

Orange County Sanitation District  
**Comprehensive Annual  
Financial Report**  
for the period ended June 30, 2011



Fountain Valley, California

**We're here for you.**

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

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

Prepared By:  
Administrative Services Department  
Financial Management Division

Michael D. White, CPA  
Controller

**ORANGE COUNTY SANITATION DISTRICT**  
**Comprehensive Annual Financial Report**  
**Table of Contents**  
**For the Year Ended June 30, 2011**

	<u>Page</u>
<b>INTRODUCTORY SECTION:</b>	
Letter of Transmittal .....	i
GFOA Certificate of Achievement .....	viii
Board of Directors .....	ix
Organization Chart .....	x
Map of Service Area .....	xi
<b>FINANCIAL SECTION:</b>	
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis – Required Supplementary Information .....	3-8
Basic Financial Statements:	
Statement of Net Assets .....	10
Statement of Revenues, Expenses, and Changes in Net Assets .....	11
Statement of Cash Flows .....	12
Notes to Basic Financial Statements .....	13-38
Supplementary Information:	
Schedule of Combining Area Net Assets .....	40
Schedule of Combining Area Revenues, Expenses, and Changes in Net Assets .....	41
Schedule of Combining Area Cash Flows .....	42
<b>STATISTICAL SECTION:</b>	
Net Assets by Component – Last Ten Fiscal Years .....	44
Revenues and Gross Capital Contributions by Source – Last Ten Fiscal Years .....	45
Expenses by Type – Last Ten Fiscal Years .....	46
Change in Net Assets – Last Ten Fiscal Years .....	47
Cash and Investment Reserve Balances – Last Ten Fiscal Years .....	48
Sewer Service Fees – Last Nine Fiscal Years & Next Fiscal Year .....	49
Number of Accounts and Revenues by Customer Class – Last Ten Fiscal Years .....	50
Principal Sewer Service Customers – Current Fiscal Year and Nine Years Ago .....	51
Ratio of Annual Debt Service to Total Expenses – Last Ten Fiscal Years .....	52
Debt Coverage Ratios – Last Ten Fiscal Years .....	53
Computation of Direct and Overlapping Debt – Current Fiscal Year .....	54
Ratios of Outstanding Debt – Last Ten Fiscal Years .....	55
Comparison of the Volume of Wastewater Treated – Last Ten Fiscal Years .....	56
Authorized Full-time Equivalents by Function – Last Ten Fiscal Years .....	57
Biosolids Produced – Last Ten Fiscal Years .....	58
Capital Asset Statistics – Last Ten Fiscal Years .....	59
Demographic Statistics – Last Ten Fiscal Years .....	60
Estimated Populations Served by Orange County Sanitation District – Current Fiscal Year .....	61
Principal Orange County Employers – Current Fiscal Year and Nine Years Ago .....	62
Operating Indicators .....	63
<b>OTHER DATA &amp; TRENDS:</b>	
Cash and Investment Portfolio – As of June 30, 2011 .....	66
Property Tax Rates – Direct and Overlapping Governments – Last Ten Fiscal Years .....	67
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years .....	68
Property Tax and User Fee Levies and Collections – Last Ten Fiscal Years .....	69
Property Value and Construction – Last Ten Fiscal Years .....	70
Insurance in Force – Next Fiscal Year .....	71



# ORANGE COUNTY SANITATION DISTRICT

December 2, 2011

The Board of Directors of the  
Orange County Sanitation District,  
Orange County, California

Submitted herewith is the Comprehensive Annual Financial Report of the Orange County Sanitation District, Orange County, California for the fiscal year ended June 30, 2011. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2011 and was prepared by the Financial Management Division of the Sanitation District's Administrative Services Department.

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

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

An audit of the books, financial records and transactions of the Sanitation District is conducted annually by independent certified public accountants. The Sanitation District selected the accounting firm of McGladrey and Pullen, LLP to perform the audit for the year ended June 30, 2011. The auditors' report on the Sanitation District's basic financial statements and supplementary information is located on page 1 within the financial section of this report. This report renders an unqualified opinion on the Sanitation District's basic financial statements for the year ended June 30, 2011.

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

## GOVERNMENTAL STRUCTURE

The Orange County Sanitation District encompasses the Northern section of Orange County. The Sanitation District provides wastewater treatment for an area of the County covering 463 square miles and serving a population of approximately 2.5 million, or 81 percent of the County's population. The Sanitation District was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at the Sanitation District's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in order to simplify governance structures, reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of collecting sewer user fees at the previously established rate schedules, and were referred to as nine individual revenue areas through June 30, 2000. Effective July 1,

10844 Ellis Avenue  
Fountain Valley, CA  
92708-7018

**Mailing Address**  
P.O. Box 8127  
Fountain Valley, CA  
92728-8127

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

**Phone**  
(714) 962-2411

**Fax**  
(714) 962-0356

**Serving**

Anaheim

Brea

Buena Park

Cypress

Fountain Valley

Fullerton

Garden Grove

Huntington Beach

Irvine

La Habra

La Palma

Los Alamitos

Newport Beach

Orange

Placentia

Santa Ana

Seal Beach

Stanton

Tustin

Villa Park

Yorba Linda

Costa Mesa  
Sanitary District

Midway City  
Sanitary District

Irvine Ranch  
Water District

County of Orange

2003, all Revenue Areas, except Revenue Area 14, consolidated user fee rates and all enterprise fund accounting and budgeting activities and are now known as the Consolidated Revenue Area.

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

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

The Sanitation District sewerage system includes approximately 587 miles of sewers that convey wastewater generated within the Sanitation District's boundaries to the Sanitation District's two wastewater treatment plants, Reclamation Plant No. 1 located in the City of Fountain Valley, and Treatment Plant No. 2 located in the City of Huntington Beach.

Plants No. 1 and No. 2 have primary treatment capacities, including standby, of 204 million gallons per day (mgd) and 168 mgd, respectively. In fiscal year 2010-11, approximately 78 percent of the advanced primary effluent also received secondary treatment. Both plants are master-planned for a future primary and secondary treatment capacity of 235 mgd for a combined total of 470 mgd by the year 2070.

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

Remaining outflows of treated wastewater from Plants No. 1 and No. 2 are combined and discharged to the ocean off the Huntington Beach coast through an outfall pipe that is 120 inches in diameter and approximately five miles long. The last mile of the outfall pipe is a diffuser that dilutes the wastewater with seawater in a ratio of 148 parts seawater to one part treated wastewater at an average depth of 185 feet.

## **ECONOMIC CONDITIONS AND OUTLOOK**

In October 2011, the Institute for Economic and Environmental Studies at the California State University Fullerton Mihaylo College of Business and Economics (CSUF) forecasts that real gross domestic product (GDP) will trend slightly upward in 2012. The concern is that a stalled economy can easily slip back into recession. The fallout from high oil prices, Japan's nuclear power plant disaster, the Eurozone credit crisis, the U.S. credit downgrade, and the overall financial market turmoil have substantially weakened an already fragile recovery. Fears of a double dip recession still exist following the outcome of future decisions from policy makers on both sides of the Atlantic, from an abrupt fiscal tightening in the U.S., further haggling over the U.S. budget cuts, or more confusion from the Eurozone crisis. However, the imbalances that would normally shove the economy back into a recession do not yet exist: housing construction never got off the floor, and now makes up only 2.4 percent of the GDP; inventory to sales

ratio, which soared during the recession, is now back to normal levels; employment has yet to pick up after draconian cuts; and production is well below capacity.

CSUF reports that while construction has been at a standstill for some time in Orange County, there are early signs of some activity in selected segments. One of these is in the medium to small hotel construction sector as well as refurbishing of existing hotels. Hotel rental rates are climbing providing further incentives for such construction. Given the unprecedented low mortgage rates, the overall sentiment for housing construction is slowly turning the corner and moving upwards. Permitting activity is picking up yet the progress is expected to be painfully slow for the next two years. Given the extremely low construction activity in the past three years, current recorded percentage increases seem impressive but only because these are starting from extremely low bases. In reality, it will take up to three years before normal levels of construction activity and employment in the sector are achieved.

According to the California Employment Development Department, Orange County experienced a decline in payroll jobs of 19,200 jobs in 2010, and a decline of 192,800, or 12.7 percent in total payroll jobs since the beginning of the national recession in December of 2007. CSUF forecasts that year-over-year payroll growth will increase from virtually no growth of 0.5 percent in 2011 to 1.2 percent in 2012, well below the historical average for the twenty years preceding the recession. While such growth pales in comparison to historical standards, it points to the creation of 16,200 in net new payroll jobs in Orange County in 2012.

According to the June 2011 Anderson Center for Economic Research at Chapman University Economic and Business Review, most of the new jobs in Orange County for 2012 will be created in the services sector. The most rapid growth is forecasted in the professional and business services sector, increase at 3.2 percent, and in the education and health services sector and leisure and hospitality, both increasing at 2.8 percent. Outside of the services sector, the trade, transportation, & utilities and financial activities sectors are forecasted to show recovery in 2012. High unemployment rates, loss of nominal income, and negative wealth effects stemming from declines in home prices and equity markets darkened consumers' sentiment over the 2008-09 period as spending in 2009 on taxable items declined over 14.0 percent in Orange County and California. The composite index, however, has shown a steady increase with the current reading of 88.7. Barring any unexpected oil supply disruption, Chapman University believes that gas prices should remain in the range of \$3 to \$4 a gallon, and that taxable sales in Orange County should grow by 6.6 percent in 2011 and 6.4 percent in 2012.

The recent statistics released by the California Association of Realtors show a year-over-year decline in home sales activity in median prices of single-family detached homes in Orange County and California. Chapman University reports that there is still a large number of stressed properties held by financial institutions in what is known as shadow inventory. In addition to the existing level of inventory, exotic adjustable mortgages originated in 2006 are still due to be refinanced in 2011. These homeowners are underwater and, as a result, many are choosing to short sell or let their properties fall into foreclosure. On the positive side, 2006 was the last year of the mortgage bubble and financial institutions did not originate many exotic adjustable mortgages in 2007 which points to a slowdown in the new supply of stressed properties in 2012. On balance, the Chapman University forecast calls for housing prices in Orange County and California, measured by the median price of a single-family home, to show a decline of about 4.0 to 4.5 percent in 2011 and show virtually no appreciation in 2012.

## **MAJOR INITIATIVES**

### **Moving Towards Full Secondary Treatment Standards**

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

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

Construction of the capital improvements necessary to achieving secondary treatment standards will take until December 31, 2012. Permits are issued for a five (5) year duration, and the U.S. Environmental Protection Agency (EPA) has no authority to waive the discharge limits requirements or grant a longer permit (except per Sec. 301(h)). In November 2004, a consent decree was signed by EPA and filed with the U.S. District Court that approved the construction schedule and decrees that no penalties will be imposed for discharges that exceed the secondary treatment limits during the period of construction.

Seven milestones towards achieving secondary treatment standards were identified within the consent decree along with due dates. The District is in compliance with the decree and has successfully completed five of these milestones within the time permitted, as follows:

- On March 15, 2006 – Completion of the new \$44.4 million "Trickling Filter Facility" at Plant No. 1.
- On November 15, 2006 – Completion of the design and advertising for construction of the "New Activated Sludge System" at Plant No. 1.
- On January 15, 2007 – Completion of the design and advertising for construction of "Trickling Filters at Plant No. 2".
- On March 28, 2008 – Completion of construction for "Rehabilitation of Activated Sludge Plant at Plant No.2."
- February 15, 2011 – Complete construction of Plant No. 2 secondary treatment expansion.

Following are the timeline for the remaining two milestones:

- November 15, 2012 -- Complete construction of Plant No. 1 secondary treatment expansion.
- December 31, 2012 – Achieve full compliance with the Code of Federal Regulations secondary treatment requirements

### **Strategic Planning**

In November 2007, the Board of Directors adopted a new comprehensive strategic plan to steer OCSD's efforts and engage the organization to envision service levels and operational needs for the next five years. In continuing to look at the five-year horizon, the Strategic Plan has been updated on an annual basis. Each of these strategic plan annual updates has followed a similar process that had been established when the original November 2007 had been adopted with the General Manager's Office initiated the planning effort with the Executive Management Team, and then soliciting input and ideas from managers and supervisors. In October 2010, the staff-generated ideas were presented to the Board of Directors during a workshop, where Board Members discussed and deliberated changes and additions to the plan.

The strategic plan update for 2011 took a slightly different course as the Sanitation District made the decision to focus on internal operations to make the most of tax dollars and to strive for greater efficiencies.

Driven by the Sanitation District's mission, vision and core values, the 2011 Strategic Plan update maintains an aggressive effort to meet the sanitation, health, and safety needs of the 2.5 million people being served in a cost effective manner, while protecting the environment where we live.

Since 2007, 79 percent of the strategic goals identified in the five-year plan have been completed. Four new goals were added in the 2011 update, one modification to the existing levels of service was made, and a continuation of a previous goal was included in the plan.

The New Goals include:

- Full-Cost Recovery: Urban runoff division program – Implement a direct charging mechanism to recover the cost of urban runoff treatment starting July 1, 2013 when the new rate structure is in place.
- Ocean Protection – Undertake studies to determine the cause of benthic community changes near the ocean outfall and take corrective action to return affected areas to reference conditions.
- Update the sewer service fee five-year rate plan – Prepare an updated five-year rate schedule for Board consideration that would be effective for the fiscal year beginning July 1, 2013.

Modification to Levels of Service:

- The level of service for biosolids will continue to be 95 percent recycled, with an exception of up to 12 percent to landfill during peak solids production through 2017.

Continuation of previous Goal:

- Providing ongoing leadership development – Maximize the development of a pool of dedicated and talented employees ready to lead OCSD into the future.

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

## **SERVICE EFFORTS AND ACCOMPLISHMENTS**

In March 2011, the Sanitation District's Reclamation Plant No. 1 received the "Plant of the Year" award for 2010 from the Santa Ana River Basin Section of the California Water Environment Association. Criteria considered in awarding this designation include certification of plant operators, pretreatment strategy, biosolids processes, safety, financial condition, public relations, and energy conservation.

In April 2011, the Sanitation District received the 2010 California Water Environment Association "Plant of the Year" award for Reclamation Plant No. 1. This award recognizes this facility for permit compliance, innovative practices, cost effectiveness, and superior plant operations.

In July 2011, the Sanitation District received the Gold Peak Performance Award from the National Association of Clean Water Agencies for Reclamation Plant No. 1 and Treatment Plant No. 2 achievement of 100 percent compliance with National Pollutant Discharge Elimination System (NPDES) permits for 2010.

## **ACCOUNTING AND BUDGETARY CONTROLS**

The Sanitation District's accounting records are maintained on the accrual basis. In developing and evaluating the Sanitation District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition;



and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management. We believe that the Sanitation District's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

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

### **ACCUMULATED FUNDS AND RESERVES POLICY**

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

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

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

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

**Catastrophic Loss or Self-Insurance Reserves:** are established for property damage including fire, flood and earthquake; for general liability; and for workers' compensation. These reserves are intended to work with purchased insurance policies, FEMA disaster reimbursements and State disaster reimbursements. Based on the current infrastructure replacement value of \$6.26 billion, the reserve level has been set to fund the District's non-reimbursed costs, estimated to be \$57 million.

