability was (0.974%), which was a decrease of 1.442% from its proportion measured as of December 31, 2018. The change in OCSD's proportion of the net pension liability during the fiscal year ended June 30, 2020 was caused by additional contributions made in September and November 2019 and projections noted above.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions: For the year ended June 30, 2020, OCSD recognized pension expense of \$11,505,954 for its proportionate share of the pension expense. At June 30, 2020 OCSD reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 9,606,499	\$ 5,416,832
Net difference between projected and actual investment earnings on pension plan investments	-	25,420,889
Changes of assumptions (1)	12,311,067	372,978
Changes in proportion and differences between employer contributions and proportionate share of contributions	449,137	9,214
Employer contributions paid to OCERS subsequent to the measurement date	12,250,306	-
Total	\$ 34,617,009	\$ 31,219,913

(1) The monetary effects of changes in actuarial assumptions and method totals \$12,311,067 for deferred outflows and \$372,978 for deferred inflows of resources. These changes include:

- adjustments to the mortality tables,
- retirement assumptions for deferred vested members (age at retirement 59, increase of 4.25% in reciprocity, and an increase in compensation increases),
- % in the rate of marriage for male and female members at retirement or pre-retirement death,
- an increase in the Consumer Price Index of 2.75% per year, maximum increase is 3%,
- and a slight increase of .50% in salaries per year.

Detail for these changes is available in the Segal Actuarial Valuation for December 31, 2019, Section 3. This report is available on the OCERS website at www.ocers.org.

The \$12,250,306 reported as deferred outflows of resources related to pensions resulting from OCSD's contributions to OCERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OCERS pensions will be recognized in pension expense as follows:

Year ended June 30	Amount
2021	\$ (5,922,898)
2022	(2,855,374)
2023	7,473,909
2024	(8,862,635)
2025	1,313,788
Total	\$ (8,853,210)

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Actuarial Assumptions and Methods: The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.00% of net pension plan investment expenses, including inflation
Discount rate	7.00%
Inflation rate	2.75%
Projected salary increases	4.25% to 12.25%
Cost of living adjustment	2.75% of retirement income

OCERS Economic and Demographic Assumptions: On October 16, 2017, the OCERS Board adopted the following significant changes to the economic and demographic actuarial assumptions, used to establish retirement contribution rates effective July 1, 2019:

- Reduced the assumed investment rate of return from 7.25% to 7.00%
- Reduced the assumed rate of price inflation from 3.00% to 2.75%
- Adopted the use of generational tables, which have identified reduced rates of mortality for members

Additionally, the OCERS Board adopted a three-year phase-in of the impact to the contribution rates associated with the Unfunded Actuarially Accrued Liability. The cumulative effect of these changes will have the impact of increasing contribution rates for members and plan sponsors.

The mortality assumptions used in the total pension liability at December 31, 2019 were based on the Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table as a starting point, projected generationally using the two-dimensional Scale MP-2016, with age adjustments, and adjusted separately for healthy and disabled members. The basis for determining the mortality assumptions used were based on the results of the actuarial experience study for the period January 1, 2014 through December 31, 2016.

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table for the calendar year ended December 31, 2019:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.00%	6.38%
Core Bonds	13.00%	1.03%
High Yield Bonds	4.00%	3.52%
Bank Loan	2.00%	2.86%
TIPS	4.00%	0.96%
Emerging Markets Debt	4.00%	3.78%
Real Estate	10.00%	4.33%
Core Infrastructure	2.00%	5.48%
Natural Resources	10.00%	7.86%
Risk Mitigation	5.00%	4.66%
Mezzanine/Distressed Debts	3.00%	6.53%
Private Equity	8.00%	9.48%
Total	100.00%	

Discount Rate: The discount rate used to measure the total pension liability was 7.00% for the year ended December 31, 2019. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of December 31, 2019.

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate: The following table represents OCSD's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what OCSD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

<u>Net Pension Asset (Liability)</u>	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
December 31, 2019	\$ (58,125,867)	\$ 49,446,615	\$ 136,946,632

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

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

B. Additional Retiree Benefit Account (ARBA)

Plan Description: The OCSD ARBA plan is a single-employer defined benefit plan which was administered by OCERS until February 29, 2008, when OCSD began direct administration. This benefit was established by the OCSD Board of Directors on October 25, 1992. It provides a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OCSD medical plan. The plan is currently paying benefits to 384 retirees. The ARBA plan is not subject to the reporting requirements of GASB 68 and 71 because a trust has not been set up for the plan. However, GASB 73 has been implemented for the ARBA plan in the fiscal year ended June 30, 2016. The plan is a funded on a pay-as-you-go plan from general funds and is administered by OCSD. Stand-alone financial statements are not issued for the plan.

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

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

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

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

No cost of living adjustment is provided to benefit recipients.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	384
Inactive employees entitled to but not yet receiving benefits	36
Active employees	548
Total	968

Contributions: There are no employee contributions for this plan; OCSD covers 100% of the cost. OCSD utilizes a pay-as-you-go method for funding the plan. Contributions to the plan from OCSD were \$888,120 for the year ended June 30, 2020.

Pension Liabilities: As of June 30, 2020, OCSD reported total pension liability of \$21,434,655 for its ARBA plan. The total pension liability was determined by an actuarial valuation as of July 1, 2019. OCSD funds benefits on a “pay as you go” basis and elected not to pre-fund its pension obligation. As a result, there are no plan assets and the total pension liability is equal to the net pension liability. Standard actuarial update procedures were used to project/discount from July 1, 2019 to the measurement date of June 30, 2020.

The actuarial valuation performed as of July 1, 2019, used the entry age, level percent of pay cost method. This method represents the present value of all benefits accrued through the valuation date assuming that each employee’s liability is expensed from hire date until retirement date as a level percentage of pay.

The following table shows the changes in the total pension liability:

	Total Pension Liability Increase (Decrease)
Beginning balance at July 1, 2019	\$ 21,577,464
Changes in the year:	
Service cost	576,661
Interest on total pension liability	608,775
Difference between expected and actual experience	(2,263,797)
Changes of assumptions	1,823,672
Benefit payments	(888,120)
Net changes	(142,809)
Ending balance at June 30, 2020	\$ 21,434,655

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pension: For the year ended June 30, 2020, OCSD recognized pension expense of \$1,583,988 for its ARBA plan. At June 30, 2020 OCSD reported its share of deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,030,512	\$ 1,940,397
Changes of assumptions (1)	2,402,510	-
Total	\$ 3,433,022	\$ 1,940,397

(1) The monetary effects of changes in actuarial assumptions and method totals \$2,402,510. These changes include passage of time, a change in the discount rate from 3.13% to 2.45%, change in actuarial system, census and other losses.

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

Year ended June 30	Amount
2021	\$ 398,552
2022	398,552
2023	398,552
2024	284,048
2025	75,796
2026	(62,875)
Total	\$ 1,492,625

Actuarial Assumptions and Methods: The total pension liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	3.75% per annum
Discount rate	3.13% per annum as of July 1, 2019 (valuation date) 2.45% per annum as of June 30, 2020 (measurement date)
Inflation rate	3.00% per annum
Projected salary increases	3.00% per annum (for service cost only; benefits not pay-related)

The mortality assumptions used in the total pension liability at July 1, 2019 were based on the RP-2014 Employee Mortality and Health Annuitant Mortality Tables for Males or Females, as appropriate, without projection.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

Discount Rate: The discount rate used to measure the total pension liability was 3.13% as of the valuation date, July 1, 2019, and 2.45% as of the measurement date, June 30, 2020. Because there are no assets held in a trust that meets GASB 68 or 71, the discount rate is based on the 20-year, tax exempt general obligation municipal bonds with an average rating of AA or higher.

Sensitivity of the Total Pension Liability to Changes in the Discount Rate: The following table represents the total pension liability calculated using the discount rate of 2.45% as of the measurement date, as well as what total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.45%) or 1 percentage point higher (3.45%) than the current rate:

Total Pension Liability	1% Decrease (1.45%)	Current Discount Rate (2.45%)	1% Increase (3.45%)
June 30, 2020	\$ 24,603,943	\$ 21,434,655	\$ 18,831,919

(6) Other Post-Employment Benefits (OPEB)

Plan Description: The post-employment medical benefits plan is a single-employer defined benefit plan administered by OCSD. This plan was established and may be modified only by action of the OCSD Board of Directors. Stand-alone financial statements are not issued.

Benefits Provided: OCSD offers medical insurance to active and retired employees, as well as their qualified dependents. 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. For the fiscal year ended June 30, 2020, premiums ranged between \$227 and \$4,078 per month, depending on the plan and number of dependents covered.

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits (includes 115 paying premiums and 36 with premiums paid by OCSD)	151
Inactive employees entitled to but not yet receiving benefits	0
Active employees (includes 4 eligible for premiums paid by OCSD)	597
Total	<u>748</u>

Contributions: There are no employee contributions to this plan; OCSD covers 100% of the cost for qualifying employees as stated above. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom OCSD pays for a period (see above). OCSD utilizes a pay-as-you-go method for funding the plan. Contributions to the plan from OCSD were \$739,045 and the estimated implicit subsidy was \$865,348, resulting in total payments of \$1,604,393, and retirees contributed \$1,148,038 for the year ended June 30, 2020.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

OPEB Liabilities: As of June 30, 2020, OCSD reported total OPEB liability of \$2,483,644 for its post-employment retiree medical benefits plan. The total OPEB liability was determined by an actuarial valuation as of July 1, 2019. OCSD funds benefits on a “pay as you go” basis and elected not to pre-fund its OPEB obligation. As a result, there are no plan assets and the total OPEB liability is equal to the net OPEB liability. Standard actuarial update procedures were used to project/discount from July 1, 2019 to the measurement date of June 30, 2020.

The actuarial valuation performed as of July 1, 2019 used the entry age, level percent of pay cost method. This method represents the present value of benefits accrued through the valuation date, assuming that each employee’s liability is expensed from hire date until retirement date as a level percentage of pay.

The following table shows the changes in the total OPEB liability:

	Total OPEB Liability Increase (Decrease)
Beginning balance at July 1, 2019	\$ 4,013,291
Changes in the year:	
Service cost	4,334
Interest on total OPEB liability	98,047
Difference between expected and actual experience	(115,924)
Changes of assumptions	88,289
Benefit payments (1)	(1,604,393)
Net changes	(1,529,647)
Ending balance at June 30, 2020	\$ 2,483,644

(1) As part of the July 1, 2019 actuarial valuation report, Demsey, Filliger & Associates prepared a projection of the expected annual cost to the District to pay OPEB benefits.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB: For the year ended June 30, 2020, OCSD recognized OPEB expense of \$74,746 for its post-employment retiree medical benefits plan. At June 30, 2020 OCSD reported \$0 for its share of deferred outflows/inflows of resources related to OPEB.

Actuarial Assumptions and Methods: The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	4.00% per annum
Discount rate	2.45% per annum
Inflation rate	3.00% per annum
Healthcare cost trend rate	5.90% for 2020; 5.80% for 2021, 5.70% for 2022; and decreasing 0.10% per year to an ultimate rate of 5.00% for 2029 and later years
Projected salary increases	3.00% per annum

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2020

The mortality assumptions used in the total OPEB liability at July 1, 2019 were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection for pre-retirement mortality rates and RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection for post-retirement mortality rates.

Actuarial assumptions used in the July 1, 2019 valuation were based on a review of plan experience during the period July 1, 2017 through June 30, 2019.

Discount Rate: The discount rate used to measure the total OPEB liability was 3.13% as of the valuation date, July 1, 2019, and 2.45% as of the measurement date, June 30, 2020. Because there are no assets held in a trust, for GASB 75 reporting purposes, the discount rate is based on a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following table represents the total OPEB liability calculated using the discount rate of 2.45% as of the measurement date, as well as what total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.45%) or 1 percentage point higher (3.45%) than the current rate:

Total OPEB Liability	1% Decrease (1.45%)	Current Discount Rate (2.45%)	1% Increase (3.45%)
June 30, 2020	\$ 2,577,818	\$ 2,483,644	\$ 2,393,930

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates: The following table represents the total OPEB liability calculated using the healthcare cost trend rate of 5.90% decreasing to 5.00% as of the measurement date, as well as what total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower (4.90% decreasing to 4.00%) or 1 percentage point higher (6.90% decreasing to 6.00%) than the current rate:

Total OPEB Liability	1% Decrease (4.90% decreasing to 4.00%)	Current Trend Rate (5.90% decreasing to 5.00%)	1% Increase (6.90% decreasing to 6.00%)
June 30, 2020	\$ 2,379,523	\$ 2,483,644	\$ 2,592,795

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

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

On July 1, 1985, Revenue Area No. 14 was formed as an independent special district as a result of a negotiated agreement between OCSD and 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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2020

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 was amortized over useful lives of the original assets acquired. The excess of purchase price over the assets' book value was fully amortized as of June 30, 2017.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 on January 1, 1986 whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, for which contributions of \$4,002,007 were recorded as contribution from other government during the fiscal year ended June 30, 2020. IRWD also agreed to fund the annual integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD. Integration contributions credited to IRWD of \$16,408,665 from Revenue Area 14 were recognized and reported as contributions to other governments during the fiscal year ended June 30, 2020. These contributions received from or credited to IRWD for their agreed-upon share of capital assets and equity share in OCSD's Joint Works Treatment Facilities are calculated as prescribed in the agreements.

In addition, a separate agreement for transfer of IRWD's wastewater solids residuals to OCSD was entered on April 28, 2010. IRWD agreed to pay OCSD for an interim solids handling charge which includes annual capital and quarterly operating expense components designed to compensate OCSD for IRWD's share of the cost of operating and maintaining the existing facilities for the treatment of solids. As a result, \$2,353,370 in annual solids capital handling charges were reported as operating revenue in Consolidated Revenue Area, and \$10,312,529 in quarterly solids operating and maintenance charges were reported as operating revenue in Revenue Area No. 14 during the fiscal year ended June 30, 2020.

Any amounts credited to IRWD are not refunded in cash but are held as a credit to satisfy future contributions required of IRWD. Amounts owed from IRWD are invoiced on a quarterly or annual basis. As a result, a balance of \$34,613,820 was reported in due to other governmental agency as of June 30, 2020.

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2020; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$14.2 million. This cash reserve requirement is recognized as a liability to IRWD.

(8) Commitments and Contingencies

Pollution Remediation: An Underground Storage Tank (UST) at Plant No. 1 failed the pressure test to ensure its tank integrity. As a result of the test failure, OCSD voluntarily took this UST out of service and tested the immediate surrounding area and determined that both gasoline and diesel were present. During the fiscal year ended June 30, 2017, OCSD completed an analysis of remediation alternatives resulting in a less costly remediation plan for the contaminated soil than the plan developed during the previous fiscal year. The new remediation plan received approval from the Orange County Health Care Agency, and based upon their feedback a final design was completed. The new remediation plan called for removal and disposal of approximately 2,200 tons of contaminated soil, and some limited groundwater treatment. This work was issued a construction

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2020

contract in March 2019 and has been substantially completed as of June 30, 2020. As of June 30, 2020, actual costs of \$1,202,457 were incurred. Total remaining costs are estimated not to exceed \$500,000, including a contingency for the remediation effort. This does not include operating costs for post-remediation monitoring over a five-year period.

Construction Commitments: OCSD has active construction projects to add additional capacity, improve treatment, or replace/ rehabilitate existing assets. At June 30, 2020, the outstanding commitments with contractors totaled \$145,213,107.

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

(9) COVID-19 Pandemic

The spread of the novel strain of coronavirus and the disease it causes (now known as "COVID-19") is having significant negative impacts throughout the world, including in Southern California. The World Health Organization declared the COVID-19 outbreak to be a pandemic, and states of emergency were declared by the United States, the State of California, and numerous counties throughout the State, including Orange County of which, comprises the service area of OCSD. On March 17, 2020, OCSD's General Manager declared a state of emergency at OCSD. The purposes behind these declarations were to initiate emergency response protocols, coordinate and formalize emergency actions across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus.

OCSD is assessing the effects the ongoing COVID-19 outbreak will have on OCSD and its business and operations, as well as in the region, including the adverse financial impacts likely to be experienced by its member agencies. The degree of impact to OCSD's finances and operations is difficult to predict due to the evolving nature of the COVID-19 pandemic, including uncertainties relating to (i) the ultimate extent of the geographic spread of the virus; (ii) the duration and severity of the outbreak; (iii) the extent of the disruption to or decline in the local and global economies and financial markets; (iv) the degree to which business closures, increased unemployment, housing foreclosures and/or other economic consequences may reduce water and sewer demands in the region and OCSD's wastewater transactions, or negatively affect future property values in OCSD's service area and/or OCSD's property tax levy receipts, and reduce OCSD's revenues; (v) the extent to which a protracted disruption in the manufacturing or construction industry may affect supply chains or further delay construction schedules for, or the implementation of, OCSD's capital improvement programs and projects, or the costs of such programs or projects or OCSD's sewer system operations; and (vi) what additional actions may be taken or required by governmental authorities to contain and respond to the outbreak and what costs or impacts of such actions may be. The restrictions and limitations instituted related to COVID-19 will likely remain in place for some period and may increase, that the ongoing economic downturn may continue for many months and an economic recession has been projected as likely to occur, and that the recovery may be prolonged. As a result, OCSD's finances and operations may be adversely impacted by COVID-19.

**ORANGE COUNTY SANITATION DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

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

	Fiscal Year Ended June 30,					
	2015	2016	2017	2018	2019	2020
OCSD's proportion of the net pension liability (asset)	1.13%	0.74%	(0.20%)	(0.80%)	0.47%	(0.97%)
OCSD's proportionate share of the net pension liability (asset)	\$ 57,418,760	\$ 42,439,759	\$ (10,384,508)	\$ (39,571,100)	\$ 29,029,147	\$ (49,446,615)
OCSD's covered payroll (2)	\$ 58,641,163	\$ 59,789,927	\$ 60,000,017	\$ 62,341,796	\$ 66,475,479	\$ 71,395,906
OCSD's proportionate share of the net pension liability (asset) as a percentage of covered payroll	97.92%	70.98%	(17.31%)	(63.47%)	43.67%	(69.26%)
OCERS' fiduciary net position as a percentage of the total pension liability	89.61%	92.74%	101.70%	105.96%	95.86%	106.64%

(1) The amounts presented were determined as of the measurement date December 31. Data for fiscal years ended June 30, 2011 through 2014 is not available in a comparable format.

(2) Covered payroll represents compensation earnable and pensionable compensation for the measurement period ended December 31. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

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

	Fiscal Year Ended June 30,					
	2015	2016	2017	2018	2019	2020
Contractually required contribution	\$ 17,201,569	\$ 12,222,849	\$ 7,709,734	\$ 7,525,655	\$ 7,769,431	\$ 8,739,661
Contributions in relation to the contractually required contribution	<u>(17,201,569)</u>	<u>(12,222,849)</u>	<u>(7,709,734)</u>	<u>(7,525,655)</u>	<u>(7,769,431)</u>	<u>(8,739,661)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll (2)	\$ 60,025,942	\$ 60,595,474	\$ 62,266,907	\$ 65,390,144	\$ 69,101,109	\$ 69,688,759
Contributions as a percentage of covered payroll	28.66%	20.17%	12.38%	11.51%	11.24%	12.54%

(1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2011 through 2014 is not available in a comparable format.

(2) Covered payroll represents compensation earnable and pensionable compensation for the fiscal year ended June 30. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.

ORANGE COUNTY SANITATION DISTRICT
 Total Pension Liability (3)
 Additional Retiree Benefit Account (ARBA)
 Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,					
	2015	2016	2017	2018	2019	2020
Total pension liability	\$ 16,680,614	\$ 18,313,122	\$ 18,467,361	\$ 20,831,172	\$ 21,577,464	\$ 21,434,655
Covered-employee payroll (2)	\$ 62,139,375	\$ 62,977,577	\$ 65,120,945	\$ 68,126,103	\$ 71,948,599	\$ 74,602,862
Total pension liability as a percentage of covered-employee payroll	26.84%	29.08%	28.36%	30.58%	29.99%	28.73%

- (1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2011 through 2014 is not available in a comparable format.
- (2) This plan is not administered through a trust or equivalent arrangement, thus covered-employee payroll is used. Covered-employee payroll represents total payroll of employees that are provided benefits through the pension plan for the fiscal year ended June 30.
- (3) There are no assets in a trust compliant with GASB codification P22.101. OCSD funds benefits on a “pay as you go” basis and elected not to pre-fund its pension obligation. As a result, there are no plan assets and the total pension liability is equal to the net pension liability.

ORANGE COUNTY SANITATION DISTRICT
Changes in Total Pension Liability (2)
Additional Retiree Benefit Account (ARBA)
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,				
	2016	2017	2018	2019	2020
Beginning balance at July 1	\$ 16,680,614	\$ 18,313,122	\$ 18,467,361	\$ 20,831,172	\$ 21,577,464
Changes in the year:					
Service cost	270,223	278,330	553,795	570,409	576,661
Interest on total pension liability	626,386	593,711	649,192	663,852	608,775
Difference between expected and actual experience	-	-	-	-	(2,263,797)
Changes of assumptions	1,230,327	(70,952)	1,889,274	328,481	1,823,672
Benefit payments	(494,428)	(646,850)	(728,450)	(816,450)	(888,120)
Net changes	1,632,508	154,239	2,363,811	746,292	(142,809)
Ending balance at June 30	<u>\$ 18,313,122</u>	<u>\$ 18,467,361</u>	<u>\$ 20,831,172</u>	<u>\$ 21,577,464</u>	<u>\$ 21,434,655</u>

- (1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2011 through 2015 is not available in a comparable format.
- (2) OCSD funds benefits on a “pay as you go” basis and elected not to pre-fund its pension obligation. As a result, there are no plan assets and the total pension liability is equal to the net pension liability.

ORANGE COUNTY SANITATION DISTRICT

Total OPEB Liability (3)
Post-Employment Medical Benefits Plan
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,			
	2017	2018	2019	2020
Total OPEB liability	\$ 6,398,694	\$ 5,025,395	\$ 4,013,291	\$ 2,483,644
Covered-employee payroll (2)	\$ 65,120,945	\$ 68,126,103	\$ 71,948,599	\$ 74,602,862
Total OPEB liability as a percentage of covered-employee payroll	9.83%	7.38%	5.58%	3.33%

- (1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2011 through 2016 is not available in a comparable format.
- (2) This plan is not administered through a trust or equivalent arrangement, thus covered-employee payroll is used. Covered-employee payroll represents total payroll of employees that are provided benefits through the OPEB plan for the fiscal year ended June 30.
- (3) There are no assets in a trust compliant with GASB codification P52.101. OCSD funds benefits on a “pay as you go” basis and elected not to pre-fund its OPEB obligation. As a result, there are no plan assets and the total OPEB liability is equal to the net OPEB liability.