**Capital Replacement/Renewal Reserve Policy:** is established to provide thirty percent of the funding to replace or refurbish the current collection and treatment and disposal facilities at the end of their useful economic lives. The current replacement value of these facilities is estimated to be \$3.14 billion for the collection facilities and \$3.12 billion for the treatment and disposal facilities. The initial reserve level was established at \$50 million, which will be augmented by interest earnings and a small portion of the annual sewer user fees in order to meet projected needs through the year 2030.

Provisions of the various Certificate of Participation (COP) issues require debt service reserves to be under the control of the Trustee for that issue. These reserve funds are not available for the general needs of the District and must be maintained at specified levels. The projected level of required COP service reserves at June 30, 2011 is \$128.7 million.

Accumulated funds exceeding the levels specified by District policy will be maintained in a rate stabilization fund. These funds will be applied to future years' needs in order to maintain rates or to moderate annual fluctuations. There is no established target for this reserve.

As of June 30, 2011, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated net assets totaled \$561 million, and have been earmarked for the following specific purposes in accordance with the Sanitation District's reserve policy:

Designated For Cash Flow Contingency	\$187 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	175 million
Designated For Debt Service Requirements	<u>142 million</u>
Total Designated Net Assets	<u>\$ 561 million</u>

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

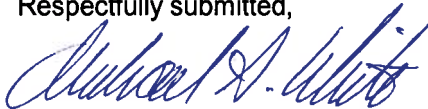
The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Orange County Sanitation District for the Sanitation District's comprehensive annual financial report for the year ended June 30, 2010. This was the seventeenth consecutive year that the Sanitation District has received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

### **ACKNOWLEDGMENTS**

This report could not have been accomplished without the dedicated services of the Financial Management Division staff, and I would like to especially express my appreciation to those who assisted in its preparation. I would also like to thank the Sanitation District's Board of Directors, the General Manager, and the Director of Finance and Administrative Services for their interest and support in conducting the financial operations of the Sanitation District in a responsible and progressive manner.

Respectfully submitted,



Michael D. White, CPA  
Controller

# 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, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**ORANGE COUNTY SANITATION DISTRICT**

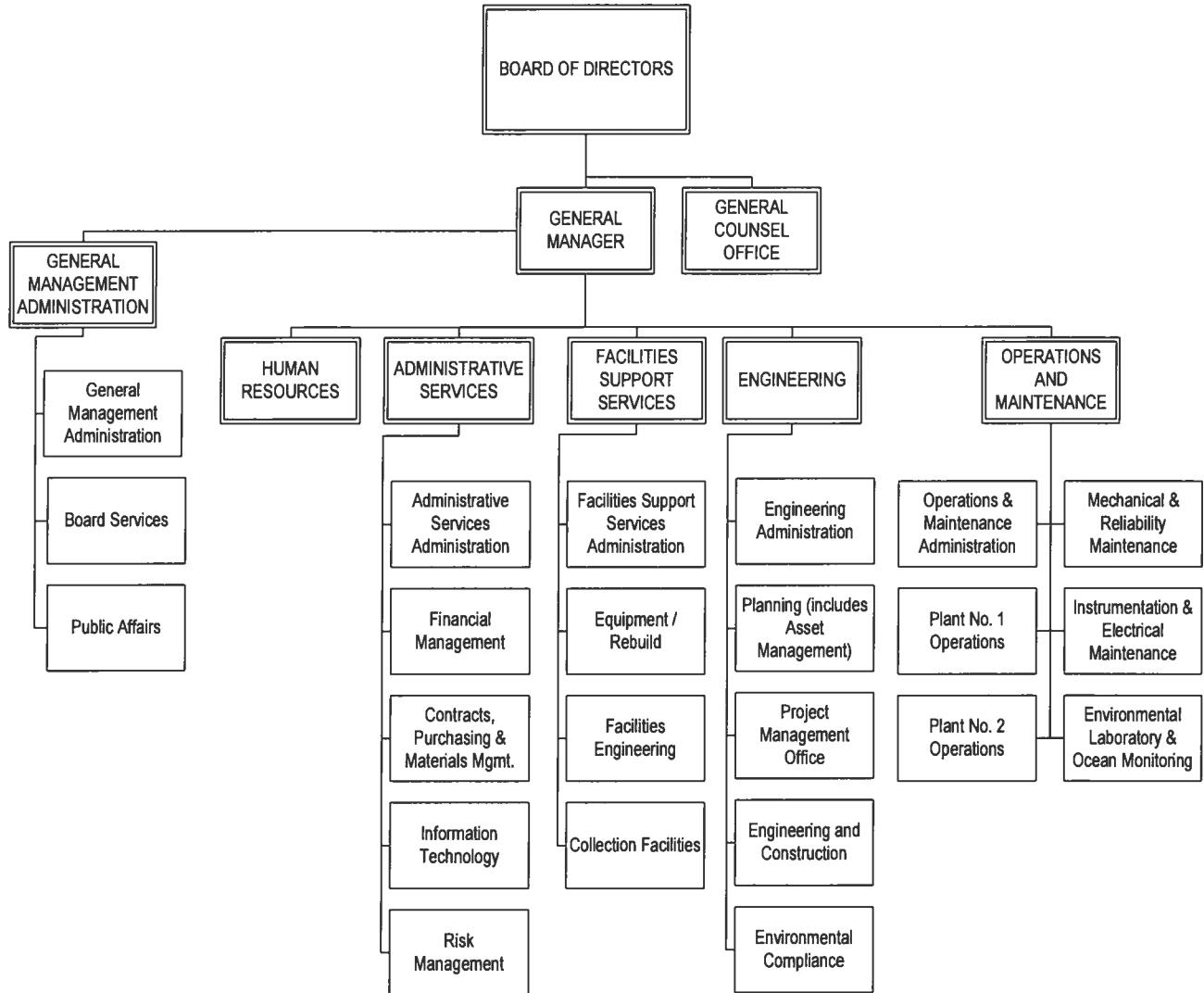
Board of Directors  
As of June 30, 2011

<u>AGENCY</u>	<u>ACTIVE DIRECTOR</u>	<u>ALTERNATE DIRECTOR</u>
<b>Cities:</b>		
Anaheim	Harry Sidhu	Gail Eastman
Brea	Roy Moore	Ron Garcia
Buena Park	Fred Smith	Steve Berry
Cypress	Prakash Narain	Doug Bailey
Fountain Valley	Larry Crandall	Steve Nagel
Fullerton	Sharon Quirk-Silva	Pat McKinley
Garden Grove	Bill Dalton	Kris Beard
Huntington Beach	Joe Carchio	Matthew Harper
Irvine	Jeffrey Lalloway	Steven Choi
La Habra	Tom Beamish	Rose Espinoza
La Palma	Mark Waldman	Steve Hwangbo
Los Alamitos	Troy Edgar	Ken Stephens
Newport Beach	Steven Rosansky	Nancy Gardner
Orange	Jon Dumitru	Denis Bilodeau
Placentia	Constance Underhill	Joseph Aguirre
Santa Ana	Sal Tinajero	David Benavides
Seal Beach	Michael Levitt	Gordon Shanks
Stanton	David Shawver	Carol Warren
Tustin	John Nielsen	Jerry Amante
Villa Park	Brad Reese	Robert Fauteux
Yorba Linda	John Anderson	Jim Winder
<b>Sanitary/Water Districts:</b>		
Costa Mesa Sanitary District	James M. Ferryman	Robert Ooten
Midway City Sanitary District	Joy L. Neugebauer	Allan P. Krippner
Irvine Ranch Water District	John Withers	Douglas Reinhart
<b>County Areas:</b>		
Member of the Board of Supervisors	Janet Nguyen	Shawn Nelson

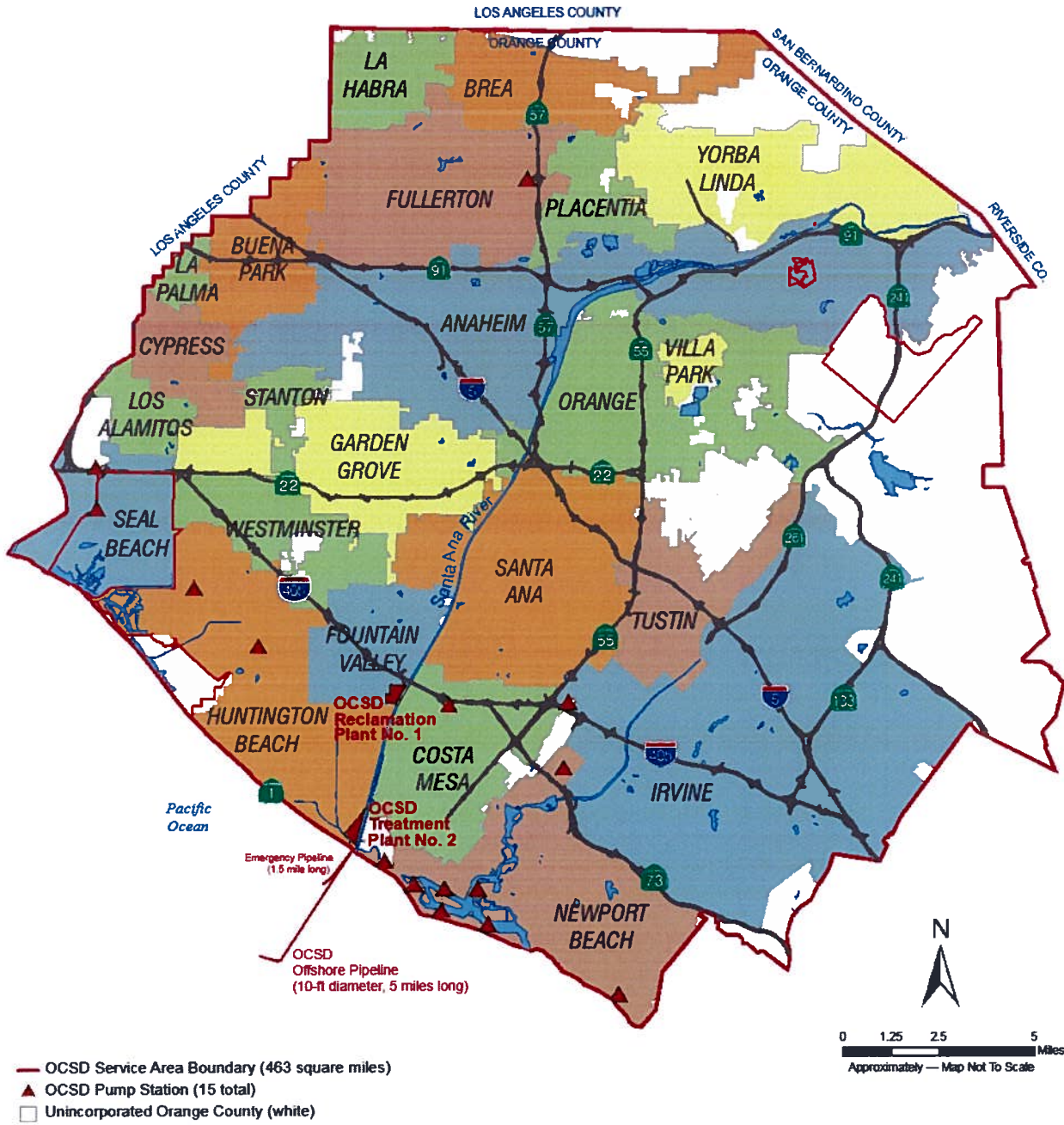
**ORANGE COUNTY SANITATION DISTRICT**

Organizational Chart

As of June 30, 2011



**ORANGE COUNTY SANITATION DISTRICT**  
 Map of Service Area  
 As of June 30, 2011



**DISCLAIMER:**  
 Map prepared by Orange County Sanitation District. This map is intended for graphical representation only. No level of accuracy is claimed for the base mapping shown hereon and graphics should not be used to obtain coordinate values, bearings or distances. Portions of this derived product contain geographical information copyrighted by Thomas Brothers. All Rights Reserved.

SOURCE: OCSD GIS Data, Thomas Brothers 2010  
 REVISED: 02/2011

**(THIS PAGE LEFT INTENTIONALLY BLANK)**



McGladrey & Pullen, LLP  
Certified Public Accountants  
18401 Von Karman, 5<sup>th</sup> Floor  
Irvine, CA 92612-8531  
O 949.255.6500 F 949.255.5091  
www.mcgladrey.com

## Independent Auditor's Report

Board of Directors  
Orange County Sanitation District  
Fountain Valley, CA

We have audited the accompanying basic financial statements of the Orange County Sanitation District (District) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the District's 2010 financial statements that were audited by another auditor. Accordingly, we express no opinion on that information.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the District as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and other post-employment benefits information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the District's basic financial statements. The separate "Combining Area" financial statements, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Irvine, CA  
December 2, 2011

## **Management Discussion and Analysis June 30, 2011**

This section of the financial statements of the Orange County Sanitation District (Sanitation District) is management's narrative overview and analysis of the financial activities of the Sanitation District for the fiscal year ended June 30, 2011. 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, 2011, the assets of the Sanitation District exceeded its liabilities by \$1,510.5 million (net assets). Of this amount, \$379.4 million (unrestricted net assets) may be used to meet the Sanitation District's ongoing obligations to citizens and creditors.
- The Sanitation District's total net assets increased \$79.4 million, or 5.5 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$100.1 million, or 4.4 percent over the prior year.
- Net Assets invested in capital assets, net of related debt increased \$10.0 million, or 0.9 percent.
- Unrestricted Net Assets increased \$69.4 million, or 22.4 percent from the prior year.

### **Overview of the Basic Financial Statements**

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

In accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the Sanitation District's financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. The statement of net assets includes all of the Sanitation District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Sanitation District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the Sanitation District, and assessing the liquidity and financial flexibility of the Sanitation District.

The statement of revenues, expenses, and changes in net assets accounts for the current year's revenues and expenses. This statement measures the success of the Sanitation District's operations over the past year and can be used to determine the Sanitation District's creditworthiness. It also highlights the Sanitation District's dependency on property tax revenues in supplementing user fees and other charges for recovering total costs.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments during the reporting period.

### **Net Assets**

As previously stated, net assets increased \$79.4 million, or 5.5 percent to \$1,510.5 million in FY 2010-11 over the prior year. In comparison, net assets increased \$82.8 million, or 6.1 percent, to \$1,431.1 million in FY 2009-10 over FY 2008-09.

(Dollars in thousands)

	June 30, 2011	June 30, 2010	Increase (Decrease)	Percentage Increase (Decrease)
<b>Assets</b>				
Current and other assets	\$ 648,994	\$ 533,107	\$ 115,887	21.7%
Capital assets, net	2,400,922	2,300,819	100,103	4.4%
<b>Total assets</b>	<b>3,049,916</b>	<b>2,833,926</b>	<b>215,990</b>	<b>7.6%</b>
<b>Liabilities</b>				
Current liabilities	292,307	290,810	1,497	0.5%
Noncurrent liabilities	1,247,123	1,112,044	135,079	12.1%
<b>Total liabilities</b>	<b>1,539,430</b>	<b>1,402,854</b>	<b>136,576</b>	<b>9.7%</b>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	1,131,063	1,121,057	10,006	0.9%
Unrestricted	379,423	310,015	69,408	22.4%
<b>Total net assets</b>	<b>\$ 1,510,486</b>	<b>\$ 1,431,072</b>	<b>\$ 79,414</b>	<b>5.5%</b>

*Current and other assets* increased \$115.9 million, or 21.7 percent, due primarily to the receipt of net certificates of participation (COP) debt proceeds of \$123.6 million, net cash provided by operations of \$120.8 million, net non-operating revenues of \$36.1 million, and receipt of capital facilities capacity charges of \$9.8 million funding offset by \$159.6 million in capital improvements and the return of \$23.6 million in capital contributions to the Irvine Ranch Water District.

*Capital assets, net* increased \$100.1 million, or 4.4 percent, due mostly to the ongoing capital improvement program capital additions of \$160.7 million in FY 2010-11 less depreciation of \$49.3 million. Included in total capital outlays was the New Secondary Treatment System at Plant No. 1. This project is one of several capital improvements that are necessary to achieve secondary treatment standards by December 31, 2012 in accordance with a consent decree signed by EPA and filed with the U.S. District Court. This project includes construction of aeration basins, clarifiers, a blower building, and waste sludge pumping stations, that will provide additional secondary treatment capacity of 60 million gallons per day (MGD) at Plant No. 1. Capital outlays of \$24.9 million were incurred in FY 2010-11 with total project outlays to date of \$245.6 million. The total projected cost is \$260.3 million with completion expected in FY 2011-12.

Another secondary treatment project underway is the construction of Trickling Filters at Plant No. 2. This project includes the construction of three trickling filters, a solids contact basin, and six clarifiers for additional secondary treatment capacity of 60 MGD at Plant No. 2. Capital outlays of \$15.2 million were incurred in FY 2010-11 with total project outlays to date of \$216.3 million. The total projected cost is \$223.2 million with completion expected in FY 2012-13.

The completion of the Headworks Improvements at Plant No. 2 was another project with significant outlays in FY 2010-11. This project is replacing the existing headworks due to failing gates and the ineffectiveness of the bar screens and grit chambers that are allowing grit screenings to pass through into the downstream processes causing increased operating costs. This project includes an influent diversion and metering structure, bar screens, influent pump station, vortex grit chambers, primary influent splitter and metering structure, ferric chloride feed facilities, headworks and trunk line odor control facilities, screenings handling building including a washer/compactor, grit handling building, and an electrical building that includes standby power. In FY 2010-11, \$12.4 million of the estimated \$257.7 million was incurred bringing the total outlay to date to \$241.7 million with completion expected in FY 2012-13.

See page 7 for the Schedule of Capital Assets and a listing of the other major capital additions for FY 2010-11.

*Net assets invested in capital assets, net of related debt* increased \$10.0 million, or 0.9 percent over the prior year primarily as a result of the \$100.1 million increase in net capital assets offset by an increase of \$90.1 million in net related debt.

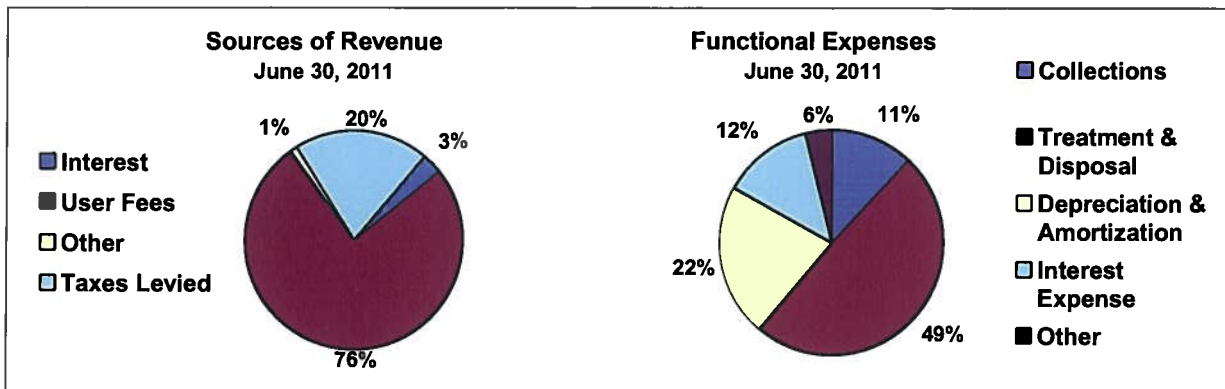
*Unrestricted net assets* increased \$69.4 million, or 22.4 percent over the prior year, and is due to the overall increase in net assets of \$79.4 offset by the increase in investment in capital assets net of related debt of \$10.0 million.

### Changes in Net Assets

Net assets increased \$79.4 million in FY 2010-11, a 5.5 percent increase over the prior year.

*(Dollars in thousands)*

	June 30, 2011	June 30, 2010	Increase (Decrease)	Percentage Increase (Decrease)
<b>Revenues:</b>				
Operating revenues				
Service Charges	\$ 244,465	\$ 225,059	\$ 19,406	8.6%
Permit and inspection fees	784	629	155	24.6%
Total operating revenues	<u>245,249</u>	<u>225,688</u>	<u>19,561</u>	<u>8.7%</u>
Non-operating revenues				
Property taxes	64,307	64,759	(452)	-0.7%
Investment and interest income	10,092	19,166	(9,074)	-47.3%
Emission Reduction Credit Sales	-	4,530	(4,530)	-100.0%
Other	1,307	2,409	(1,102)	-45.7%
Total non-operating revenues	<u>75,706</u>	<u>90,864</u>	<u>(15,158)</u>	<u>-16.7%</u>
<b>Total revenues</b>	<b><u>320,955</u></b>	<b><u>316,552</u></b>	<b><u>4,403</u></b>	<b><u>1.4%</u></b>
<b>Expenses:</b>				
Operating expense other than depreciation and amortization	138,852	138,085	767	0.6%
Depreciation and amortization	49,288	52,036	(2,748)	-5.3%
Non-operating expense	39,648	41,272	(1,624)	-3.9%
<b>Total expenses</b>	<b><u>227,788</u></b>	<b><u>231,393</u></b>	<b><u>(3,605)</u></b>	<b><u>-1.6%</u></b>
<b>Income before capital contributions</b>	<b>93,167</b>	<b>85,159</b>	<b>8,008</b>	<b>9.4%</b>
<b>Capital facilities capacity charges</b>	<b>9,800</b>	<b>10,332</b>	<b>(532)</b>	<b>-5.1%</b>
<b>Capital contributions (distributions), net</b>	<b><u>(23,554)</u></b>	<b><u>(12,739)</u></b>	<b><u>(10,815)</u></b>	<b><u>84.9%</u></b>
<b>Increase in net assets</b>	<b>79,413</b>	<b>82,752</b>	<b>(3,339)</b>	<b>-4.0%</b>
Beginning net assets	1,431,073	1,348,321	82,752	6.1%
<b>Ending net assets</b>	<b>\$ 1,510,486</b>	<b>\$ 1,431,073</b>	<b>\$ 79,413</b>	<b>5.5%</b>



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

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

In FY 2010-11, operating revenues increased \$19.6 million, or 8.7 percent over the prior year that is predominately reflective of the \$19.4 million, or 8.6 percent increase in service charges. The increase in service charges is primarily due to the 10.4 percent increase in the average sewer user fee rate over the prior year.

The \$15.2 million, or 16.7 percent decrease in non-operating revenues consists of a \$9.1 million, or 47.3 percent decrease in investment and interest income, a \$4.5 million decrease in the one-time sale of excess emission reduction credits as there were no sales in FY 2010-11, a \$1.1 million, or 45.7 percent decrease in other non-operating revenues, and a \$0.4 million, or 0.7 percent decrease in property tax revenues. The decrease in investment and interest income is attributable to the lower yields earned on investments somewhat offset by the higher cash and investment balances. Yields earned on investments decreased from 3.9 percent in FY 2010-11 to 2.0 percent in FY 2010-11 while cash balances increased during this same time period from \$473 million to \$561 million. The decrease in other non-operating revenues is mostly reflective of the \$1.4 million in federal grants that was awarded in the prior year. The decline in property tax revenue is primarily the result of the decrease in total assessed valuation of 0.3 percent over the prior year.

Operating expense before depreciation and amortization increased \$0.8 million or 0.6 percent over the prior year. Operating salaries and benefits totaling \$73.1 million increased \$3.5 million, or 5.0 percent over the prior year. The operating salaries and benefits costs are part of the overall increase of \$2.3 million in total salaries and benefits when including the salaries and benefits capitalized within the capital improvement program. Overall, total Sanitation District salaries and benefits were \$90.2 million, a 2.6 percent increase over the prior year total of \$88.0 million. This increase is mostly attributable to the \$3.1 million increase in benefits, or 12.3 percent that was primarily driven by the increase in retirement premiums of \$2.0 million, or 13.1 percent. These increases in retirement premiums are the result of revised actuarial valuation assumptions due to the downturn in the economy and underperforming returns on the investments within the retirement portfolio. Actual employee salaries decreased \$0.8 million, or 1.3 percent from the prior year. Although total authorized staffing levels remained at the FY 2008-09 levels of 641 full time equivalents, District management re-evaluated newly vacated positions and left

many of them unfilled in order to further streamline activities and control costs in these recessionary times.

Biosolids disposal cost increased \$0.7 million, or 4.3 percent over the prior year as the District continues to move towards full secondary treatment standards by December 2012.

Somewhat offsetting the increased cost in personnel services and biosolids disposal was the decrease of \$1.1 million, or 24.4 percent in disinfection costs. Conversely to the increases in biosolids disposal due to increased secondary treatment, the use of disinfection chemicals was reduced because of the increased level of wastewater treatment. Also, capital grants to member agencies decreased by \$1.5 million as this program was discontinued.

Capital contributions decreased \$23.6 million, a \$10.8 million or 84.9 percent decrease over the prior year. A capital distribution back to the Irvine Ranch Water District (IRWD) is being recognized in FY 2010-11 totaling \$33.3 million due to IRWD's decreased sewage flows and corresponding equity share in the District's treatment plant. This equity adjustment is being somewhat offset by \$6.8 million in capital lease payments owed by IRWD for the transfer of wastewater solids residuals from FY 2008-09 through FY 2010-11 and by IRWD's share of treatment plant capital improvements of \$2.9 million made in FY 2010-11.

### Capital Assets

At June 30, 2011, the Sanitation District had a net investment of \$2.401 billion in capital assets. This amount represents a net increase (including additions and deletions) of \$100.1 million, or 4.4 percent over the prior year.

*(Dollars in thousands)*

	June 30, 2011	June 30, 2010	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 19,217	\$ 13,021	\$ 6,196	47.6%
Construction in Progress	1,258,267	1,448,353	(190,086)	-13.1%
Sewage collection facilities	346,959	348,024	(1,065)	-0.3%
Sewage treatment facilities	639,790	361,446	278,344	77.0%
Effluent disposal facilities	44,136	45,795	(1,659)	-3.6%
Solids disposal facilities	356	365	(9)	-2.5%
General and administrative facilities	88,660	79,621	9,039	11.4%
Assets acquired in excess of book value	3,537	4,193	(656)	-15.6%
<b>Capital assets, net</b>	<b>\$ 2,400,922</b>	<b>\$ 2,300,818</b>	<b>\$ 100,104</b>	<b>4.4%</b>

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

- \$24.9 million – New Secondary Treatment Systems at Plant No. 1
- \$15.2 million – New Trickling Filters at Plant No. 2
- \$12.8 million – Rehabilitation of Magnolia Trunk Line
- \$12.4 million – Headworks Replacement at Plant No. 2
- \$10.3 million – Bitter Point Pump Station
- \$ 8.8 million – Sludge Digester Rehabilitation at Plant No. 1
- \$ 7.2 million – Replacement of the Rocky Point Pump Station
- \$ 6.7 million – Sludge Dewatering and Odor Control at Plant No. 1
- \$ 6.6 million – Bitter Point Force Main Rehabilitation

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

### **Debt Administration**

At June 30, 2011, the Sanitation District had \$1.4 billion outstanding in COP debt, a net increase of \$119.9 million, or 9.3 percent over the prior year. This increase is primarily due to the \$157.0 million of new fixed rate debt, Series 2010C Wastewater Revenue Obligations, issued in December 2010 to assist in the \$160.7 million in capital outlays that had taken place during the year and to assist in the \$129.2 million scheduled to be spent in the FY 2011-12. In addition, Revenue Refunding Certificate Anticipation Notes, Series 2010B Certificates of Anticipation Notes (CANs) fixed rate debt was issued in the amount of \$154.7 million in November 2010 to refund the \$176.1 million outstanding principal balance of the CANs Series 2009B fixed rate debt.

The Sanitation District achieved a rating of AAA from Standard and Poor's Corporation and from Fitch Ratings. The Sanitation District's long-range financing plan is designed to maintain this high rating. Over the next ten years, the Sanitation District is projecting an additional \$1.9 billion in future treatment plant and collection system capital improvements. In accordance with the Sanitation District's long-term debt fiscal policy, the Sanitation District will restrict long-term borrowing to capital improvements that cannot be financed from current revenue.

A total of issuance of \$120 million in new money COP debt is being proposed over the next five years to assist with the funding of the system improvements scheduled over this time period.

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

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate within the County of Orange is currently 9.2 percent, which is a decrease from the rate of 9.5 percent a year ago.
- Inflation for Orange County in 2010 increased 1.2 percent based on the 2010 actual percentage change in the consumer price index according to the June 2011 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments decreased from the 3.9 percent earnings rate in FY 2009-10 to 2.0 percent for FY 2010-11.

All of these factors were considered in preparing the Sanitation District's FY 2011-12 budget update.

The Sanitation District's user fee schedule was increased by 9.4 percent for FY 2011-12 over the prior year. The annual fee applicable to the Sanitation District's largest customer base and the underlying basis for all other user rates: the single-family residential fee, increased by \$23.00, from \$244.00 to \$267.00. This rate increase was necessary to finance the Sanitation District's cash flow needs as capital improvement outlays alone are projected to be \$129.2 million in FY 2011-12 and are projected to total \$1.9 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and provide for full secondary treatment standards.