ORANGE COUNTY SANITATION DISTRICT
Changes in Total OPEB Liability (3)
Post-Employment Medical Benefits Plan
Last 10 Fiscal Years (1)

	Fiscal Year Ended June 30,		
	2018	2019	2020
Beginning balance at July 1	\$ 6,398,694	\$ 5,025,395	\$ 4,013,291
Changes in the year:			
Service cost	18,182	16,489	4,334
Interest on total OPEB liability	177,395	159,195	98,047
Difference between expected and actual experience	-	-	(115,924)
Changes of assumptions	(95,279)	78,935	88,289
Benefit payments (2)	<u>(1,473,597)</u>	<u>(1,266,723)</u>	<u>(1,604,393)</u>
Net changes	<u>(1,373,299)</u>	<u>(1,012,104)</u>	<u>(1,529,647)</u>
Ending balance at June 30	<u>\$ 5,025,395</u>	<u>\$ 4,013,291</u>	<u>\$ 2,483,644</u>

- (1) The amounts presented for each fiscal year were determined as of June 30. Data for fiscal years ended June 30, 2011 through 2017 is not available in a comparable format.
- (2) Benefit payments include implicit subsidy associated with benefits paid.
- (3) OCSD funds benefits on a “pay as you go” basis and elected not to pre-fund its OPEB obligation. As a result, there are no plan assets and the total OPEB liability is equal to the net OPEB liability.

(THIS PAGE INTENTIONALLY LEFT BLANK)

**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Net Position

June 30, 2020

	Revenue Area No. 14	Consolidated Revenue Area	Totals
Current assets:			
Cash and cash equivalents	\$ 4,187,799	\$ 102,374,704	\$ 106,562,503
Investments	30,426,021	743,792,853	774,218,874
Accounts receivable, net of allowance for uncollectibles \$304,619	-	15,585,233	15,585,233
Accrued interest receivable	-	3,261,437	3,261,437
Connection fees receivable	-	4,276,297	4,276,297
Property tax receivable	-	1,841,207	1,841,207
Inventories	-	6,852,604	6,852,604
Prepaid expenses	-	2,473,418	2,473,418
Total current assets	34,613,820	880,457,753	915,071,573
Noncurrent assets:			
Restricted:			
Cash and cash equivalents held by fiscal agents	-	6,998	6,998
Unrestricted:			
Non-depreciable capital assets	11,668,481	394,229,709	405,898,190
Depreciable capital assets, net of accumulated depreciation	83,272,424	2,185,030,295	2,268,302,719
Other noncurrent assets, net	-	10,344	10,344
Net pension asset - OCERS	-	49,446,615	49,446,615
Total noncurrent assets	94,940,905	2,628,723,961	2,723,664,866
Total assets	129,554,725	3,509,181,714	3,638,736,439
Deferred outflows of resources:			
Deferred charges on defeasances	-	25,162,613	25,162,613
Deferred outflows related to pensions	-	38,050,031	38,050,031
Total deferred outflows of resources	-	63,212,644	63,212,644
Total assets and deferred outflows of resources	129,554,725	3,572,394,358	3,701,949,083
Current liabilities:			
Accounts payable	-	16,007,700	16,007,700
Accrued expenses	-	16,259,932	16,259,932
Retentions payable	-	4,475,945	4,475,945
Interest payable	-	17,582,050	17,582,050
Due to other governmental agency	34,613,820	-	34,613,820
Current portion of long-term obligations	-	49,450,092	49,450,092
Total current liabilities	34,613,820	103,775,719	138,389,539
Noncurrent liabilities:			
Noncurrent portion of long-term obligations	-	967,470,844	967,470,844
Total OPEB liability	-	2,483,644	2,483,644
Total pension liability - ARBA	-	21,434,655	21,434,655
Total noncurrent liabilities	-	991,389,143	991,389,143
Total liabilities	34,613,820	1,095,164,862	1,129,778,682
Deferred inflows of resources:			
Deferred inflows related to pensions	-	33,160,310	33,160,310
Total liabilities and deferred inflows of resources	34,613,820	1,128,325,172	1,162,938,992
Net position:			
Net investment in capital assets:			
Collection system	14,195,529	522,884,262	537,079,791
Treatment and disposal land	1,671,705	36,354,693	38,026,398
Treatment and disposal system	79,073,671	2,020,021,049	2,099,094,720
Capital-related liabilities	-	(996,159,894)	(996,159,894)
Subtotal	94,940,905	1,583,100,110	1,678,041,015
Unrestricted	-	860,969,076	860,969,076
Total net position	\$ 94,940,905	\$ 2,444,069,186	\$ 2,539,010,091

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2020

	Revenue Area No. 14	Consolidated Revenue Area	Totals
Operating revenues:			
Service charges	\$ 14,264,898	\$ 325,630,610	\$ 339,895,508
Permit and inspection fees	9,822	1,158,732	1,168,554
Total operating revenues	<u>14,274,720</u>	<u>326,789,342</u>	<u>341,064,062</u>
Operating expenses other than depreciation and amortization:			
Salaries and benefits	4,997,317	77,919,325	82,916,642
Utilities	263,593	8,358,765	8,622,358
Supplies, repairs and maintenance	1,577,732	42,484,897	44,062,629
Contractual services	10,743,592	13,881,076	24,624,668
Feasibility studies	121,461	4,991,750	5,113,211
Other	335,628	2,657,986	2,993,614
Total operating expenses other than depreciation and amortization	<u>18,039,323</u>	<u>150,293,799</u>	<u>168,333,122</u>
Operating income (loss) before depreciation and amortization	(3,764,603)	176,495,543	172,730,940
Depreciation and amortization	<u>5,018,569</u>	<u>108,869,259</u>	<u>113,887,828</u>
Operating income (loss)	<u>(8,783,172)</u>	<u>67,626,284</u>	<u>58,843,112</u>
Non-operating revenues:			
Property taxes	3,207,030	101,284,500	104,491,530
Investment and interest income	390,838	33,278,347	33,669,185
Contributions from other governments	4,118,251	6,416,887	10,535,138
Other	55,180	2,582,094	2,637,274
Total non-operating revenues	<u>7,771,299</u>	<u>143,561,828</u>	<u>151,333,127</u>
Non-operating expenses:			
Interest	-	33,832,605	33,832,605
Contributions to other governments	16,408,665	-	16,408,665
Other	2,145	2,722,883	2,725,028
Loss on disposal of assets	21,515	1,273,931	1,295,446
Total non-operating expenses	<u>16,432,325</u>	<u>37,829,419</u>	<u>54,261,744</u>
Income (loss) before capital contributions	(17,444,198)	173,358,693	155,914,495
Capital contributions:			
Capital facilities capacity charges	-	22,593,121	22,593,121
Change in net position	(17,444,198)	195,951,814	178,507,616
Total net position - beginning	<u>112,385,103</u>	<u>2,248,117,372</u>	<u>2,360,502,475</u>
Total net position - ending	<u>\$ 94,940,905</u>	<u>\$ 2,444,069,186</u>	<u>\$ 2,539,010,091</u>

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Cash Flows

For the Year Ended June 30, 2020

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals
Cash flows from operating activities:				
Receipts from customers and users	\$ 48,888,540	\$ 325,416,572	\$ -	\$ 374,305,112
Payments to employees	(4,997,317)	(113,369,751)	-	(118,367,068)
Payments to suppliers	(13,042,006)	(73,885,261)	-	(86,927,267)
Net cash provided by operating activities	<u>30,849,217</u>	<u>138,161,560</u>	<u>-</u>	<u>169,010,777</u>
Cash flows from noncapital financing activities:				
Proceeds from property taxes	3,207,030	101,029,964	-	104,236,994
Receipts (payments) for other activities	50,491	(140,789)	-	(90,298)
Net cash provided by noncapital financing activities	<u>3,257,521</u>	<u>100,889,175</u>	<u>-</u>	<u>104,146,696</u>
Cash flows from capital and related financing activities:				
Capital facilities capacity charges	-	20,051,888	-	20,051,888
Additions to capital assets	(4,002,007)	(136,578,436)	4,002,007	(136,578,436)
Disposal of capital assets	16,408,665	-	(16,408,665)	-
Interest paid	-	(44,351,789)	-	(44,351,789)
Principal payments on debt obligations	-	(32,730,000)	-	(32,730,000)
Contributions from (to) other governments	(12,290,414)	6,416,887	12,406,658	6,533,131
Net cash provided by (used in) capital and related financing activities	<u>116,244</u>	<u>(187,191,450)</u>	<u>-</u>	<u>(187,075,206)</u>
Cash flows from investing activities:				
Proceeds from the sale of investments	9,774,252	376,572,023	-	386,346,275
Purchases of investments	(40,006,396)	(419,318,849)	-	(459,325,245)
Interest received	196,961	17,310,264	-	17,507,225
Net cash used in investing activities	<u>(30,035,183)</u>	<u>(25,436,562)</u>	<u>-</u>	<u>(55,471,745)</u>
Net increase in cash and cash equivalents	4,187,799	26,422,723	-	30,610,522
Cash and cash equivalents, beginning of year	-	75,958,979	-	75,958,979
Cash and cash equivalents, end of year	<u>\$ 4,187,799</u>	<u>\$ 102,381,702</u>	<u>\$ -</u>	<u>\$ 106,569,501</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (8,783,172)	\$ 67,626,284	\$ -	\$ 58,843,112
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	5,018,569	108,869,259	-	113,887,828
Bad debt expense (net recoveries)	-	(45,354)	-	(45,354)
(Increase)/decrease in operating assets:				
Accounts receivable	-	(1,838,656)	-	(1,838,656)
Inventories	-	(920,236)	-	(920,236)
Due from other governmental agency	-	465,886	-	465,886
Prepaid expenses	-	(506,972)	-	(506,972)
Increase/(decrease) in operating liabilities:				
Accounts payable	-	3,728,708	-	3,728,708
Accrued expenses	-	(198,810)	-	(198,810)
Due to other governmental agency	34,613,820	-	-	34,613,820
Net pension/OPEB liabilities	-	(36,840,589)	-	(36,840,589)
Compensated absences	-	941,645	-	941,645
Claims and judgments	-	(3,119,605)	-	(3,119,605)
Net cash provided by operating activities	<u>\$ 30,849,217</u>	<u>\$ 138,161,560</u>	<u>\$ -</u>	<u>\$ 169,010,777</u>
Noncash activities:				
Unrealized gain on the fair value of investments	\$ 193,877	\$ 16,507,903		\$ 16,701,780
Capital assets acquired through accounts payable	-	(4,171,751)		(4,171,751)
Capital facilities capacity charges acquired	-	2,541,233		2,541,233