### **Requests for Information**

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

**ORANGE COUNTY SANITATION DISTRICT  
BASIC FINANCIAL STATEMENTS**



**ORANGE COUNTY SANITATION DISTRICT**

Statement of Net Assets

June 30, 2011

(With Comparative Data for June 30, 2010)

	2011	2010
<b>Current assets:</b>		
Cash and cash equivalents	\$ 127,573,371	\$ 49,537,559
Investments	285,952,014	310,335,760
Accounts receivable, net of allowance for uncollectibles	10,411,347	13,069,682
Accrued interest receivable	1,296,054	1,108,027
Connection fees receivable	385,765	996,430
Property tax receivable	1,408,477	2,040,072
Inventories	5,366,513	5,402,069
Prepaid expenses	623,907	1,134,886
Prepaid retirement	14,463,000	14,578,000
Total current assets	<u>447,480,448</u>	<u>398,202,485</u>
<b>Noncurrent assets:</b>		
<b>Restricted:</b>		
Cash and cash equivalents	120,419,824	86,629,639
Investments	26,829,427	26,829,427
Accrued interest receivable	210,010	210,730
<b>Unrestricted:</b>		
Non-depreciable capital assets	1,277,484,094	1,461,374,037
Depreciable capital assets, net of accumulated depreciation	1,123,437,456	839,444,526
Deferred charges	10,975,310	9,733,908
Due from other governmental agency	36,000,000	-
Other noncurrent assets, net	7,079,922	11,501,640
Total noncurrent assets	<u>2,602,436,043</u>	<u>2,435,723,907</u>
Total assets	<u>3,049,916,491</u>	<u>2,833,926,392</u>
<b>Current liabilities:</b>		
Accounts payable	14,722,600	20,091,995
Accrued expenses	6,654,544	7,259,202
Retentions payable	2,260,426	1,587,986
Interest payable	22,525,700	19,643,344
Due to other governmental agency	57,196,110	42,053,445
Current portion of long-term obligations	188,948,106	200,173,675
Total current liabilities	<u>292,307,486</u>	<u>290,809,647</u>
<b>Noncurrent liabilities:</b>		
Noncurrent portion of long-term obligations	<u>1,247,122,884</u>	<u>1,112,044,076</u>
Total liabilities	<u>1,539,430,370</u>	<u>1,402,853,723</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt		
Collection system	495,641,055	459,503,200
Treatment and disposal -Land	4,475,751	4,475,751
Treatment and disposal system	1,900,804,744	1,836,839,612
Capital assets related debt	(1,269,858,548)	(1,179,761,456)
Unrestricted	<u>379,423,119</u>	<u>310,015,562</u>
Total net assets	<u>\$ 1,510,486,121</u>	<u>\$ 1,431,072,669</u>

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2011**  
(With Comparative Data for the Year Ended June 30, 2010)

	2011	2010
Operating revenues:		
Service charges	\$ 244,464,692	\$ 225,058,521
Permit and inspection fees	784,458	629,082
Total operating revenues	245,249,150	225,687,603
Operating expenses other than depreciation and amortization:		
Salaries and benefits	73,112,286	69,651,904
Utilities	6,947,781	6,934,045
Supplies, repairs and maintenance	27,018,195	26,549,945
Contractual services	27,048,501	25,476,063
Directors' fees	152,377	141,313
Meetings and training	613,697	894,865
Other	3,958,695	8,436,969
Total operating expenses other than depreciation and amortization	138,851,532	138,085,104
Operating income before depreciation and amortization	106,397,618	87,602,499
Depreciation and amortization	49,288,136	52,035,796
Operating income	57,109,482	35,566,703
Non-operating revenues:		
Property taxes	64,307,594	64,759,095
Investment and interest income	10,092,102	19,165,691
Emission Reduction Credit Sales	-	4,530,000
Other	1,306,771	2,409,455
Total non-operating revenues	75,706,467	90,864,241
Non-operating expenses:		
Interest	29,129,550	27,536,714
Feasibility studies	4,536,965	10,349,999
Capital grants to member agencies	-	1,481,590
Loss on disposal of assets and other	5,981,829	1,904,239
Total non-operating expenses	39,648,344	41,272,542
Income before capital contributions	93,167,605	85,158,402
Capital Contributions;		
Capital facilities capacity charges	9,800,190	10,332,569
Capital contributions received from (credited to) other agency	(23,554,343)	(12,739,214)
Change in net assets	79,413,452	82,751,757
Total net assets - beginning	1,431,072,669	1,348,320,912
Total net assets - ending	\$ 1,510,486,121	\$ 1,431,072,669

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Statement of Cash Flows  
For the Year Ended June 30, 2011  
(With Comparative Data for the Year Ended June 30, 2010)

	2011	2010
Cash flows from operating activities:		
Receipts from customers and users	\$ 263,032,782	\$ 235,732,351
Payments to employees	(72,478,818)	(70,296,045)
Payments to suppliers	(71,041,781)	(80,927,051)
Net cash provided by operations	119,512,183	84,509,255
Cash flows from noncapital financing activities:		
Proceeds from property taxes	64,939,187	65,940,652
Capital grants to member agencies	-	(1,481,590)
Net cash provided by noncapital financing activities	64,939,187	64,459,062
Cash flows from capital and related financing activities:		
Capital facilities capacity charges	10,410,855	9,724,170
Additions to property, plant and equipment	(159,563,286)	(251,119,750)
Disposal of property, plant, and equipment	1,266,387	6,895,719
Interest paid	(46,543,583)	(43,055,105)
Principal payments on debt obligation	(191,760,000)	(200,145,000)
Proceeds from debt issuances	315,341,085	247,740,402
Debt issuance costs	(495,978)	(554,219)
Net cash (used) in capital and related financing activities	(71,344,520)	(230,513,783)
Cash flows from investing activities:		
Proceeds from the sale of investments	3,745,902,911	3,572,349,413
Purchases of investments	(3,723,593,143)	(3,476,745,940)
SARI project advance	(36,000,000)	-
Interest received	12,409,379	14,357,443
Net cash provided (used) by investing activities	(1,280,853)	109,960,916
Net increase in cash and cash equivalents	111,825,997	28,415,450
Cash and cash equivalents, beginning of year	136,167,198	107,751,748
Cash and cash equivalents, end of year	\$ 247,993,195	\$ 136,167,198
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 57,109,482	\$ 35,566,703
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	49,288,136	52,035,796
Bad debt expense (Net recoveries)	17,368	(195,981)
(Increase)/decrease in operating assets:		
Accounts receivable	2,640,967	(1,009,064)
Inventories	23,824	(1,354,431)
Prepaid and other assets	625,979	(2,518,658)
Increase/(decrease) in operating liabilities:		
Accounts payable	(5,369,395)	(10,364,801)
Accrued expenses	(605,963)	(1,091,531)
Retentions payable	672,440	522,094
Due to other governmental agency	15,142,665	11,053,812
Pension/OPEB payable	718,305	755,295
Compensated absences	(115,481)	846,045
Other payable	(1,037,481)	308,546
Claims and judgments	401,337	(44,570)
Net cash provided by operations	\$ 119,512,183	\$ 84,509,255
<u>Noncash Activities:</u>		
Unrealized gain (loss) on the fair value of investments	\$ (2,073,978)	\$ 6,177,434
Capital contributions from other agencies	(23,554,343)	(12,739,214)
Capital facilities capacity contribution	2,492,300	3,606,925

See Accompanying Notes to Basic Financial Statements.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

(1) Summary of Significant Accounting Policies

Reporting Entity

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

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

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

The accompanying financial statements present OCSD and its blended component unit, the Orange County Sanitation District Financing Corporation. The Corporation is a legally separate entity although in substance it is considered to be part of OCSD's operations. OCSD is considered to be financially accountable for the Corporation which is governed by a board comprised entirely of OCSD's board members. There is no requirement for separate financial statements of the Corporation; consequently, separate financial statements for the Corporation are not prepared. The Corporation had no financial activity during the fiscal year ended June 30, 2011, other than principal and interest payments on outstanding certificates of participation (see Note 4).

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

Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

in conjunction with the government's financial statements for the year ended June 30, 2010, from which such partial information was derived.

Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. OCSD applies all GASB pronouncements currently in effect as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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 Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable is shown net of the allowance for uncollectible receivables which was \$37,384 at June 30, 2011. Unbilled sewer services through June 30, 2011 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, 2011

Inventory

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

Capital Assets

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

Capital assets of property, plant, and equipment are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of at least three years. Such assets are recorded at cost, except for assets acquired by contribution, which are recorded at fair market value at the time received. Cost includes labor; materials; outside services; vehicle and equipment usage; full overhead costs consisting of direct and allocated indirect charges such as engineering, purchasing, supervision, fringe benefits, and other indirect costs. Net interest costs are capitalized on projects. During the fiscal year ended June 30, 2011, net interest costs of \$19.43 million were capitalized.

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

Amortization

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

Discounts and deferred charges on the certificates of participation are amortized to interest expense over the respective terms of the installment obligations based on the straight-line method which approximates the effective interest method (note 4).

Restricted Assets

Certain assets are classified as restricted because their use is limited by applicable debt covenants. Specifically, the assets are restricted for installment payments due on certificates of participation or are maintained by a trustee as a reserve requirement for the certificates of participation. 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.

Compensated Absences

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

Vacation and sick leave benefits and personal days are recorded as an expense and liability when earned by eligible employees. In determining the estimated sick leave liability at June 30 of each

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

year, OCSD assumes that all employees' accumulated sick leave balances will ultimately be paid out at 35 percent of the ending balance. The distribution between current and long-term portions of the liability is based on historical trends.

Claims and Judgments

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

Property Taxes

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

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

Capital Facilities Capacity Charges

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

Operating and Non-operating Revenues and Expenses

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

Construction Commitments

OCSD has active construction projects to add additional capacity, improve treatment, or replace/rehabilitate existing assets. At June 30, 2011, the outstanding commitments with contractors totaled \$48 million.

Self-Insurance Plans

For the year ended June 30, 2011, OCSD was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation exposure is the \$750,000 deductible per occurrence under the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$250,000 per occurrence deductible (for most perils) under the outside excess

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$100,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. OCSD is self-insured for virtually all property damage from the peril of earthquake. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$250,000 per occurrence deductible (\$500,000 for employment practices liability) under the outside excess liability coverage to \$30 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$100,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. The significant changes in insurance coverage during the fiscal year ended June 30, 2011 are as follows:

- The self-insurance portion of the workers compensation exposure increased from \$500,000 to \$750,000 per occurrence below the outside excess insurance coverage.

During the past three fiscal years there have been no settlements in excess of covered amounts. Claims against OCSD are processed by outside insurance administrators. These claims are charged to claims expense based on amounts which will ultimately be paid. Claims incurred but not yet reported have been considered in determining the accrual for loss contingencies. OCSD management believes that there are no unrecorded claims as of June 30, 2011 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.

(2) Cash and Investments

Cash and investments as of June 30, 2011 are classified within the accompanying Statement of Net Assets as follows:

Statement of Net Assets:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 127,573,371
Investments	285,952,013
Subtotal - current, unrestricted	413,525,384
Restricted:	
Cash and cash equivalents	120,419,824
Investments	26,829,427
Subtotal - restricted	147,249,251
Total cash and cash equivalents and investments	\$ 560,774,635



**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

Cash and investments consist of the following as of June 30, 2011:

Cash on hand	\$	2,000
Deposits with financial institutions		1,140,438
Managed portfolio - cash and investments		412,382,946
Subtotal - unrestricted cash and investments		<u>\$ 413,525,384</u>
Monies held by trustees:		
Cash and cash equivalents	\$ 120,419,824	
Investment contracts	<u>26,829,427</u>	
Subtotal - monies held by trustees		147,249,251
Grand total cash and investments		<u><u>\$ 560,774,635</u></u>

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

The table below identifies the investment types that are authorized by the California Government Code and OCSD's investment policy. The table also identifies certain provisions of either the California Government Code or OCSD's investment policy (whichever is more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

A separate table addresses investments of debt proceeds that are held by trustees. Those investments are governed by the provisions of the debt agreements rather than the general provisions of the California Government Code or OCSD's investment policy.

**ORANGE COUNTY SANITATION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2011**

Investment Type - Authorized by the California Government Code	Authorized by OCSD's Investment Policy?	Maximum Maturity <sup>(1)(3)</sup>	Maximum Percentage of Portfolio <sup>(1)</sup>	Maximum Investment in a Single Issuer <sup>(1)</sup>
Local Agency Bonds	Yes	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
California State Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days / 31 days	15% / 25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	90 days <sup>(2)</sup>	5% <sup>(2)</sup>	None
Corporate Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15% <sup>(2)</sup>	10%
Money Market Mutual Funds	Yes	N/A	15% <sup>(2)</sup>	None
Mortgage Pass-Through Securities/CMO	Yes	5 years	20%	None
County Investment Pools	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None

**Notes**

- (1) Restrictions are in accordance with the California Government Code unless indicated otherwise.
- (2) The restriction is in accordance with OCSD's Investment Policy which is more restrictive than the California Government Code.
- (3) As allowed by California Government Code Section 53601, the Board of Directors has adopted a policy of no maximum maturity for investments purchased by OCSD's external money manager for the long-term investment portfolio. However, the duration of the long-term investment portfolio can never exceed 60 months. Investments purchased for the short-term portfolio are subject to the maturity restrictions noted in this table.

**Investments Authorized by Debt Agreements**

The investment of debt proceeds held by trustees is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code on OCSD's investment policy. The table below identifies the investment types that are authorized for investments held by OCSD's trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

Investment Type - Authorized by the California Government Code	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in a Single Issuer
State and Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days / 31 days	15% / 30%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	None	None
Corporate Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Guaranteed Investment Contracts	N/A	None	None

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 maturity for the Money Market Mutual Funds.

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2011.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2011

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
<b>Short-Term Portfolio:</b>			
U.S. Treasury Bills	\$ 25,089,710	0.154	1.87
U.S. Agency Securities	34,144,141	0.197	2.40
Corporate Medium-Term Notes	38,695,367	0.449	5.46
Local Agency Investment Fund (LAIF)	33,038,027	N/A	N/A
Money Market Mutual Funds	517,637	0.083	1.01
Short-term portfolio subtotal	<u>\$ 131,484,882</u>	0.304	3.70
<b>Long-Term Portfolio:</b>			
U.S. Treasury Bills	\$ 65,096,479	0.153	1.86
U.S. Treasury Notes	57,632,329	4.598	55.94
U.S. Treasury Obligations	3,896,562	2.025	24.64
U.S. Agency Securities	28,077,366	3.267	39.75
U.S. Govt. Backed Mortgage Pools	519,513	3.492	42.49
Taxable Municipal Bonds	18,714,542	9.355	113.82
Tax-Exempt Municipal Bonds	537,255	13.416	163.23
Corporate Medium-Term Notes	93,278,717	2.857	34.76
Repurchase Agreements	200,000	0.003	0.04
Money Market Mutual Funds	614,894	0.080	0.97
Mortgage Pass-Through Securities/CMO	12,330,407	4.008	48.76
Long-term portfolio subtotal	<u>\$ 280,898,064</u>	2.946	35.84
<b>Total Portfolio</b>	<u><u>\$ 412,382,946</u></u>		

OCSD monitors the interest rate risk inherent in its other investments using specific identification of the investments. Following is a table of these investments all held by trustees, as of June 30, 2011.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
Money Market Mutual Funds:		
First American Treasury Obligations Fund	\$ 309,421	35 days
Blackrock Institutional Funds	19,150,428	19 days
Blackrock Institutional Funds	1	19 days
Blackrock Institutional Funds	19,816,447	19 days
First American Government Obligations Fund	7,723,061	44 days
First American Government Obligations Fund	2,782,365	44 days
US Bank Money Market Fund	13,075,146	N/A
US Bank Money Market Fund	28,379	N/A
Blackrock Institutional Funds	20,845	19 days
Local Agency Investment Fund (LAIF)	57,513,731	N/A
Investments held by fiscal agents:		
Guaranteed Investment Agreements:		
Bayerische Landesbank Girozentrale - 2000 COP	17,311,427	August 1, 2016
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 30, 2030
Fair Value of Investments Held by Fiscal Agents	<u><u>\$ 147,249,251</u></u>	

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

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 \$22,009,358 including \$12,330,407 of mortgage pass-through securities, \$9,159,438 of U.S. agency securities, and \$519,513 of U.S. government backed mortgage pools.