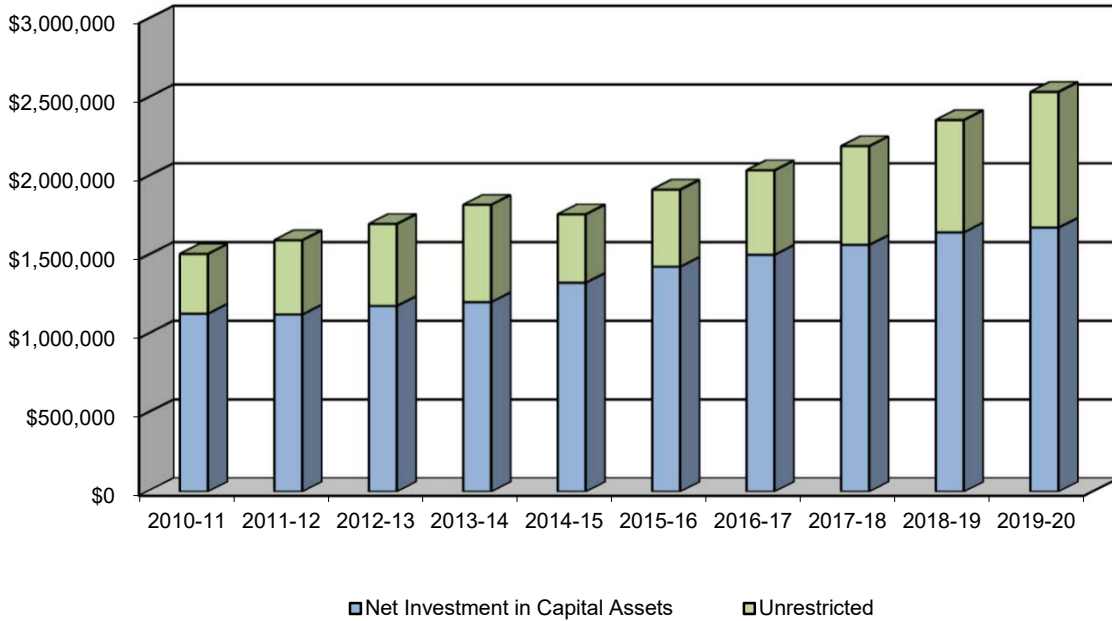
**ORANGE COUNTY SANITATION DISTRICT
STATISTICAL SECTION**

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.	62 - 66
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	67 - 69
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.	70 - 72
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	73 - 76
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	77 - 80

ORANGE COUNTY SANITATION DISTRICT

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



Fiscal Year	Net Investment in Capital Assets	Unrestricted	Total Net Position
2010-11	\$1,131,063	\$ 379,423	\$ 1,510,486
2011-12	1,125,966	471,652	1,597,618 ⁽¹⁾
2012-13	1,180,298	520,427	1,700,725
2013-14	1,204,706	617,589	1,822,295
2014-15	1,327,384	434,460	1,761,844 ⁽²⁾
2015-16	1,429,269	489,303	1,918,572 ⁽³⁾
2016-17	1,504,898	536,327	2,041,225
2017-18	1,568,118	626,671	2,194,789 ⁽⁴⁾
2018-19	1,647,723	712,779	2,360,502
2019-20	1,678,041	860,969	2,539,010

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

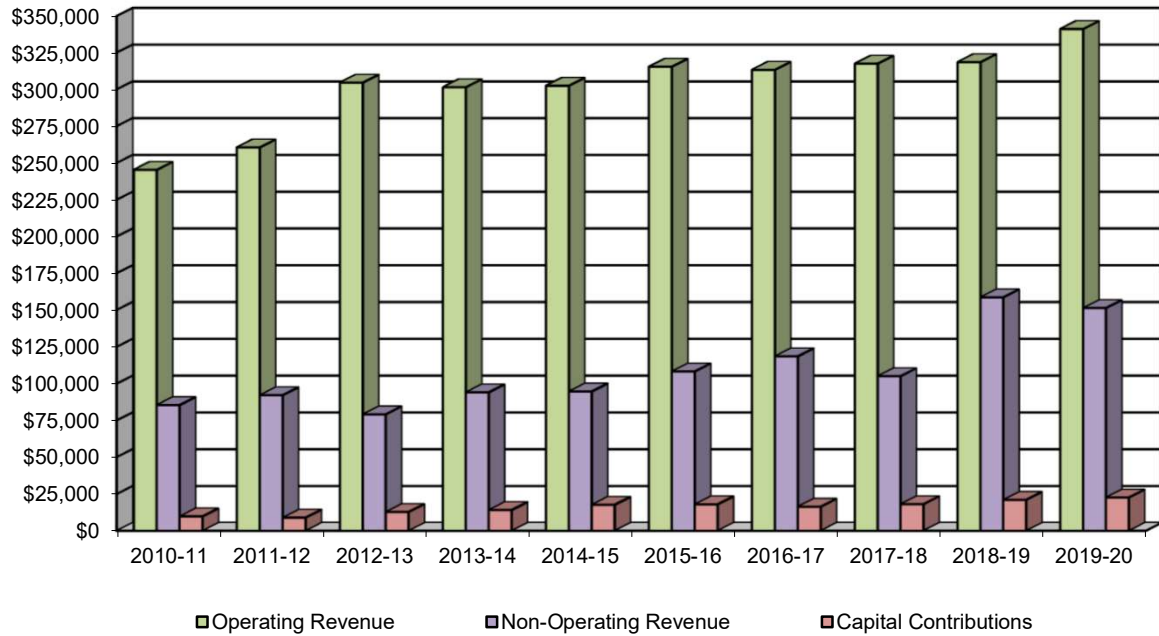
⁽²⁾ Beginning net position restated due to implementation of GASB 68.

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

⁽⁴⁾ Beginning net position restated due to implementation of GASB 75.

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

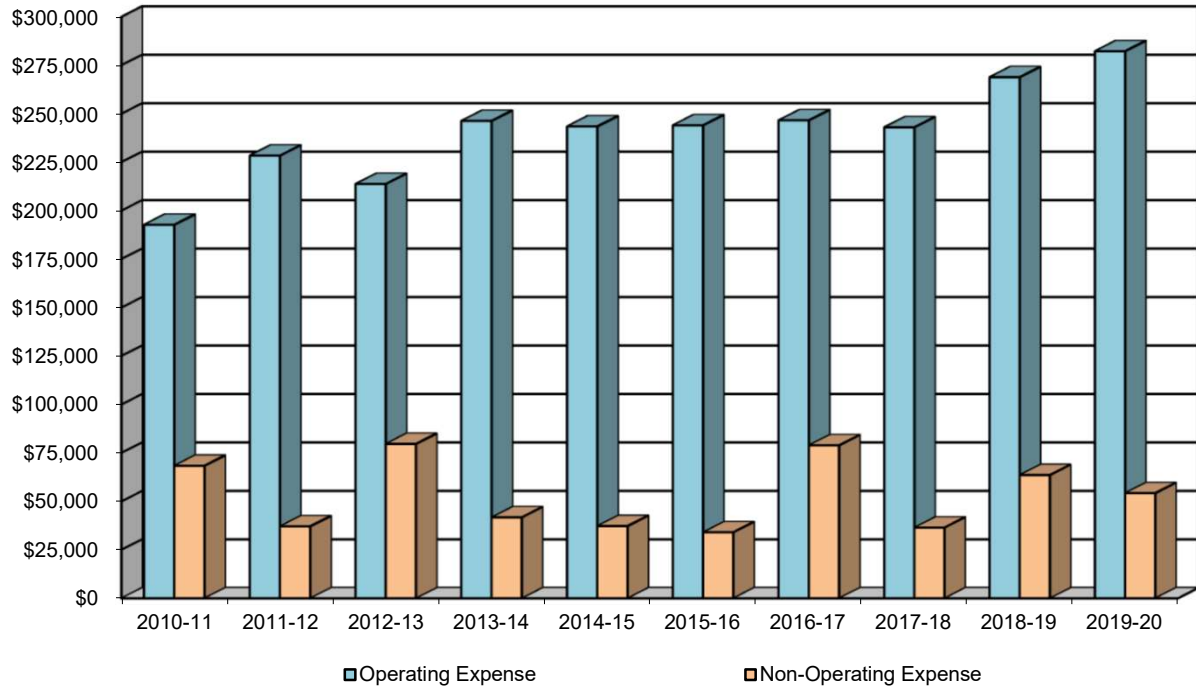


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2010-11	\$ 244,465	\$ 784	\$ 245,249	\$ 64,307	\$ 10,092	\$ 11,015	\$ 85,414	\$ 9,800
2011-12	259,491	1,030	260,521	67,882	15,747	8,486	92,115	8,936
2012-13	303,400	1,176	304,576	79,240	(3,913)	3,781	79,108	12,797
2013-14	300,611	848	301,459	74,944	6,498	12,595	94,037	14,093
2014-15	301,548	902	302,450	79,835	4,806	9,996	94,637	17,656
2015-16	314,477	951	315,428	84,407	9,183	14,658	108,248	17,974
2016-17	312,237	1,045	313,282	88,284	3,081	27,146	118,511	16,351
2017-18	316,329	1,170	317,499	94,188	3,230	7,611	105,029	18,077
2018-19	317,291	1,199	318,490	99,534	29,102	29,962	158,598	21,032
2019-20	339,895	1,169	341,064	104,492	33,669	13,172	151,333	22,593

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

ORANGE COUNTY SANITATION DISTRICT

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

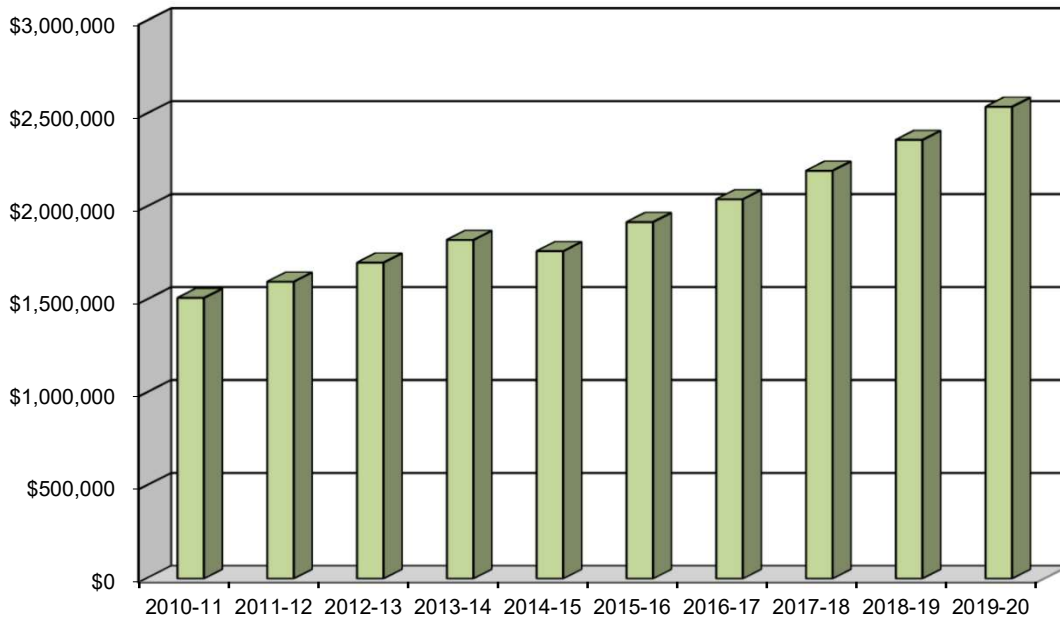


Fiscal Year	Operating Expense				Total Operating	Non - Operating Expense		Total Non-Operating
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort		Interest Expense	Other	
2010-11	\$ 73,112	\$ 6,948	\$ 63,328	\$ 49,288	\$ 192,676	\$ 29,129	\$ 39,245	\$ 68,374
2011-12	75,642	7,405	89,272	56,051	228,370	28,700	8,433	37,133
2012-13	76,878	6,403	66,536	63,907	213,724	42,315	37,335	79,650
2013-14	79,179	6,381	60,887	99,805	246,252	40,450	1,317	41,767
2014-15	79,657	7,246	62,323	94,186	243,412	34,112	3,168	37,280
2015-16	75,576	7,246	70,679	90,502	244,003	27,597	6,482	34,079
2016-17	74,291	6,119	69,843	96,320	246,573	25,648	53,270	78,918
2017-18	67,418	7,298	70,840	97,399	242,955	35,011	1,483	36,494
2018-19	85,506	7,733	73,347	102,239	268,825	34,466	29,116	63,582
2019-20	82,917	8,622	76,794	113,888	282,221	33,833	20,428	54,261

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
2010-11	\$ 340,463	\$ 261,050	\$ 79,413	\$1,431,073	\$ 1,510,486
2011-12	361,572	265,503	96,069	1,501,549 ⁽¹⁾	1,597,618
2012-13	396,481	293,374	103,107	1,597,618	1,700,725
2013-14	409,589	288,019	121,570	1,700,725	1,822,295
2014-15	414,743	280,692	134,051	1,627,793 ⁽²⁾	1,761,844
2015-16	441,650	278,082	163,568	1,755,004 ⁽³⁾	1,918,572
2016-17	448,144	325,491	122,653	1,918,572	2,041,225
2017-18	440,605	279,449	161,156	2,033,633 ⁽⁴⁾	2,194,789
2018-19	498,120	332,407	165,713	2,194,789	2,360,502
2019-20	514,990	336,482	178,508	2,360,502	2,539,010

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

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

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

⁽⁴⁾ Beginning net position restated due to implementation of GASB 75.