Disclosures Relating to Credit Risk

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

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

Investment Type and the Lowest Rating Reported at Year End	Fair Value
<b>Investments with no legal minimum rating &amp; no required disclosure:</b>	
U.S. Treasury Obligations	\$ 151,715,080
U.S. Agency Securities - GNMA	519,513
Subtotal	\$ 152,234,593
<b>Investments with no legal minimum rating:</b>	
U.S. Agency Securities (other than GNMA):	
Rating of A (Standard & Poor's)	1,472,772
Rating of AGY (Standard & Poor's)	60,748,735
Municipal Bonds:	
Rating of AAA (Standard & Poor's)	1,261,524
Rating of AA1 (Moody)	1,427,748
Rating of A1 (Moody)	2,394,285
Rating of AA2 (Moody)	1,402,089
Rating of A2 (Moody)	330,360
Rating of AA- (Standard & Poor's)	3,061,828
Rating of AA3 (Moody)	3,065,455
Rating of A3 (Moody)	4,635,798
Rating of A- (Standard & Poor's)	1,672,710
Repurchase Agreements:	
Not rated at fiscal year end	200,000
Local Agency Investment Fund (LAIF):	
Not rated at fiscal year end	90,551,758
Investments with fiscal agents - Guaranteed Investment Contracts:	
Not rated at fiscal year end	26,829,427
Subtotal	199,054,489
<b>Investments with a legal minimum rating (or its equivalent) of A:</b>	
Corporate Medium-Term Notes:	
Rating of A (Standard & Poor's)	6,547,423
Rating of A+ (Fitch)	897,489
Rating of A (Fitch)	2,025,324
Rating of A- (Fitch)	719,415
Rating of A1 (Moody)	4,610,645
Rating of A2 (Moody)	15,103,584
Rating of A3 (Moody)	13,282,147
Rating of AA2 (Moody)	5,533,371
Rating of AAA (Standard & Poor's)	61,271,567
Rating of B3 (Moody)*	515,000
Rating of BAA1 (Moody)*	2,415,046
Rating of BAA2 (Moody)*	3,813,616
Rating of BBB+ (Standard & Poor's)*	9,456,710
Rating of BBB (Standard & Poor's)*	2,004,560
Rating of BBB (Fitch)*	3,619,187
Rating of WR (Moody)*	159,000
Money Market Mutual Funds:	
Rating of AAA (Standard & Poor's)	1,132,531
Invested with fiscal agents:	
Rating of Aaa-mf (Moody)	49,802,568
Not rated at fiscal year end	13,103,525
Subtotal	196,012,708
<b>Investments with a legal minimum rating (or its equivalent) of AA:</b>	
Mortgage Pass-Through Securities/CMO:	
Rating of A (Fitch)	110,586
Rating of AAA (Standard & Poor's)	3,744,981
Rating of AGY (Standard & Poor's)	8,474,840
Subtotal	12,330,407
Total	\$559,632,197

\* 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, 2011

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 fiscal year end, OCSD has investments in the following type of securities, which represent more than 5 percent of OCSD's investments:

- Federal National Mortgage Association (U.S. Agency Securities), totaling \$43,188,306

Custodial Credit Risk

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and OCSD's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of June 30, 2011, 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. OCSD uses Bank of New York (BNY) Mellon as a third party custody and safekeeping service for its investment securities.

Investment in State Investment Pool

OCSD is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of OCSD's investment in this pool is reported in the accompanying financial statements at amounts based upon OCSD's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, other asset-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. The amounts invested in LAIF are recorded as cash and cash equivalents at June 30, 2011.

**ORANGE COUNTY SANITATION DISTRICT**  
**Notes to Basic Financial Statements**  
**For the Year Ended June 30, 2011**

**(3) Capital Assets**

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
<b>Capital assets not depreciated:</b>				
<b>Cost:</b>				
Land	\$ 13,021,480	\$ 6,196,000	\$ -	\$ 19,217,480
Construction in progress	1,448,352,557	154,499,642	(344,585,585)	1,258,266,614
Total nondepreciable assets	<u>1,461,374,037</u>	<u>160,695,642</u>	<u>(344,585,585)</u>	<u>1,277,484,094</u>
<b>Depreciable capital assets:</b>				
<b>Cost:</b>				
Sewage collection facilities	591,947,037	12,731,107	(4,126,669)	600,551,475
Sewage treatment facilities	840,834,621	303,928,761	(47,300)	1,144,716,082
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	194,544,427	16,643,774	(1,212,461)	209,975,740
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>1,747,783,141</u>	<u>333,303,642</u>	<u>(5,386,430)</u>	<u>2,075,700,353</u>
<b>Accumulated depreciation:</b>				
Sewage collection facilities	(243,923,082)	(13,795,843)	4,126,669	(253,592,256)
Sewage treatment facilities	(479,388,866)	(25,584,013)	46,476	(504,926,403)
Effluent disposal facilities	(51,220,316)	(1,658,070)	-	(52,878,386)
Solids disposal facilities	(3,097,941)	(9,719)	-	(3,107,660)
General and administrative facilities	(114,923,394)	(7,582,782)	1,190,710	(121,315,466)
Excess purchase price over book value on acquired assets	(15,785,016)	(657,709)	-	(16,442,725)
Subtotal	<u>(908,338,615)</u>	<u>(49,288,136)</u>	<u>5,363,855</u>	<u>(952,262,896)</u>
Net depreciable assets	<u>839,444,526</u>	<u>284,015,506</u>	<u>(22,575)</u>	<u>1,123,437,457</u>
Net capital assets	<u>\$ 2,300,818,563</u>	<u>\$ 444,711,148</u>	<u>\$ (344,608,160)</u>	<u>\$ 2,400,921,551</u>

**(4) Long-Term Liabilities**

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2011:

	Arbitrage Payable	Compensated Absences	Claims and Judgments	Certificates of Participation/Notes and Revenue Obligation	Net Pension Obligation	Net OPEB Obligation	Totals
Balance, July 1	\$ 1,327,846	\$ 7,928,112	\$ 1,741,981	\$ 1,287,250,000	\$ 6,956,975	\$ 831,585	\$ 1,306,036,499
Additions	54,367	7,337,633	858,945	311,665,000	842,288	807,175	321,565,408
Deletions	(1,091,848)	(7,453,114)	(457,608)	(191,760,000)	(328,083)	(603,074)	(201,693,727)
Balance, June 30	290,365	7,812,631	2,143,318	1,407,155,000	7,471,180	1,035,686	1,425,908,180
Due within one year	(290,365)	(6,835,271)	(487,470)	(181,335,000)			(188,948,106)
Unamortized (discount) premium	-	-	-	20,637,453	-	-	20,637,453
Unamortized deferred amount on refundings	-	-	-	(10,474,643)	-	-	(10,474,643)
Long-term amount	<u>\$ -</u>	<u>\$ 977,360</u>	<u>\$ 1,655,848</u>	<u>\$ 1,235,982,810</u>	<u>\$ 7,471,180</u>	<u>\$ 1,035,686</u>	<u>\$ 1,247,122,884</u>



**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

Arbitrage Payable

The Tax Reform Act of 1986 (the Act) requires OCSD to calculate and remit rebatable arbitrage earnings to the Internal Revenue Service. Certain of OCSD's debt and interest earnings on the proceeds thereof are subject to the requirements of the Act. OCSD's liability at June 30, 2011 is \$290,365.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2011 is \$7,812,631 with an estimated \$6,835,271 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 claims and judgments payable as of June 30, 2011 and 2010:

	2010-11	2009-10
Claims and judgments payable at July 1	\$ 1,741,981	\$ 1,786,551
Claims incurred during the fiscal year	858,945	599,305
Payments on claims during the fiscal year	(457,608)	(643,875)
Claims and judgments payable at June 30	2,143,318	1,741,981
Less: current portion	(487,470)	(447,830)
Total long-term claims and judgments payable	<u>\$ 1,655,848</u>	<u>\$ 1,294,151</u>

Certificates of Participation

OCSD issues certificates of participation in order to finance construction of the treatment facilities. Each certificate of participation 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 at June 30, 2011 are summarized as follows:

	Amount
2000 refunding certificates of participation	\$ 194,000,000
2003 certificates of participation	191,500,000
2007A refunding certificates of participation	93,060,000
2007B certificates of participation	284,825,000
2008A refunding certificates of participation	30,535,000
2008B refunding certificates of participation	26,975,000
2009A certificates of participation	194,595,000
2010A wastewater revenue obligations	80,000,000
2010B refunding certificates of anticipation notes	154,665,000
2010C wastewater revenue obligations	157,000,000
Total certificates of participation payable	<u>\$ 1,407,155,000</u>

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

Outstanding Certificates of Participation

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, 2011, the coverage ratio for senior lien debt was 2.18.

August 2000 Refunding Certificates of Participation

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

The interest rate on the refunding certificates is adjusted by the remarketing agent daily based on market interest rates. The weighted average interest rate for the fiscal year ended June 30, 2011 was 0.20 percent. Annual principal payments are due on August 1, beginning August 1, 2001.

The refunding certificates are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days' notice and delivery to OCSD's applicable remarketing agent, Bank of America Merrill Lynch. The remarketing agent is required to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The refunding certificates are secured by Standby Bond Purchase Agreement (SBPA) with Lloyds TSB Bank that expires on August 24, 2012. Under the SBPA, if the refunding certificates are not successfully remarketed or repaid according to their terms or if the existing SBPA is not renewed and OCSD does not replace the SBPA or otherwise refinance the refunding certificates, Lloyds TSB Bank is required to purchase the refunding certificates. Any of the refunding certificates purchased by Lloyds TSB Bank constitute bank bonds that bear interest at the bank rate, which may not exceed the maximum rate of 18%. If the OCSD does not reimburse Lloyds TSB Bank within 180 days following Lloyds TSB Bank's purchase of any refunding certificates or the expiration of the SBPA, the District would be required to redeem the bank bonds over a period of four years. The required reserve amount is \$16,793,580. Following is the annual debt service requirements for the succeeding fiscal years based on an assumed interest rate of 9.00% if the SBPA with Lloyds TSB Bank is not renewed or replaced upon expiration in August 2012:

Year Ending June 30,	Principal	Interest	Total
2013	\$22,980,000	\$6,184,000	\$29,164,000
2014	30,635,000	4,720,300	35,355,300
2015	30,630,000	1,965,452	32,595,452
2016	7,655,000	62,289	7,717,289
	<u>\$91,900,000</u>	<u>\$12,932,041</u>	<u>\$104,832,041</u>

August 2003 Certificates of Participation

On August 26, 2003, OCSD completed the sale of \$280,000,000 of certificates of participation. The certificates were issued to finance and to reimburse OCSD for the acquisition, construction, and installation of additional improvements made to the wastewater system. The interest rate on the certificates is fixed and ranges from 5.00 percent to 5.25 percent. Annual principal payments are due on February 1, beginning February 1, 2021.

## ORANGE COUNTY SANITATION DISTRICT

### Notes to Basic Financial Statements

For the Year Ended June 30, 2011

On May 22, 2007, \$88,500,000 of the outstanding principal balance of the 2003 certificates was advance-refunded with the proceeds of the May 2007 refunding certificates of participation (see below) in a transaction accounted for as an in-substance defeasance. All of the \$88.5 million is held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2011, this \$88,500,000 represents the amount still outstanding on bonds considered defeased.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2011 reserve of \$19,150,426 is held by Union Bank, the trustee, and meets the reserve requirement.

#### May 2007 Refunding Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2011 reserve of \$9,518,000 is held by Union Bank, the trustee, and meets the reserve requirement.

#### December 2007 Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2011 reserve of \$19,816,441 is held by Union Bank, the trustee, and meets the reserve requirement.

#### May 2008 Refunding Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2011 reserve of \$7,716,500 is held by US Bank, the trustee, and meets the reserve requirement.

#### September 2008 Refunding Certificates of Participation

On September 11, 2008, OCSD completed the sale of \$27,800,000 of refunding certificates of participation. The certificates were issued to refund the \$26,900,000 outstanding principal balance of the 1993 Series certificates of participation. The interest rate on the refunding

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

certificates is fixed and ranges from 2.80 percent to 3.0 percent. Annual principal payments are due on August 1, beginning August 1, 2009.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2011 reserve of \$2,782,363 is held by US Bank, the trustee, and meets the reserve requirement.

May 2009 Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2011 reserve of \$13,075,103 is held by US Bank, the trustee, and meets the reserve requirement.

May 2010 Wastewater Revenue Obligations

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

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

November 2010 Revenue Refunding Certificate Anticipation Notes

On November 23, 2010, OCSD completed the sale of \$154,665,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$165,865,000 outstanding principal balance of the 2009 Series B refunding certificates anticipation notes. The interest rate on the notes is fixed at 2.0 percent. The notes will mature on November 23, 2011. OCSD expects the principal of and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$18,000. The total future payments for the new debt provides a net present value loss of approximately \$272,000 to refund the old debt in payments. The trust agreement for the certificates does not require the establishment of a reserve.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

December 2010 Wastewater Revenue Obligations

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

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

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation as of June 30, 2011, assuming OCSD will remarket the August 2000 Refunding Certificates of Participation over the term of the debt and either renew or replace the SBPA for the August 2000 Refunding Certificates of Participation throughout the term of the debt that currently expires in August 2012, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2012	\$ 181,335,000	\$ 49,732,512	\$ 231,067,512
2013	27,865,000	47,811,380	75,676,380
2014	43,040,000	46,994,571	90,034,571
2015	30,920,000	46,086,475	77,006,475
2016	32,080,000	45,327,265	77,407,265
2017-2021	193,135,000	215,732,515	408,867,515
2022-2026	172,530,000	186,894,879	359,424,879
2027-2031	227,395,000	141,441,776	368,836,776
2032-2036	306,950,000	73,220,798	380,170,798
2037-2041	167,200,000	20,046,187	187,246,187
2042-2046	24,705,000	1,203,836	25,908,836
<b>Total</b>	<b>\$ 1,407,155,000</b>	<b>\$ 874,492,194</b>	<b>\$ 2,281,647,194</b>

(5) Net Assets

The difference between assets and liabilities is reported as net assets. Net assets are classified as restricted, unrestricted, or invested in capital assets, net of related debt. Net assets at June 30, 2011 consisted of the following:

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

	June 30, 2011
Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 2,400,921,551
Outstanding debt issued to acquire capital assets, net of: unamortized bond discount, deferred amount on refundings, and unspent proceeds	(1,269,858,548)
Subtotal	1,131,063,003
Unrestricted:	
Preliminary Survey	7,069,578
All other unrestricted	372,353,540
Total Net Assets	\$ 1,510,486,121

**(6) Pension Benefits**

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

Pension Plan

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

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

Eligible employees are covered under one of three plans, depending on their entry date into the plan. Plans G and H provide 2.5% of final average compensation per year of service at age 55; Plan B provides 1.667% per year of service at age 57.5. Plan G members' retirement benefit are calculated using the highest single year of compensation, while Plans B and H are based on the average of the highest three consecutive years of compensation.

*Contributions:* As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to contribute a percentage of their annual compensation to OCERS. Employees covered by Plans B, G, and H are required to contribute 5.76% - 11.58%, 8.30% - 14.55% and 7.94% - 14.55%, respectively, of their annual compensation to OCERS. OCSD is required to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees' compensation such that, when

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. For the fiscal years ended June 30, 2011, 2010, and 2009, the "Annual Required Contribution" equaled the contributions actually made. Required contributions, which are actuarially determined, are set by OCERS.

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

	For the Fiscal Year Ending		
	June 30, 2009	June 30, 2010	June 30, 2011
Total Payroll Costs	\$ 61,110,535	\$ 62,934,336	\$ 62,107,324
Payroll Costs of Employees Covered by OCERS	57,681,058	60,593,735	59,787,560
Contributions Requirements:			
Contributed by Employees	4,031,980	4,317,182	4,422,908
Contributed by the District on Behalf of Employees	1,986,386	2,071,340	2,078,679
Total Employee Required Contribution	<u>6,018,366</u>	<u>6,388,522</u>	<u>6,501,587</u>
District Required Contribution	12,193,601	13,029,795	14,370,158
Total Contribution	<u>\$ 18,211,967</u>	<u>\$ 19,418,317</u>	<u>\$ 20,871,745</u>
Total Actual Contribution as a Percent of the "Annual Required Contribution (ARC)"	100.00%	100.00%	100.00%
Employee Required Contribution as a Percent of Covered Payroll	10.43%	10.54%	10.87%
District Required Contribution as a Percent of Covered Payroll	21.14%	21.50%	24.04%
Total Contribution as a Percent of all Participating Entities' Contributions	4.97%	3.61%	3.66%

**Additional Retiree Benefit Account (ARBA)**

The OCSD ARBA plan is a single-employer defined benefit plan which was administered by OCERS until February 29, 2008, when OCSD began direct administration. This benefit was established by the OCSD Board of Directors on October 25, 1992. It provides a monthly payment to retirees towards the premium costs of health insurance for the retiree and eligible dependents. The retiree is not required to use this amount for health insurance premium or to remain on the OCSD medical plan. The plan is currently paying benefits to 159 retirees. The plan is included in OCSD's financial statements; stand-alone financial statements are not issued for the plan.

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

*Funding:* There are no employee contributions for this plan; OCSD covers 100% of the cost. An actuarial evaluation was performed as of June 30, 2009, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used, and no cost of living or salary adjustment was used due to the flat dollar nature of the benefit. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan.

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

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

Fiscal Year	Annual Pension Cost		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/09	705,246	35.2%	6,377,436
6/30/10	851,009	31.9%	6,956,975
6/30/11	842,288	39.0%	7,471,180

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

Actuarial Valuation Date	Entry Age Actuarial Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2005 *	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2007	7,395,472	-	7,395,472	-	49,788,835	14.9%
6/30/2009	8,904,499	-	8,904,499	-	57,681,058	15.4%

\*Actuarial valuation not performed for this year.

The annual pension cost and net pension obligation for the year ended June 30, 2009, 2010 and 2011 were as follows.

	For the Fiscal Year Ending		
	June 30, 2009	June 30, 2010	June 30, 2011
Annual required contribution	\$ 780,135	\$ 946,999	\$ 946,999
Interest on net pension obligation	355,236	318,871	347,849
Adjustment to annual required contribution	(430,125)	(414,861)	(452,560)
Annual pension cost	705,246	851,009	842,288
Contributions made	(248,410)	(271,470)	(328,083)
Increase in net pension obligation	456,836	579,539	514,205
Net pension obligation, beginning of year	5,920,600	6,377,436	6,956,975
Net pension obligation, end of year	\$ 6,377,436	\$ 6,956,975	\$ 7,471,180

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



**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

**(7) Other Postemployment Benefits**

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

As of the date of the latest actuarial valuation (6/30/09), there were 605 active employees, 169 retirees paying premiums, and 45 retirees whose premium is fully paid by OCSD. Premiums ranged between \$367.50 and \$2,678.42 per month, depending on the plan and number of dependents covered.

*Funding Policy:* There are no employee contributions to this plan; OCSD covers 100% of the cost. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom the District pays for a period (see above). An actuarial evaluation was performed as of July 1, 2009, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date, assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used. The rate of increase for healthcare premium was set as 7.0% for the 2009-10 fiscal year, 6.0% for FY 2010-11, and 5.0% for years thereafter. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan. For fiscal year 2010-11, OCSD contributed \$603,074 and retirees contributed \$443,904 to cover current year expenditures.

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

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

Annual required contribution	\$ 819,692
Interest on net OPEB obligation	41,579
Adjustment to annual required contribution	(54,096)
Annual OPEB cost	807,175
Contributions made	(603,074)
Increase in net OPEB obligation	204,101
Net OPEB obligation, beginning of year	831,585
Net OPEB obligation, end of year	<u>\$ 1,035,686</u>

**ORANGE COUNTY SANITATION DISTRICT**

Notes to Basic Financial Statements

For the Year Ended June 30, 2011

The District's annual OPEB cost contributed and the net OPEB obligation for 2011, 2010, and 2009 are shown in the following table.

Fiscal Year	Annual OPEB Cost	Annual OPEB Cost		Net OPEB Obligation
		Actual Contributions	Percentage of OPEB Cost Contributed	
6/30/09	937,649	622,696	66.4%	655,831
6/30/10	809,821	634,067	78.3%	831,585
6/30/11	807,175	603,074	74.7%	1,035,686

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

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
7/1/2005*	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2007	-	9,949,638	9,949,638	0%	49,788,835	19.98%
7/1/2009	-	8,799,624	8,799,624	0%	57,681,058	15.26%

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

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

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

The ARC for the current year was determined as part of the 7/1/09 actuarial valuation using the Projected Unit Credit cost method. The actuarial assumptions include a 5% investment rate of

## ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

return (changed from 6% for the 7/1/07 valuation) and an annual healthcare cost trend rate of 7% reduced by decrements of 1% per year to an ultimate rate of 5%. The UAAL is being amortized ratably over 30 years. Inflation assumptions are included as part of the healthcare cost trend.

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

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

On July 1, 1985, Revenue Area No. 14 was formed as an independent special district as a result of a negotiated agreement between OCSD and Irvine Ranch Water District (IRWD). At the time of Revenue Area 14's creation, OCSD consisted of eight independent special districts (see Note 1 – Reporting Entity). The eight existing districts sold a portion of the joint treatment facilities and land to the newly created district and recorded capacity rights revenue at the time of the sale.

In accordance with the negotiated agreement between OCSD and IRWD, IRWD paid OCSD \$34,532,000 for an initial 15,000,000 gallons per day capacity in OCSD's joint treatment facilities (with an ultimate collection capacity of 32,000,000 gallons per day) and for a pro-rata interest in real property (based on flow of 32,000,000 gallons per day). The book value of the assets acquired was determined to be \$14,553,000 as of June 30, 1986; these assets were recorded at book value in Revenue Area 14. The excess of the purchase price over the assets' book value was \$19,979,000 and was recorded as an intangible asset in Revenue Area 14. The excess of the purchase price over the assets' book value is being amortized over the remainder of the useful lives of the original assets acquired. As of June 30, 2011, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$3,536,275.

#### Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, which contribution of \$2,939,111 was recorded in 2011. IRWD also agreed to fund the annual integration adjustment of Revenue Area 14's equity share in OCSD's Joint Works Treatment Facilities based on the flows discharged to OCSD. As the flows decreased during the year, a return of capital contributions of \$33,262,611 to Revenue Area 14 was recognized in 2011. These capital contributions received from or credited to IRWD for their agreed-upon share of capital assets and equity share in OCSD's Joint Works Treatment Facilities are calculated as prescribed in the agreements.

In addition, a separate agreement for transfer of IRWD's wastewater solids residuals to OCSD was entered on April 28, 2010. IRWD agreed to pay OCSD a charge for interim solids handling charge which include annual capital and quarterly operating expense components designed to compensate OCSD for IRWD's share of the cost of operating and maintaining the existing facilities for the treatment of solids. As a result, a total of \$6,769,157 solids capital contribution was recorded in 2011. The net amount of these transactions is \$23,554,343 and is reported as capital contributions received from (credited to) other agency for the year ended June 30, 2011. Any amounts credited to IRWD are not refunded in cash but are held as a credit to satisfy future contributions required of IRWD resulting in a balance due to other governmental agency of \$57,196,110 as of June 30, 2011.

**ORANGE COUNTY SANITATION DISTRICT**  
Notes to Basic Financial Statements  
For the Year Ended June 30, 2011

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2011; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$11.3 million. This cash reserve requirement is recognized as a liability to IRWD.

(9) Commitments and Due From Other Governmental Agency

Secondary Treatment: On July 17, 2002, the Board of Directors Approved Resolution No. OCSD-14, "Establishing the Policy for Level of Treatment of Wastewater Discharged into the Ocean". This resolution established OCSD's policy to treat all wastewater discharges into the ocean to secondary treatment standards thereby providing for continued public safety, marine ecosystem protection, and water reclamation opportunities. To implement this policy, OCSD staff was directed to immediately proceed with the planning, design, and implementation of treatment methods that will allow the agency to meet Federal Clean Water Act secondary treatment standards.

OCSD estimates that it will take a total of approximately eleven years and additional capital improvement costs of \$623 million to reach secondary treatment discharge standards. Secondary treatment discharge standards are scheduled to be reached at the end of 2012. In the interim, OCSD will operate the plants to meet the requirements of the consent decree and the NPDES permit and will complete planning, design, construction, and operation of facilities per the schedule and the details of the consent decree.

Relocation of the Santa Ana Regional Interceptor: On June 29, 2010, the District entered into an agreement to lend the Orange County Flood Control District (OCFCD) 60 percent of the amount of the contract awarded to design and construct the relocation of the Santa Ana Regional Interceptor, but not to exceed \$72 million. OCFCD agrees to repay the loan from any subvention funds received by OCFCD, with the total balance repaid by no later than July 1, 2022. Repayment installments will be made within 30 days equal to 60 percent of any subvention funds received by OCFCD. Interest shall accrue on the unpaid balance from July 1, 2018 at an annual interest rate of three percent until the unpaid balance has been repaid. As of June 30, 2011, \$36 million has been loaned to OCFCD.

(10) Subsequent Events

Debt Financings Issued:

On September 15, 2011, the District issued Wastewater Refunding Revenue Obligations, Series 2011A, in the amount of \$147,595,000. The obligations were issued to refund \$89,800,000 of the \$194,000,000 outstanding 2000 Refunding Certificates of Participation and \$83,320,000 of the \$181,700,000 outstanding 2003 Certificates of Participation. The interest rate on the obligations range from 3.00% - 5.00% and the final maturity date is February 1, 2026.

On November 10, 2011, the District issued Revenue Refunding Certificate of Anticipation Notes, Series 2011B, in the amount of \$143,205,000. The notes were issued to pay off all of the Revenue Refunding Certificate of Anticipation Notes, Series 2010B. The interest rate on the note is 0.0227% and it matures on November 9, 2012.

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**ORANGE COUNTY SANITATION DISTRICT  
SUPPLEMENTARY INFORMATION**

**ORANGE COUNTY SANITATION DISTRICT**

Combining Area Schedule of Net Assets

June 30, 2011

With Comparative Totals for June 30, 2010

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2011	2010
<b>Current assets:</b>				
Cash and cash equivalents	\$ 17,645,109	\$ 109,928,262	\$ 127,573,371	\$ 49,537,559
Investments	39,551,001	246,401,013	285,952,014	310,335,760
Accounts receivable, net of allowance for uncollectibles	-	10,411,347	10,411,347	13,069,682
Accrued interest receivable	-	1,296,054	1,296,054	1,108,027
Connection fees receivable	-	385,765	385,765	996,430
Property tax receivable	-	1,408,477	1,408,477	2,040,072
Inventories	-	5,366,513	5,366,513	5,402,069
Prepaid expenses	-	623,907	623,907	1,134,886
Prepaid retirement	-	14,463,000	14,463,000	14,578,000
<b>Total current assets</b>	<b>57,196,110</b>	<b>390,284,338</b>	<b>447,480,448</b>	<b>398,202,485</b>
<b>Noncurrent assets:</b>				
<b>Restricted:</b>				
Cash and cash equivalents	-	120,419,824	120,419,824	86,629,639
Investments	-	26,829,427	26,829,427	26,829,427
Accrued interest receivable	-	210,010	210,010	210,730
<b>Unrestricted:</b>				
Non-depreciable capital assets	30,490,611	1,246,993,483	1,277,484,094	1,461,374,037
Depreciable capital assets, net of accumulated depreciation	43,652,653	1,079,784,803	1,123,437,456	839,444,526
Deferred charges	-	10,975,310	10,975,310	9,733,908
Due from other governmental agency	-	36,000,000	36,000,000	-
Other noncurrent assets, net	214,623	6,865,299	7,079,922	11,501,640
<b>Total noncurrent assets</b>	<b>74,357,887</b>	<b>2,528,078,156</b>	<b>2,602,436,043</b>	<b>2,435,723,907</b>
<b>Total assets</b>	<b>131,553,997</b>	<b>2,918,362,494</b>	<b>3,049,916,491</b>	<b>2,833,926,392</b>
<b>Current liabilities:</b>				
Accounts payable	-	14,722,600	14,722,600	20,091,995
Accrued expenses	-	6,654,544	6,654,544	7,259,202
Retentions payable	-	2,260,426	2,260,426	1,587,986
Interest payable	-	22,525,700	22,525,700	19,643,344
Due to other governmental agency	57,196,110	-	57,196,110	42,053,445
Current portion of long-term obligations	-	188,948,106	188,948,106	200,173,675
<b>Total current liabilities</b>	<b>57,196,110</b>	<b>235,111,376</b>	<b>292,307,486</b>	<b>290,809,647</b>
<b>Noncurrent liabilities:</b>				
Noncurrent portion of long-term obligations	-	1,247,122,884	1,247,122,884	1,112,044,076
<b>Total liabilities</b>	<b>57,196,110</b>	<b>1,482,234,260</b>	<b>1,539,430,370</b>	<b>1,402,853,723</b>
<b>Net assets:</b>				
<b>Invested in capital assets, net of related debt:</b>				
Collection system	20,442,023	475,199,032	495,641,055	459,503,200
Treatment and disposal -Land	406,846	4,068,905	4,475,751	4,475,751
Treatment and disposal system	53,294,395	1,847,510,349	1,900,804,744	1,836,839,612
Capital assets related debt	-	(1,269,858,548)	(1,269,858,548)	(1,179,761,456)
<b>Unrestricted</b>	<b>214,623</b>	<b>379,208,496</b>	<b>379,423,119</b>	<b>310,015,562</b>
<b>Total net assets</b>	<b>\$ 74,357,887</b>	<b>\$ 1,436,128,234</b>	<b>\$ 1,510,486,121</b>	<b>\$ 1,431,072,669</b>