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
2010-11	\$ 187	\$ 57	\$ 176	\$ 141	\$ 561
2011-12	196	57	186	138	577
2012-13	174	57	234	135	600
2013-14	189	57	296	131	673
2014-15	177	57	194	129	557
2015-16	181	57	190	117	545
2016-17	174	57	173	107	511
2017-18	173	57	350	100	680
2018-19	177	57	429	97	760
2019-20	178	57	552	94	881

Notes:

The Board of Directors of the Orange County Sanitation District has established the criteria below to determine the total funds required as listed in the Accumulated Funds and Reserves Policy:

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

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

The Capital Improvement Program Reserve is to fund annual increments of the capital improvement program with a target level at one half of the average annual capital improvement program over the next 10 years.

The Debt Service Requirements Reserve is held 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

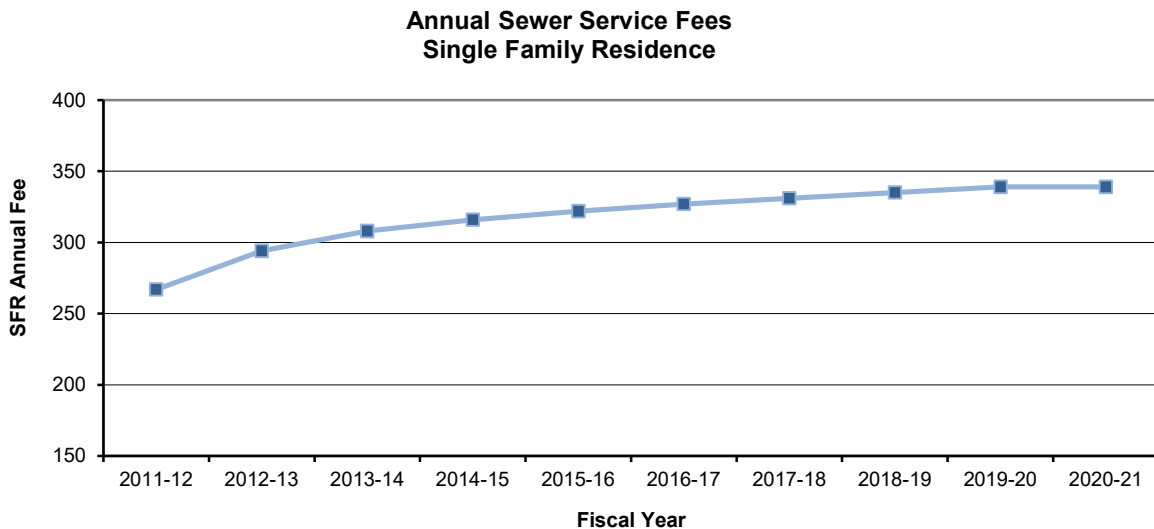
Sewer Service Fees

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.

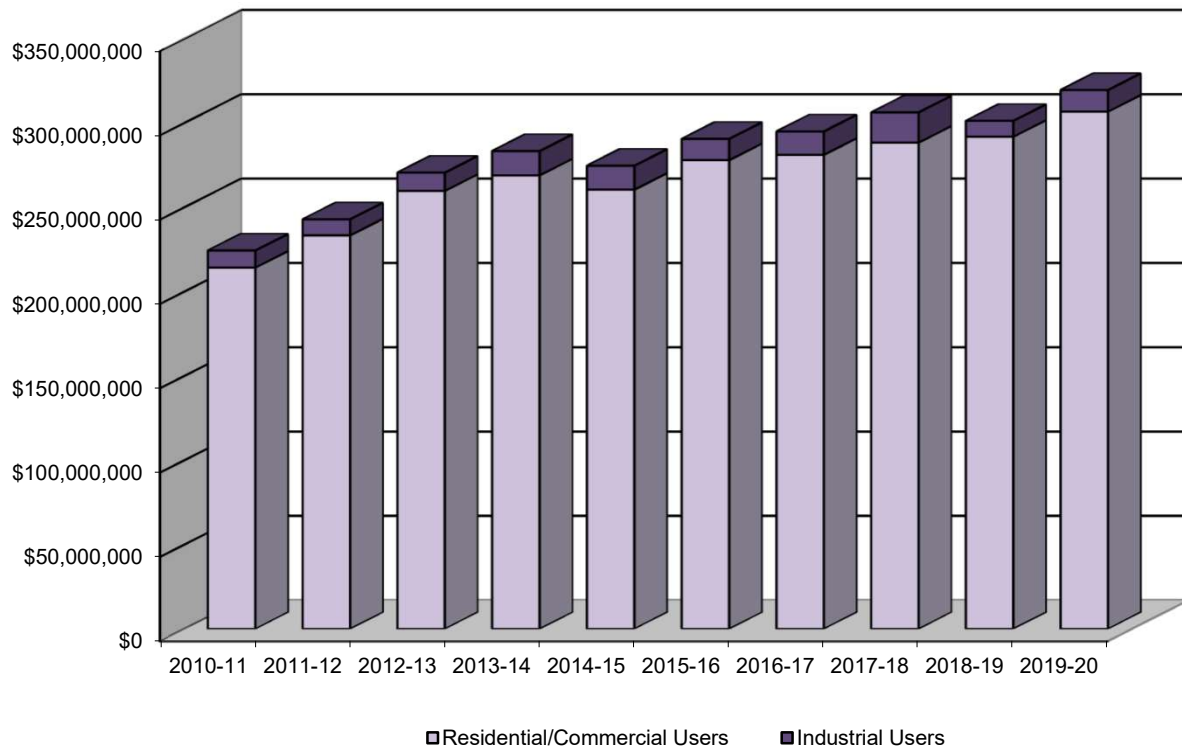
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2011-12	\$ 267.00
2012-13	294.00
2013-14	308.00
2014-15	316.00
2015-16	322.00
2016-17	327.00
2017-18	331.00
2018-19	335.00
2019-20	339.00
2020-21	339.00



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

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

Fiscal Year	Residential/Commercial			Industrial		
	Number of Equivalent Single-Family Dwellings	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues	Number of Customer Accounts	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues
2010-11	878,408	\$ 214.3	95%	479	\$ 10.1	5%
2011-12	874,008	233.4	96%	516	9.5	4%
2012-13	883,477	259.8	96%	527	10.8	4%
2013-14	873,308	269.0	95%	489	14.4	5%
2014-15	824,465	260.5	95%	467	14.2	5%
2015-16	863,317	278.0	96%	450	12.6	4%
2016-17	859,869	281.2	95%	466	13.8	5%
2017-18	871,338	288.4	94%	473	17.9	6%
2018-19	871,312	291.9	97%	476	9.4	3%
2019-20	904,886	306.8	96%	473	12.8	4%



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

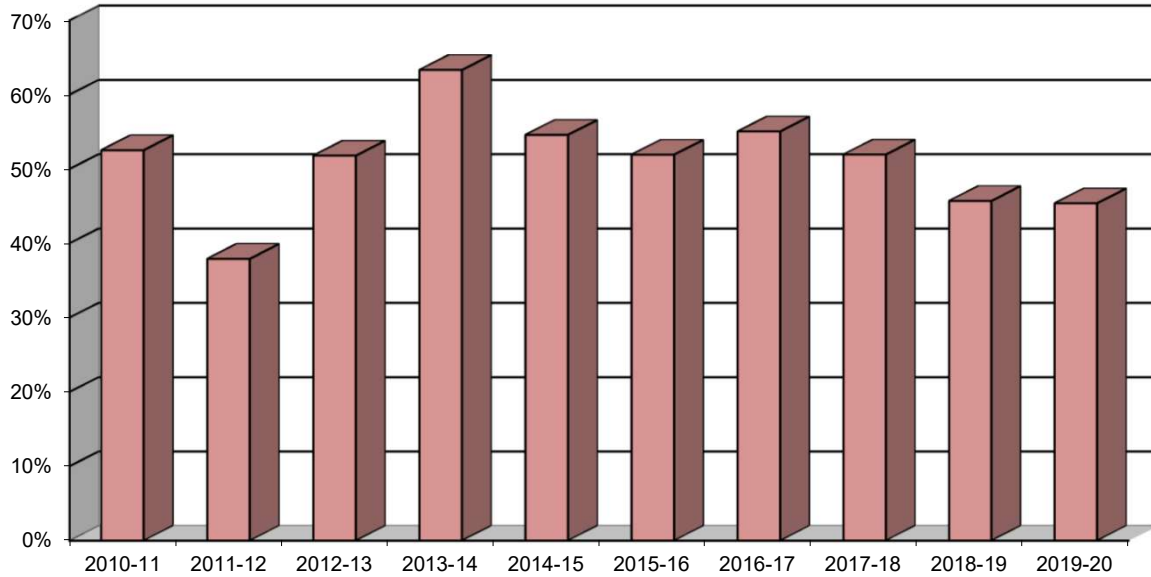
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Current Fiscal Year and Nine Years Ago

Customer	Fiscal Year Ended 6/30/20			Fiscal Year Ended 6/30/11		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
House Foods America Corp. (West)	\$ 1,595,677	1	0.47%	\$ 588,739	5	0.24%
Stremicks Heritage Foods, LLC	782,334	2	0.23%	756,778	4	0.31%
Pulmuone Wildwood, Inc.	778,107	3	0.23%	293,669	10	0.12%
Newport Fab, LLC (TowerJazz Semiconductor)	589,702	4	0.17%	344,671	7	0.14%
House Foods America Corp. (East)	415,677	5	0.12%			
MCP Foods, Inc.	408,862	6	0.12%	1,036,648	2	0.42%
Nor-Cal Beverage Co. Inc. (Main)	396,810	7	0.12%			
California State University-Fullerton	332,746	8	0.10%			
Patriot Wastewater, LLC (Freedom CWT)	313,793	9	0.09%			
Van Law Food Products, Inc.	306,275	10	0.09%			
Kimberly-Clark Worldwide, Inc.				1,533,243	1	0.63%
Alstyle Apparel-A&G Inc.				909,188	3	0.37%
Pepsi-Cola Bottling Group				440,707	6	0.18%
Dean Foods Co. of CA Inc.				316,641	8	0.13%
Schreiber Foods Inc.				298,157	9	0.12%
	<u>\$ 5,919,983</u>		<u>1.74%</u>	<u>\$ 6,518,441</u>		<u>2.66%</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 (4)</u>	<u>Total Debt Service (3)</u>	<u>Total Operating Expenses (2)</u>	<u>Ratio of Debt Service to Total Operating Expenses</u>
2010-11	\$ 25,895	\$ 49,426	\$ 75,321	\$ 143,388	52.53%
2011-12	14,370	50,975	65,345	172,319	37.92
2012-13	23,965	53,640	77,605	149,817	51.80
2013-14	39,590	53,163	92,753	146,447	63.34
2014-15	27,875	53,586	81,461	149,226	54.59
2015-16	29,405	50,301	79,706	153,501	51.93
2016-17	35,575	47,143	82,718	150,253	55.05
2017-18	32,140	43,466	75,606	145,555	51.94
2018-19	31,655	44,481	76,136	166,586	45.70
2019-20	32,730	43,664	76,394	168,333	45.38

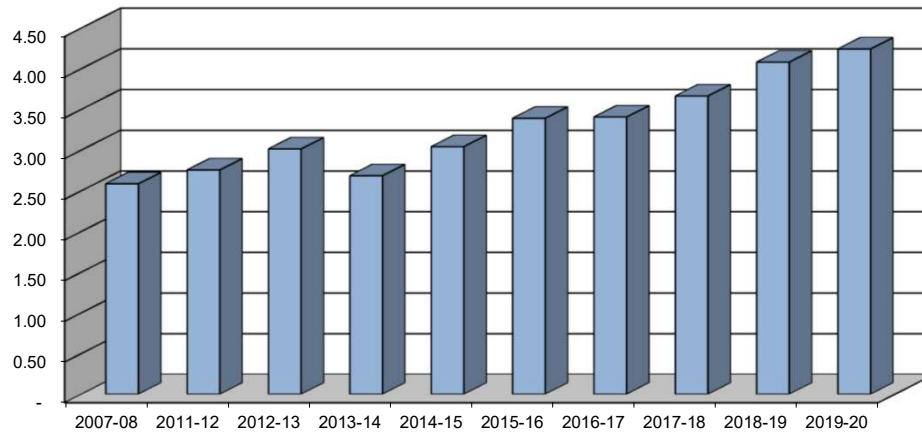
Notes

- (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.
- (4) - Excludes amortization of premium/discount and deferred amount.

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,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating & Non-operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 214.3	\$ 233.4	\$ 259.8	\$ 269.0	\$ 260.5	\$ 278.0	\$ 281.2	\$ 288.4	\$ 291.9	\$ 306.8
Service Charges, Net of Refunds-Local (3)	5.7	5.7	5.8	5.7	5.5	5.7	1.3	(0.1)	-	-
Industrial Sewer Service Charges	10.1	9.5	10.8	14.4	14.2	12.6	13.8	17.9	9.4	12.8
SAWPA Assessment	4.9	3.6	2.7	2.4	2.7	3.2	3.3	2.7	2.9	2.6
IRWD Assessment	18.2	14.2	25.6	19.6	26.4	26.6	36.0	9.9	36.3	20.8
Ad Valorem Taxes	64.3	67.9	79.2	74.9	79.8	84.4	88.3	94.2	99.5	104.5
Interest Earnings	10.1	15.7	(3.9)	6.5	4.8	9.2	3.1	3.2	29.1	33.7
Other Revenues	3.0	2.5	3.7	3.0	3.2	4.0	5.0	6.4	8.0	11.2
Total Revenues	330.6	352.5	383.7	395.5	397.1	423.7	432.0	422.6	477.1	492.4
Operating Expenses (1)	143.4	172.3	149.8	146.4	149.2	153.5	150.3	145.6	166.6	168.3
Net Revenues	\$ 187.2	\$ 180.2	\$ 233.9	\$ 249.1	\$ 247.9	\$ 270.2	\$ 281.7	\$ 277.0	\$ 310.5	\$ 324.1
Debt Service Requirements										
Principal Payments	25.9	14.4	24.0	39.6	27.9	29.4	35.6	32.1	31.7	32.7
Interest Payments	46.5	51.0	53.6	53.2	53.6	50.3	47.1	43.5	44.4	43.7
Total Debt Service Requirements	\$ 72.4	\$ 65.4	\$ 77.6	\$ 92.8	\$ 81.5	\$ 79.7	\$ 82.7	\$ 75.6	\$ 76.1	\$ 76.4
Coverage Ratios	2.59	2.76	3.01	2.68	3.04	3.39	3.41	3.66	4.08	4.24
Ending Reserves (2)	\$ 420.0	\$ 439.0	\$ 465.0	\$ 542.0	\$ 428.0	\$ 428.0	\$ 404.0	\$ 580.0	\$ 663.0	\$ 787.0

Notes

- (1) - Operating expenses exclude depreciation and amortization expenses.
- (2) - Excludes debt service reserves in accordance with the District's reserve policy.
- (3) - Local Sewer transferred to East Orange County Water District in FY2016-17.

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

ORANGE COUNTY SANITATION DISTRICT

Ratios of Outstanding Debt
Last Ten Fiscal Years

Fiscal Year	(5) Total Outstanding Debt	(3) Median Family Income (1)	Debt as a Percentage of Median Family Income	(4) Population Estimate (2)	Debt per Capita
2010-11	\$ 1,427,792,453	\$ 84,200	0.006%	2,563,170	557.04
2011-12	1,376,404,782	85,300	0.006%	2,457,571	560.07
2012-13	1,325,928,512	84,100	0.006%	2,472,122	536.35
2013-14	1,278,998,124	84,900	0.007%	2,491,268	513.39
2014-15	1,241,140,357	85,900	0.007%	2,521,803	492.16
2015-16	1,206,722,347	85,000	0.007%	2,548,745	473.46
2016-17	1,140,679,773	88,000	0.008%	2,578,681	442.35
2017-18	1,095,737,610	92,700	0.008%	2,609,419	419.92
2018-19	1,050,502,373	97,900	0.009%	2,607,092	402.94
2019-20	1,004,215,901	103,000	0.010%	2,589,011	387.88

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 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)
2010-11	207	\$ 1,816.62	\$ 192,676	\$ 68,374	\$ 245,249	\$ 85,414
2011-12	201	1,871.47	228,370	37,133	260,521	92,115
2012-13	200	1,906.01	213,724	79,650	304,576	79,108
2013-14	198	1,936.64	246,252	41,767	301,459	94,037
2014-15	187	2,070.97	243,412	37,280	302,450	94,637
2015-16	183	2,110.43	244,003	34,079	315,428	108,248
2016-17	188	2,054.56	246,573	78,918	313,282	118,511
2017-18	185	2,069.30	242,955	36,494	317,499	105,029
2018-19	191	2,274.73	268,825	63,582	318,490	158,598
2019-20	188	2,421.83	282,221	54,261	341,064	151,333

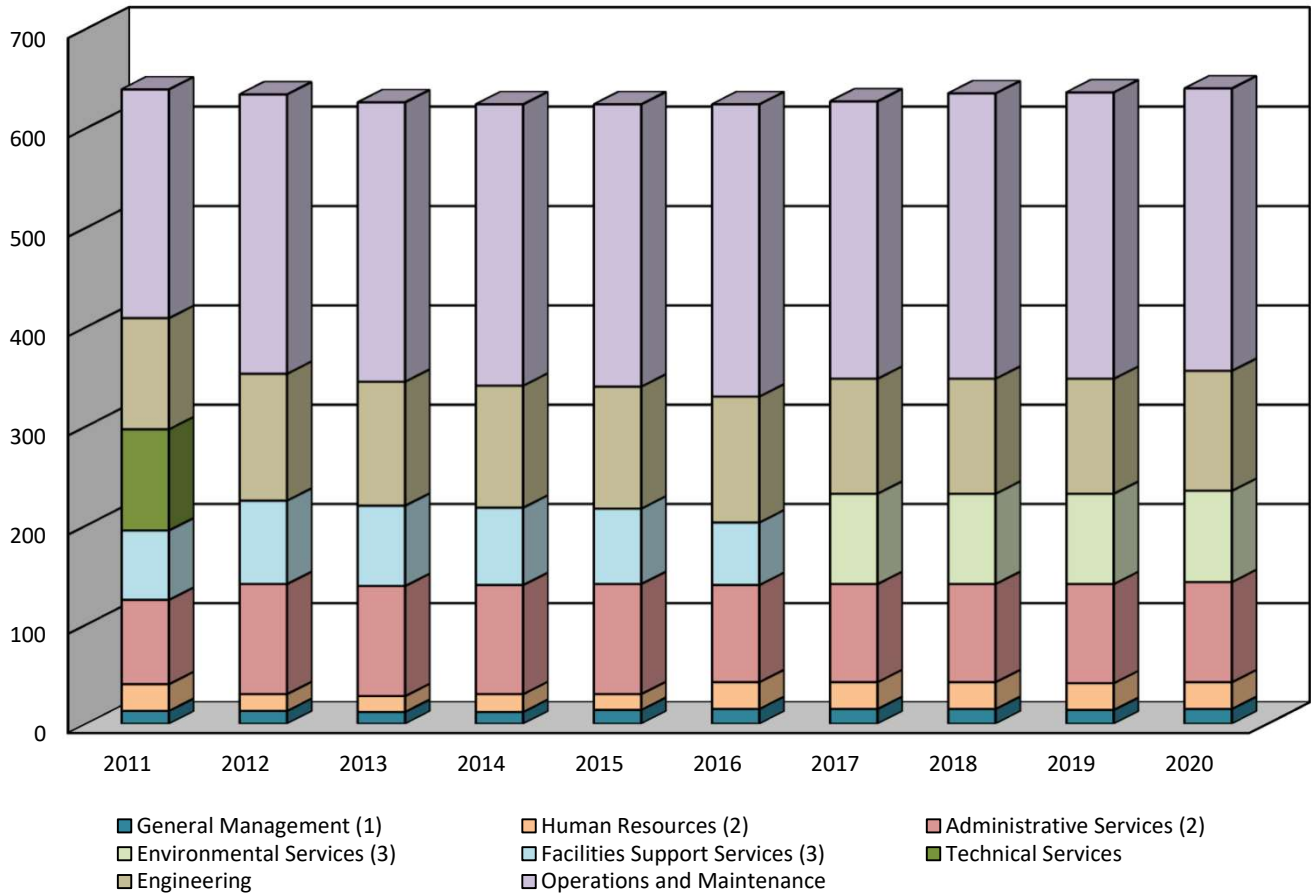
Total expenses in FY 2019-20 increased \$75 million, or 28.9 percent since FY 2010-11, primarily as a result of expansion of the Capital Improvement Program (CIP) and increase in operational services levels with OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moved from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards as of December 31, 2012.

Depreciation expense represents 85.6 percent of the increase as a result of the expansion in capital facilities and the financing associated with the expansion. Increases were also realized in maintenance, chemicals, utilities, and other operating costs, primarily due to the increase in the levels of treatment referred to above. These increases are offset by a decrease in other non-operating expense due to a decrease in integration contributions credited to IRWD. In FY 2019-20, personnel expenses decreased 3.0 percent over the prior year. This decrease is mainly caused by a reduction in the OCERS retirement contribution rate as a result of paying down the unfunded actuarial accrued liability in September and November 2019. The full-time equivalent positions authorized increased by 4 in FY 2019-20.