**ORANGE COUNTY SANITATION DISTRICT**  
Combining Area Schedule of Revenues, Expenses, and Changes in Net Assets  
For the Year Ended June 30, 2011  
With Comparative Totals for June 30, 2010

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2011	2010
Operating revenues:				
Service charges	\$ 8,481,939	\$ 235,982,753	\$ 244,464,692	\$ 225,058,521
Permit and inspection fees	3,779	780,679	784,458	629,082
Total operating revenues	<u>8,485,718</u>	<u>236,763,432</u>	<u>245,249,150</u>	<u>225,687,603</u>
Operating expenses other than depreciation and amortization:				
Salaries and benefits	962,120	72,150,166	73,112,286	69,651,904
Utilities	152,319	6,795,462	6,947,781	6,934,045
Supplies, repairs and maintenance	675,792	26,342,403	27,018,195	26,549,945
Contractual services	7,061,847	19,986,654	27,048,501	25,476,063
Directors' fees	21,806	130,571	152,377	141,313
Meetings and training	8,928	604,769	613,697	894,865
Other	2,917,002	1,041,693	3,958,695	8,436,969
Total operating expenses other than depreciation and amortization	<u>11,799,814</u>	<u>127,051,718</u>	<u>138,851,532</u>	<u>138,085,104</u>
Operating income (loss) before depreciation and amortization	<u>(3,314,096)</u>	<u>109,711,714</u>	<u>106,397,618</u>	<u>87,602,499</u>
Depreciation and amortization	<u>2,240,260</u>	<u>47,047,876</u>	<u>49,288,136</u>	<u>52,035,796</u>
Operating income (loss)	<u>(5,554,356)</u>	<u>62,663,838</u>	<u>57,109,482</u>	<u>35,566,703</u>
Non-operating revenues:				
Property taxes	1,947,775	62,359,819	64,307,594	64,759,095
Investment and interest income	1,232,860	8,859,242	10,092,102	19,165,691
Emission Reduction Credit Sales	-	-	-	4,530,000
Other	37,817	1,268,954	1,306,771	2,409,455
Total non-operating revenues	<u>3,218,452</u>	<u>72,488,015</u>	<u>75,706,467</u>	<u>90,864,241</u>
Non-operating expenses:				
Interest	-	29,129,550	29,129,550	27,536,714
Feasibility studies	109,623	4,427,342	4,536,965	10,349,999
Capital grants to member agencies	-	-	-	1,481,590
Loss on disposal of assets and other	119,107	5,862,722	5,981,829	1,904,239
Total non-operating expenses	<u>228,730</u>	<u>39,419,614</u>	<u>39,648,344</u>	<u>41,272,542</u>
Income (loss) before transfer and capital contributions	<u>(2,564,634)</u>	<u>95,732,239</u>	<u>93,167,605</u>	<u>85,158,402</u>
Capital Contributions:				
Capital facilities capacity charges	-	9,800,190	9,800,190	10,332,569
Capital contributions received from (credited to) other agency	<u>(23,554,343)</u>	<u>-</u>	<u>(23,554,343)</u>	<u>(12,739,214)</u>
Change in net assets	<u>(26,118,977)</u>	<u>105,532,429</u>	<u>79,413,452</u>	<u>82,751,757</u>
Total net assets - beginning	<u>100,476,864</u>	<u>1,330,595,805</u>	<u>1,431,072,669</u>	<u>1,348,320,912</u>
Total net assets - ending	<u>\$ 74,357,887</u>	<u>\$ 1,436,128,234</u>	<u>\$ 1,510,486,121</u>	<u>\$ 1,431,072,669</u>



**ORANGE COUNTY SANITATION DISTRICT**

Combining Area Schedule of Cash Flows

For the Year Ended June 30, 2011

With Comparative Totals for June 30, 2010

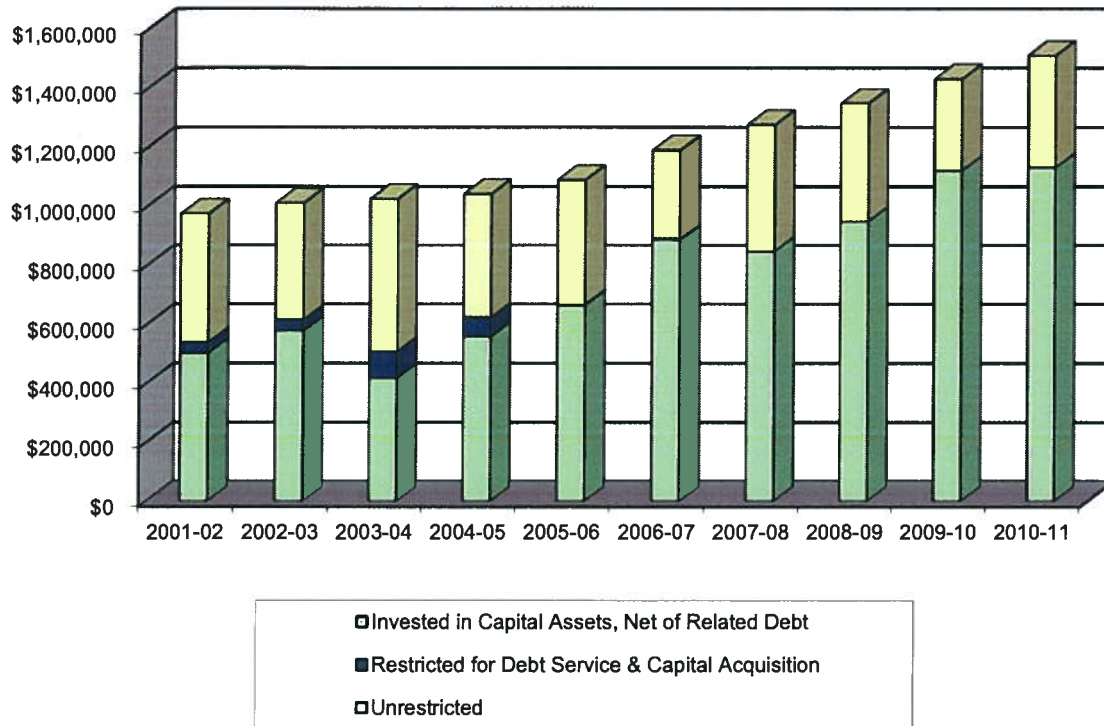
	Revenue	Consolidated	Eliminations	Totals	
	Area No. 14	Revenue Area		2011	2010
<b>Cash flows from operating activities:</b>					
Receipts from customers and users	\$ 23,628,383	\$ 239,404,399	\$ -	\$ 263,032,782	\$ 235,732,351
Payments to employees	(983,926)	(71,494,892)	-	(72,478,818)	(70,296,045)
Payments to suppliers	(10,816,452)	(60,225,329)	-	(71,041,781)	(80,927,051)
<b>Net cash provided by operations</b>	<b>11,828,005</b>	<b>107,684,178</b>	<b>-</b>	<b>119,512,183</b>	<b>84,509,255</b>
<b>Cash flows from noncapital financing activities:</b>					
Proceeds from property taxes	1,947,775	62,991,412	-	64,939,187	65,940,652
Grants to member agencies	-	-	-	-	(1,481,590)
<b>Net cash provided by noncapital financing activities:</b>	<b>1,947,775</b>	<b>62,991,412</b>	<b>-</b>	<b>64,939,187</b>	<b>64,459,062</b>
<b>Cash flows from capital and related financing activities:</b>					
Capital facilities capacity charges	-	10,410,855	-	10,410,855	9,724,170
Additions to property, plant and equipment	23,554,343	(126,300,675)	(56,816,954)	(159,563,286)	(251,119,750)
Disposal of property, plant, and equipment	-	(33,262,611)	33,262,611	-	-
Arbitrage payment	-	-	-	-	-
Additions to other assets	96,692	-	(96,692)	-	-
Disposal of other assets	37,333	1,132,362	96,692	1,266,387	6,895,719
Interest paid	-	(46,543,583)	-	(46,543,583)	(43,055,105)
Principal payments on debt obligation	-	(191,760,000)	-	(191,760,000)	(200,145,000)
Proceeds from debt issuances	-	315,341,085	-	315,341,085	247,740,402
Debt issuance costs	-	(495,978)	-	(495,978)	(554,219)
Proceeds from capital contributions	(23,554,343)	-	23,554,343	-	-
<b>Net cash provided (used) by capital and related financing activities</b>	<b>134,025</b>	<b>(71,478,545)</b>	<b>-</b>	<b>(71,344,520)</b>	<b>(230,513,783)</b>
<b>Cash flows from investing activities:</b>					
Proceeds from the sale of investments	517,729,852	3,228,173,059	-	3,745,902,911	3,572,349,413
Purchases of investments	(521,303,040)	(3,202,290,103)	-	(3,723,593,143)	(3,476,745,940)
SARI project advance	-	(36,000,000)	-	(36,000,000)	-
Interest received	1,519,719	10,889,660	-	12,409,379	14,357,443
<b>Net cash provided (used) by investing activities</b>	<b>(2,053,469)</b>	<b>772,616</b>	<b>-</b>	<b>(1,280,853)</b>	<b>109,960,916</b>
<b>Net increase in cash and cash equivalents</b>	<b>11,856,336</b>	<b>99,969,661</b>	<b>-</b>	<b>111,825,997</b>	<b>28,415,450</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>5,788,773</b>	<b>130,378,425</b>	<b>-</b>	<b>136,167,198</b>	<b>107,751,748</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 17,645,109</b>	<b>\$ 230,348,086</b>	<b>\$ -</b>	<b>\$ 247,993,195</b>	<b>\$ 136,167,198</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>					
Operating income (loss)	\$ (5,554,356)	\$ 62,663,838	\$ -	\$ 57,109,482	\$ 35,566,703
Adjustments to reconcile operating income (loss) to net cash provided by operations:					
Depreciation and amortization	2,240,260	47,047,876	-	49,288,136	52,035,796
Bad debt expense (Net recoveries)	-	17,368	-	17,368	(195,981)
(Increase)/decrease in operating assets:					
Accounts receivable	-	2,640,967	-	2,640,967	(1,009,064)
Inventories	(564)	24,388	-	23,824	(1,354,431)
Prepaid and other assets	-	625,979	-	625,979	(2,518,658)
Increase/(decrease) in operating liabilities:					
Accounts payable	-	(5,369,395)	-	(5,369,395)	(10,364,801)
Accrued expenses	-	(605,963)	-	(605,963)	(1,091,531)
Retentions payable	-	672,440	-	672,440	522,094
Due to other governmental agency	15,142,665	-	-	15,142,665	11,053,812
Pension/OPEB payable	-	718,305	-	718,305	755,295
Compensated absences	-	(115,481)	-	(115,481)	846,045
Other payable	-	(1,037,481)	-	(1,037,481)	308,546
Claims and judgments	-	401,337	-	401,337	(44,570)
<b>Net cash provided by operations</b>	<b>\$ 11,828,005</b>	<b>\$ 107,684,178</b>	<b>\$ -</b>	<b>\$ 119,512,183</b>	<b>\$ 84,509,255</b>
<b>Noncash Activities:</b>					
Unrealized gain (loss) on the fair value of investments	\$ (286,859)	\$ (1,787,119)	\$ -	\$ (2,073,978)	\$ 6,177,434
Capital contributions from other agency	(23,554,343)	-	-	(23,554,343)	(12,739,214)
Capital facilities capacity contribution	-	2,492,300	-	2,492,300	3,606,925

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

**ORANGE COUNTY SANITATION DISTRICT**  
**Net Assets by Component**  
(Dollars in Thousands)  
Last Ten Fiscal Years (Note 1)

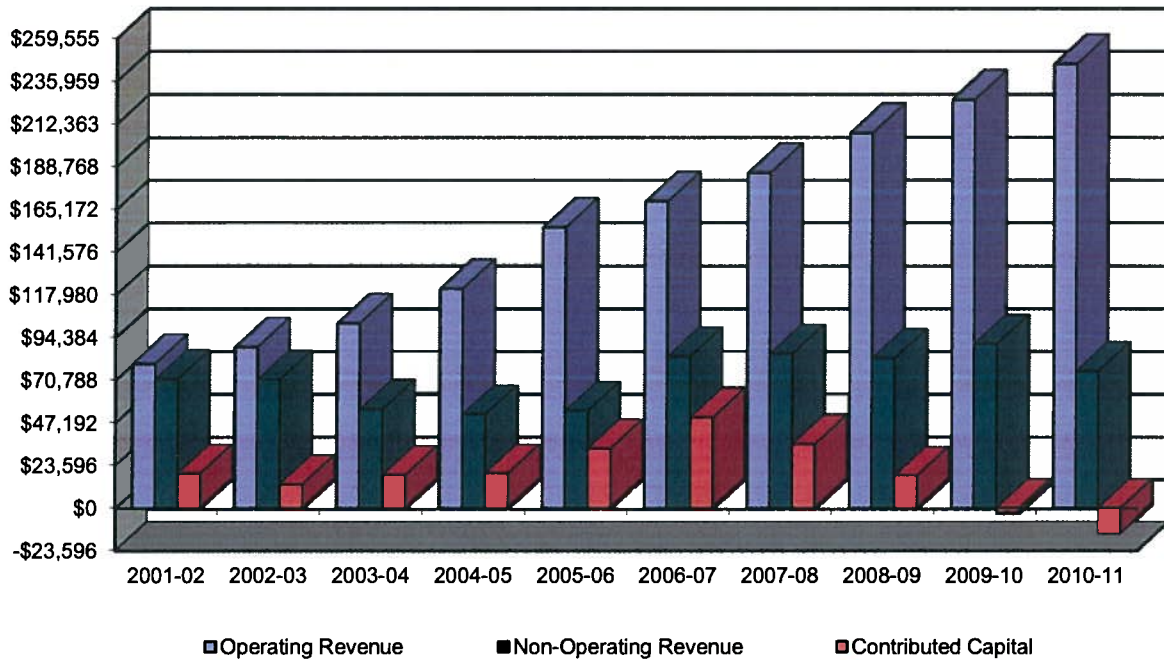


<b>Fiscal Year</b>	<b>Invested in Capital Assets, Net of Related Debt</b>	<b>Restricted for Debt Service &amp; Capital Acquisition</b>	<b>Unrestricted</b>	<b>Total Net Assets</b>
2001-02	\$ 501,997	\$ 36,070	\$ 435,906	\$ 973,973
2002-03	578,647	35,182	396,518	1,010,347
2003-04	418,267	88,519	517,346	1,024,132
2004-05	558,391	64,514	418,342	1,041,247
2005-06	664,060	3,003	422,036	1,089,099
2006-07	886,463	3,904	299,370	1,189,737
2007-08	847,426	-	428,561	1,275,987
2008-09	948,869	-	399,452	1,348,321
2009-10	1,121,057	-	310,016	1,431,073
2010-11	1,131,063	-	379,423	1,510,486

Note 1: Net Assets are calculated as a result of GASB 34, which was implemented in FY 2001-2, retrospective to 2000-01.