As depicted from the chart above, actual wastewater treatment flows were 207 mgd in FY 2010-11. The last several years of California's record-breaking drought and water conservation efforts have resulted in FY 2019-20 flows of only 188 mgd, a decrease of 19 mgd or 9.18 percent since FY 2010-11.

Source: Orange County Sanitation District.

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



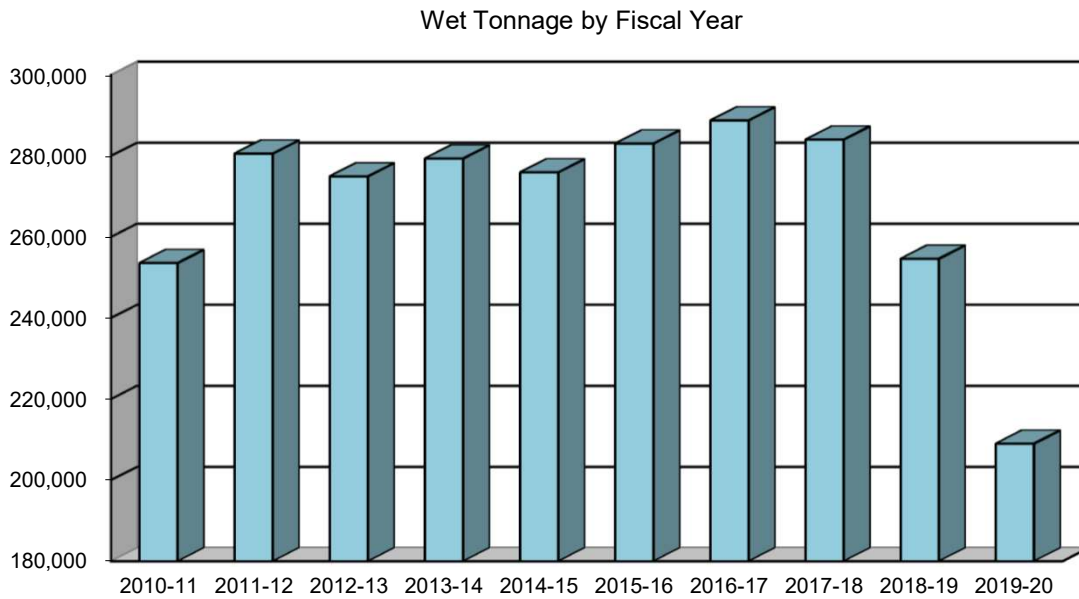
	Fiscal Year Ending June 30,										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
General Management (1)	13	13	12	12	14	15	15	15	14	15	
Human Resources (2)	27	17	16	18	16	27	27	27	27	27	
Administrative Services (2)	85	111	111	110	111	98	99	99	100	101	
Environmental Services (3)	-	-	-	-	-	-	91	91	91	92	
Facilities Support Services (3)	70	84	81	78	76	63	-	-	-	-	
Technical Services	102	-	-	-	-	-	-	-	-	-	
Engineering	112	128	125	123	123	127	116	116	116	121	
Operations and Maintenance	230	281	281	283	284	294	279	287	288	284	
Total FTEs	639	634	626	624	624	624	627	635	636	640	

Notes

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

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

ORANGE COUNTY SANITATION DISTRICT
 Biosolids Produced
 Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Wet Tonnage</u>
2010-11	253,557
2011-12	280,572
2012-13	274,957
2013-14	279,362
2014-15	275,943
2015-16	283,052
2016-17	288,771
2017-18	284,039
2018-19	254,616 ⁽¹⁾
2019-20	209,000

⁽¹⁾ Beginning in Fiscal Year 2018-19, biosolids produced were reduced due to the commissioning of dewatering centrifuges at both treatment plants.

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

ORANGE COUNTY SANITATION DISTRICT

Capital Asset Statistics

Last Ten Fiscal Years

Fiscal Year	Miles of Trunk & Subtrunk Sewers	Number of Pump Stations	Primary Treatment Capacity (1)	Secondary Treatment Capacity (1)
2010-11	587	17	376	212
2011-12	572	17	376	332
2012-13	572	17	376	332
2013-14	580	17	376	332
2014-15	580	17	376	332
2015-16	570	17	376	332
2016-17	396 (2)	17	376	332
2017-18	396	17	376	332
2018-19	389	17	376	332
2019-20	388	17	376	332

Notes

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

(2) - In FY 2016-17, local sewers were transferred to East Orange County Water District.

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
2010-11	3,030,000	\$ 154,131,535 (3)	\$ 50,868	\$ 84,200	502,903	9.2%
2011-12	3,056,000	169,584,000 (4)	55,492	85,300	502,195	7.9%
2012-13	3,082,000	166,370,000 (4)	53,981	84,100	501,801	6.1%
2013-14	3,114,000	179,141,000 (4)	57,528	84,900	500,487	5.2%
2014-15	3,148,000	193,359,000 (4)	61,423	85,900	497,116	4.3%
2015-16	3,183,000	199,442,000 (4)	62,658	85,000	493,030	4.4%
2016-17	3,194,000	208,653,000 (4)	65,327	88,000	490,430	3.8%
2017-18	3,221,000	220,368,000 (4)	68,416	92,700	485,835	3.3%
2018-19	3,222,000	230,180,000 (4)	71,440	97,900	478,823	3.0%
2019-20	3,194,000	226,531,000 (4),(8)	70,924	103,000	473,612	13.6%

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, 2020

	Population as of January 1, 2020
Anaheim	357,325
Brea	45,629
Buena Park	81,998
Costa Mesa	114,778
Cypress	49,272
Fountain Valley	55,878
Fullerton	141,863
Garden Grove	174,801
Huntington Beach	201,281
Irvine	281,707
La Habra	63,371
La Palma	15,492
Los Alamitos	11,567
Newport Beach	85,780
Orange	140,065
Placentia	51,494
Santa Ana	335,052
Seal Beach	24,992
Stanton	39,077
Tustin	80,382
Villa Park	5,766
Westminster	92,421
Yorba Linda	68,650
Subtotal Cities ⁽¹⁾	<u>2,518,641</u>
Estimated Population Served in Unincorporated Areas ⁽²⁾	<u>70,370</u>
	<u><u>2,589,011</u></u>

Data Sources:

- (1) Demographic Research Unit, State of California Department of Finance
- (2) Center for Demographic Research, California State University, Fullerton.

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

<u>Employers</u>	<u>Fiscal Year Ended 6/30/20</u>			<u>Fiscal Year Ended 6/30/11</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (4)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (5)</u>
Walt Disney Co.	32,000	1	2.32%	20,000	2	1.40%
University of California, Irvine	24,714	2	1.79%	20,650	1	1.45%
County of Orange	17,365	3	1.26%	17,655	3	1.24%
St. Joseph Health	14,000	4	1.02%	11,965	4	0.84%
Kaiser Permanente	8,200	5	0.60%	5,397	9	0.38%
Albertsons Southern California	7,535	6	0.55%			
Boeing Co.	6,600	7	0.48%	8,060	5	0.57%
Hoag Memorial Hospital	6,500	8	0.47%			
Wal-Mart Stores Inc.	6,200	9	0.45%			
Target Corp.	6,000	10	0.44%	5,325	10	0.37%
BankAmerica Corp.				6,500	6	0.46%
Yum! Brands Inc				6,500	7	0.46%
SuperValu, Inc.				5,900	8	0.41%
Total	129,114		9.38%	107,952		7.58%

Notes & Data Sources

- (1) - Data is for the entire County of Orange.
- (2) - Data Source: Orange County Business Journal Book of Lists published November 2019
- (3) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,377,000 as of June 2020.
- (4) - Data Sources: Orange County Business Journal Book of Lists published November 2010; County of Orange
- (5) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,423,600 as of June 2011.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators

June 30, 2020

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:

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

Revenue Area No. 14

County of Orange (unincorporated areas)

Cities:

- Irvine
- Orange
- Tustin

Special District:

- Irvine Ranch Water District

Governing Body:	25-member Board of Directors
Authorized Full-Time Equivalent Employees:	640
Operational Date:	July 1, 1954
Authority:	California Health & Safety Code Section 4700 et. seq.
Services:	Wastewater collection, treatment, and disposal
Service Area:	479 square miles
Population Served:	2.6 million
Total Miles of Sewers (including force mains):	388 miles
Number of Pumping Stations:	17

Wastewater System Treatment Capacities (Million Gallons per Day)

	<u>Actual Flows FY19-20</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>
Plant 1	119	208	182
Plant 2	69	168	150
Total	<u>188</u>	<u>376</u>	<u>332</u>

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

**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, 2020

	Shares Par	Cost Base	Market Value Base	% of Total	Net Unrealized Gain/(Loss) Base
INVESTMENT PORTFOLIO:					
CASH & CASH EQUIVALENTS (U.S. DOLLAR):					
FIRST AMERICAN SHORT TERM FDS	\$ 10,129,778	\$ 10,129,778	\$ 10,129,778	1.27%	\$ -
COMMERCIAL PAPER	10,000,000	4,998,750	9,997,900	1.25%	4,999,150
US AGENCY	5,000,000	9,997,815	4,999,550	0.62%	(4,998,265)
SUBTOTAL - CASH & CASH EQUIVALENTS	25,129,778	25,126,343	25,127,228	3.14%	885
FIXED INCOME SECURITIES (U.S. DOLLAR):					
CONSUMER DISCRETIONARY	9,064,000	9,174,702	9,483,848	1.19%	309,146
CONSUMER STAPLES	4,630,000	4,647,869	4,994,583	0.62%	346,714
ENERGY	9,000,000	8,942,542	9,319,070	1.17%	376,528
FINANCE	91,059,000	91,403,503	95,303,699	11.92%	3,900,196
HEALTH CARE	2,000,000	1,948,640	2,131,080	0.27%	182,440
INDUSTRIAL	4,410,000	4,388,275	4,607,339	0.58%	219,064
INFORMATION TECHNOLOGY	24,870,000	24,813,717	26,041,565	3.26%	1,227,848
INVESTMENT GRADE-MUNI REVENUE	1,800,000	1,800,000	1,829,068	0.23%	29,068
MTG RELATED SECURITY	30,789,602	30,845,476	31,371,850	3.92%	526,374
SHORT TERM FUNDS	1,500,000	1,500,000	1,507,395	0.19%	7,395
SUPRANATIONAL	42,215,000	41,939,678	42,940,726	5.37%	1,001,048
U.S. AGENCY	197,090,000	198,627,671	205,051,809	25.65%	6,424,138
U.S. GOVERNMENT	319,504,478	317,991,120	327,905,250	41.02%	9,914,130
U.S. GOVERNMENT TIPS	11,232,208	11,087,488	11,731,592	1.47%	644,104
SUBTOTAL - FIXED INCOME SECURITIES	749,164,288	749,110,681	774,218,874	96.86%	25,108,193
TOTAL INVESTMENT PORTFOLIO	\$ 774,294,066	774,237,024	799,346,102	100.00%	\$ 25,109,078
DEMAND DEPOSITS AND CASH ON HAND		9,062,762	9,062,762		
MONIES HELD WITH FISCAL AGENTS		6,998	6,998		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		72,018,699	72,372,513		
TOTAL CASH AND INVESTMENTS		\$ 855,325,483	\$ 880,788,375		

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

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

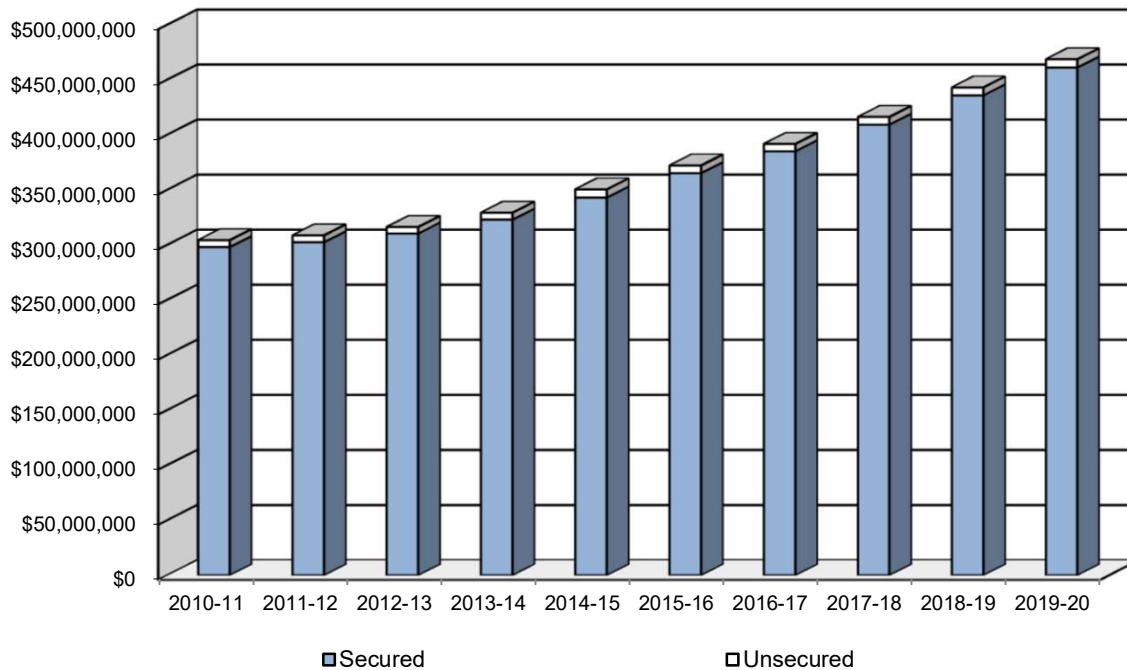
Fiscal Year	Tax Rate			OCSD's Average Share of Basic Levy
	Basic Levy	OCSD 1958 General Obligation Bonds	Total Tax Rate	
2010-11	1.00%	0.00%	1.00%	1.64%
2011-12	1.00%	0.00%	1.00%	1.64%
2012-13	1.00%	0.00%	1.00%	1.64%
2013-14	1.00%	0.00%	1.00%	1.65%
2014-15	1.00%	0.00%	1.00%	1.63%
2015-16	1.00%	0.00%	1.00%	1.62%
2016-17	1.00%	0.00%	1.00%	1.61%
2017-18	1.00%	0.00%	1.00%	1.59%
2018-19	1.00%	0.00%	1.00%	1.59%
2019-20	1.00%	0.00%	1.00%	1.58%

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: Orange County Auditor-Controller's Office.

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

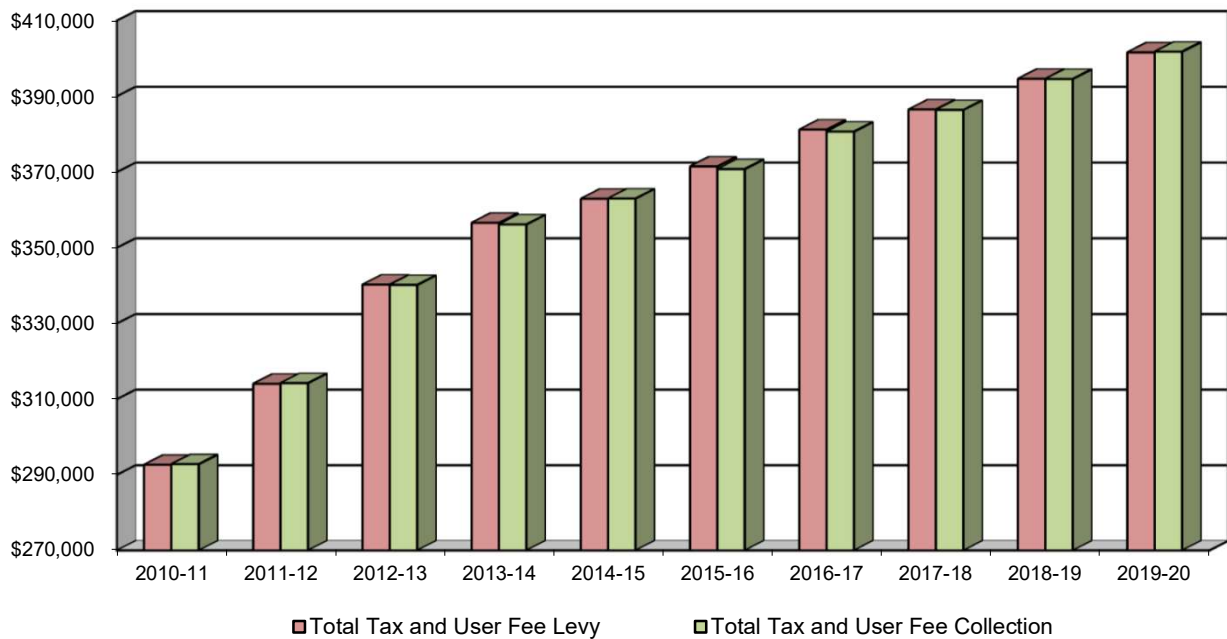


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2010-11	\$ 298,099,034	\$ 6,238,834	\$ 304,337,868	-0.27%
2011-12	302,526,970	6,163,979	308,690,949	1.43%
2012-13	310,451,986	5,901,040	316,353,026	2.48%
2013-14	323,064,994	6,220,505	329,285,499	4.09%
2014-15	343,102,030	7,378,643	350,480,673	6.44%
2015-16	365,267,850	6,936,768	372,204,618	6.20%
2016-17	385,137,024	6,642,312	391,779,336	5.26%
2017-18	409,310,248	6,990,609	416,300,857	6.26%
2018-19	435,911,818	7,213,037	443,124,855	6.44%
2019-20	461,217,033	7,489,937	468,706,970	5.77%

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

Source: Orange County Auditor-Controller's Office.

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



Fiscal Year	Total Tax and User Fee Levy	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	Outstanding Delinquencies	% of Delinquencies to Levy	(1) Pass-Through Payments
2010-11	\$292,646	\$ 292,689	100.01	\$ 120	\$ 292,809	100.06	\$ (43)	(0.01)	\$ -
2011-12	314,077	314,133	100.02	121	314,254	100.06	(56)	(0.02)	3,116
2012-13	340,298	340,156	99.96	64	340,220	99.98	142	0.04	14,687
2013-14	356,607	356,108	99.86	76	356,184	99.88	499	0.14	7,274
2014-15	362,978	362,927	99.99	108	363,035	100.02	51	0.01	8,447 (2)
2015-16	371,502	370,170	99.64	637	370,807	99.81	1,332	0.36	9,199 (2)
2016-17	381,226	380,078	99.70	608	380,686	99.86	1,148	0.30	9,751
2017-18	386,538	385,673	99.78	741	386,414	99.97	865	0.22	11,353
2018-19	394,641	393,809	99.79	786	394,595	99.99	832	0.21	12,524
2019-20	401,604	400,865	99.82	931	401,796	100.05	739	0.18	13,469

Notes

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

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

Source: Orange County Auditor-Controller's Office.

ORANGE COUNTY SANITATION DISTRICT

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

<u>Assessed Property Value (2)</u>		<u>Calendar Year</u>	<u>Non- Residential Construction (3)</u>		<u>Residential Construction (3)</u>		<u>Total Construction Value (3)</u>
<u>Fiscal Year</u>	<u>Value</u>		<u>Value</u>	<u>No. of Units</u>	<u>Value</u>		
2010-11	\$ 420,751,575	2011	\$ 1,300,019	4,807	\$ 1,236,973	\$ 2,536,992	
2011-12	424,769,642	2012	1,265,430	6,163	1,560,509	2,825,939	
2012-13	432,902,274	2013	1,521,280	10,453	2,653,728	4,175,008	
2013-14	447,749,156	2014	1,993,154	10,636	2,640,484	4,633,638	
2014-15	476,303,290	2015	2,196,000	10,897	2,834,000	5,030,000	
2015-16	504,650,360	2016	2,487,000	12,134	3,160,000	5,647,000	
2016-17	531,052,158	2017	2,062,000	10,294	3,217,000	5,279,000	
2017-18	563,662,044	2018	3,507,000	8,105	2,776,000	6,283,000	
2018-19	598,901,016	2019	3,097,000	9,816	2,528,000	5,625,000	
2019-20	632,758,256	2020	2,408,000	8,313	2,140,000	4,548,000 (4)	

Notes and Data Sources

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

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

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

(4) - Forecasted numbers.

ORANGE COUNTY SANITATION DISTRICT

Insurance in Force
As of June 30, 2020

Type	Insurer	Deductible	Limit
<u>All-Risk Property</u>			
Fire and Other Perils	Public Entity Property Insurance Program (multiple insurers)	\$500,000 per occurrence	\$1 billion/occurrence
Flood	Public Entity Property Insurance Program	\$2500,000 per occurrence	\$300 million/occurrence
Earthquake (certain structures only)	Two insurers	5% per structure, min. \$5,000,000	\$25 million
<u>Boiler & Machinery</u>			
	Public Entity Property Insurance Program (multiple insurers)	\$25,000 to \$350,000	\$100 million/occurrence
<u>Crime Insurance</u>			
	Alliant Crime Insurance Program	\$25,000	\$5 million
<u>Cyber Insurance</u>			
	Lloyd's of London (Beazley)	\$100,000	\$2 million \$500,000 for Breach Response
<u>Excess General Liability</u>			
	Great American (first \$10 million layer); Berkley National (\$20 million layer excess \$10 million) Great American (\$10 million layer excess \$30 million)	\$500,000	\$40 million/occurrence and annual aggregate
<u>Travel & Accident</u>			
	Chubb Group of Insurance Companies	None	Accidental Death & Dismemberment: Class 1: Elected Officials, \$500,000 per occurrence Class 2: Employees, 10X annual salary, up to \$500,000 per occur.
<u>Excess Workers' Compensation</u>			
	CSAC Excess Insurance Authority Program	\$1,000,000 Each Accident	Unlimited statutory coverage each accident, each employee \$4 million employer's liability
<u>Pollution Liability</u>			
	CSAC Excess Insurance Authority Program	\$75,000	\$10,000,000 per loss
<u>Watercraft</u>			
Liability	Atlantic Specialty	\$2,500 BI / \$10,000 All other	\$10 million
Hull & Machinery	Atlantic Specialty	\$10,000	\$600,000
Pollution Liability	Great American Ins. Co,	\$25,000	\$5 million

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

(THIS PAGE INTENTIONALLY LEFT BLANK)



**ORANGE COUNTY SANITATION DISTRICT
FINANCIAL MANAGEMENT DIVISION**

10844 Ellis Avenue Fountain Valley, California 92708-7018
714.962.2411 • www.ocsd.com

06/30/20