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

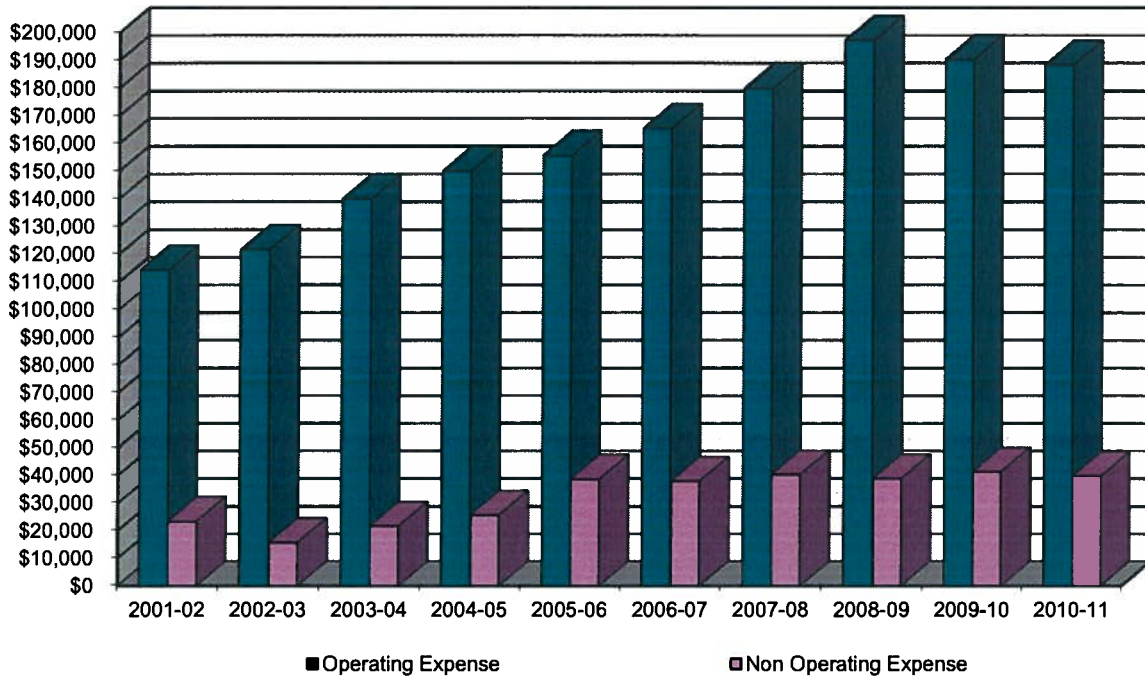


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2001-02	\$ 79,609	\$ 396	\$ 80,005	\$ 41,140	\$ 28,073	\$ 2,202	\$ 71,415	\$19,163
2002-03	88,640	524	89,164	44,591	25,889	706	71,186	13,312
2003-04	101,995	332	102,327	46,943	6,786	928	54,657	18,243
2004-05	120,917	498	121,415	35,764	15,118	1,051	51,933	19,350
2005-06	154,291	874	155,165	39,958	10,426	3,477	53,861	32,990
2006-07	167,790	1,866	169,656	60,565	22,243	1,068	83,876	50,207
2007-08	184,180	1,196	185,376	65,210	20,235	13	85,458	35,408
2008-09	206,422	895	207,317	66,427	14,836	1,634	82,897	17,937
2009-10	225,059	629	225,688	64,759	19,166	6,939	90,864	(2,406)
2010-11	244,465	784	245,249	64,307	10,092	1,307	75,706	(13,754)

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

**ORANGE COUNTY SANITATION DISTRICT**

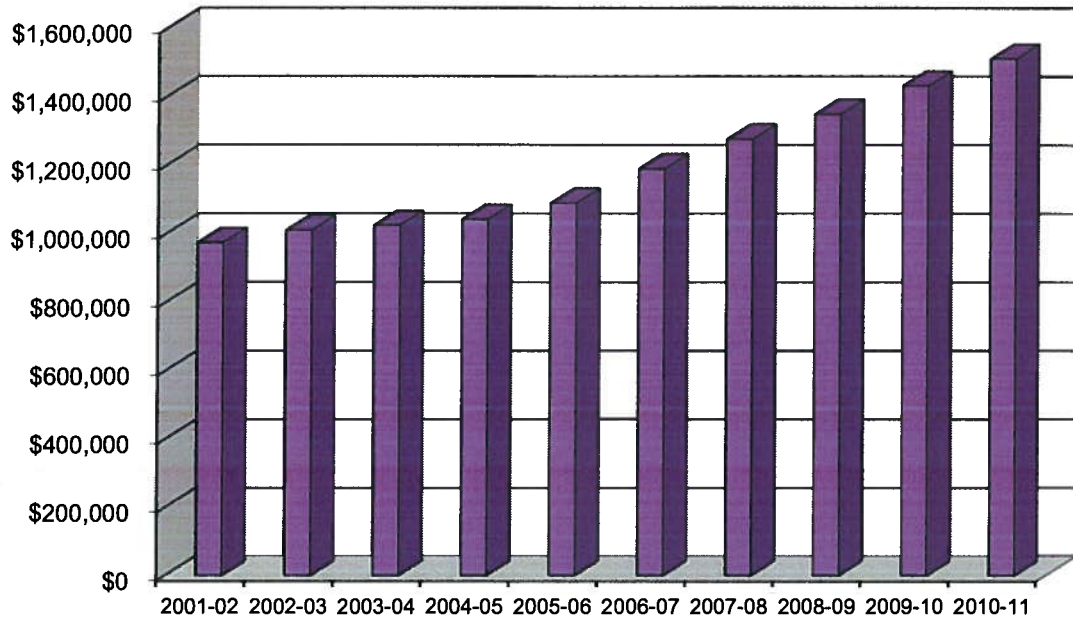
Expenses by Type  
(Dollars in Thousands)  
Last Ten Fiscal Years



Fiscal Year	Operating				Total Operating	Non - Operating		Total Non-Operating
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort		Interest Expense	Other	
2001-02	\$ 35,629	\$ 4,967	\$ 27,967	\$ 45,703	\$ 114,266	\$ 14,406	\$ 8,896	\$ 23,302
2002-03	38,733	4,622	36,314	41,966	121,635	12,731	2,922	15,653
2003-04	48,711	5,408	41,284	44,412	139,815	15,524	6,102	21,626
2004-05	53,048	6,473	42,325	48,095	149,941	17,470	8,172	25,642
2005-06	53,246	7,563	44,823	49,887	155,519	20,078	18,567	38,645
2006-07	57,802	8,072	46,281	53,111	165,266	21,747	16,089	37,836
2007-08	67,629	8,092	56,169	47,767	179,657	22,517	17,818	40,335
2008-09	67,498	7,242	89,816	32,520	197,076	24,899	13,842	38,741
2009-10	69,652	6,934	61,499	52,036	190,121	27,537	13,736	41,273
2010-11	73,112	6,948	58,792	49,288	188,140	29,129	10,519	39,648

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

**ORANGE COUNTY SANITATION DISTRICT**  
 Change in Net Assets  
 (Dollars in Thousands)  
 Last Ten Fiscal Years (Note 1)



Ending Net Assets by Fiscal Year

<b>Fiscal Year</b>	<b>Total Revenues</b>	<b>Total Expenses</b>	<b>Change in Net Assets</b>	<b>Beginning Net Assets</b>	<b>Ending Net Assets</b>
2001-02	\$ 164,580	\$ 137,568	\$ 27,012	\$ 946,961	\$ 973,973
2002-03	173,662	137,288	36,374	973,973	1,010,347
2003-04	175,227	161,441	13,786	1,010,347	1,024,133
2004-05	192,698	175,583	17,115	1,024,133	1,041,248
2005-06	242,016	194,164	47,852	1,041,248	1,089,100
2006-07	303,739	203,102	100,637	1,089,100	1,189,737
2007-08	306,242	219,992	86,250	1,189,737	1,275,987
2008-09	308,151	235,817	72,334	1,275,987	1,348,321
2009-10	314,146	231,394	82,752	1,348,321	1,431,073
2010-11	307,201	227,788	79,413	1,431,073	1,510,486

Note 1: Net Assets are calculated as a result of GASB 34, which was implemented in FY 2001-02, retrospective to 2000-01.

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

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

<u>Fiscal Year</u>	<u>Cash Flow Contingency</u>	<u>Self- Insurance</u>	<u>Capital Improvement Program</u>	<u>Debt Service Requirements</u>	<u>Total</u>
2001-02	\$ 70	\$ 57	\$ 303	\$ 35	\$ 465
2002-03	100	57	237	33	427
2003-04	71	57	390	88	606
2004-05	71	57	242	65	472
2005-06	132	57	196	105	490
2006-07	132	57	104	79	372
2007-08	149	57	219	108	533
2008-09	172	57	172	133	534
2009-10	185	57	102	129	473
2010-11	187	57	176	141	561

**Notes:**

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

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

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

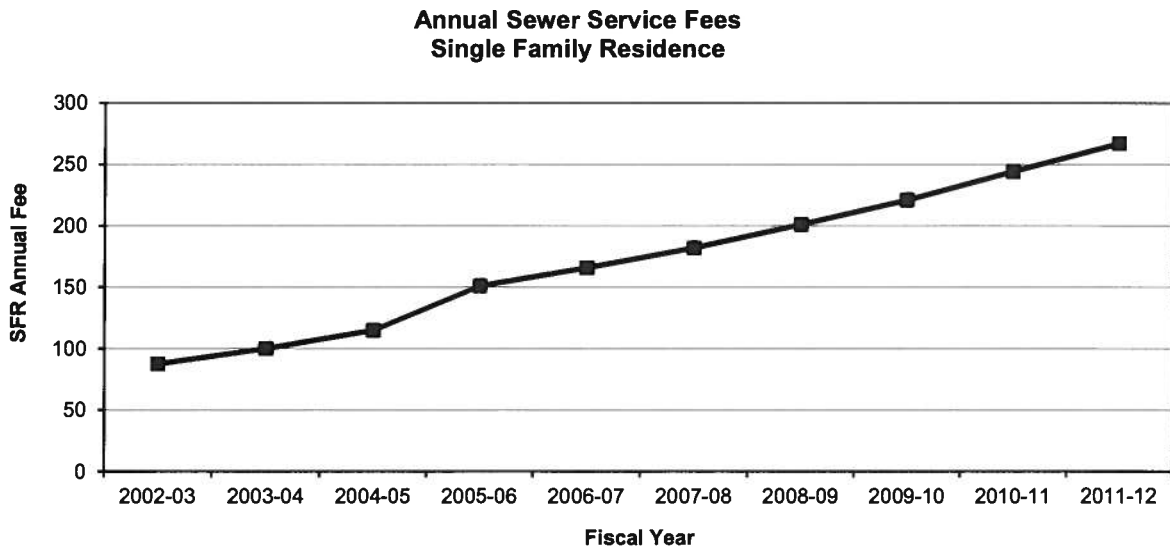
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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

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

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

<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2002-03	\$ 87.50
2003-04	100.00
2004-05	115.00
2005-06	151.00
2006-07	165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00

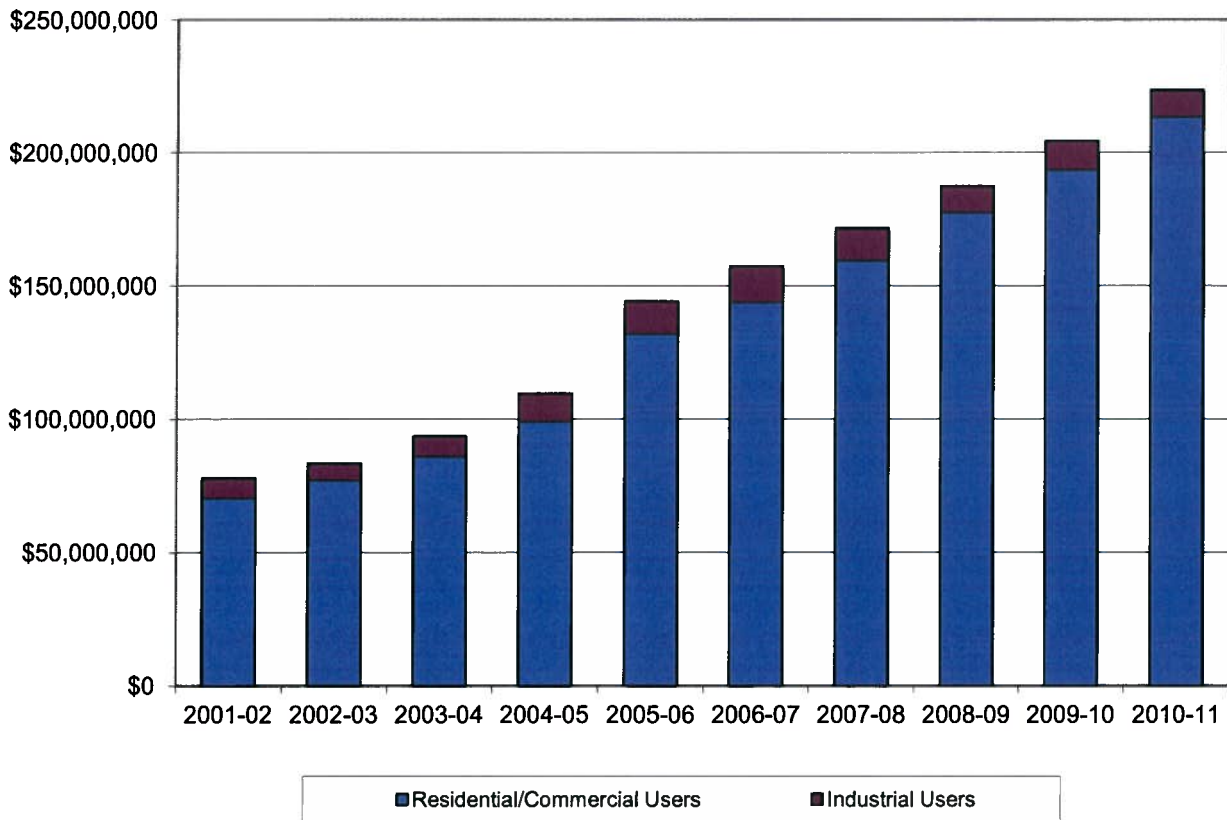


Source: Orange County Sanitation District's Financial Management Division.



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

Fiscal	Residential/Commercial			Industrial		
	Number of Equivalent Single-Family Dwellings	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues	Number of Customer Accounts	Total Sewer Svc. Charge Revenue	Percentage of Sewer Service Charge Revenues
2001-02	898,031	70.3	90%	573	7.5	10%
2002-03	897,757	77.0	92%	603	6.3	8%
2003-04	860,156	86.0	92%	530	7.5	8%
2004-05	860,634	99.0	90%	568	10.5	10%
2005-06	872,859	132.0	92%	557	12.2	8%
2006-07	867,035	143.8	91%	531	13.4	9%
2007-08	875,739	159.4	93%	520	12.1	7%
2008-09	882,747	177.4	95%	515	9.9	5%
2009-10	875,442	193.5	95%	487	10.8	5%
2010-11	874,130	213.3	95%	479	10.1	5%



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

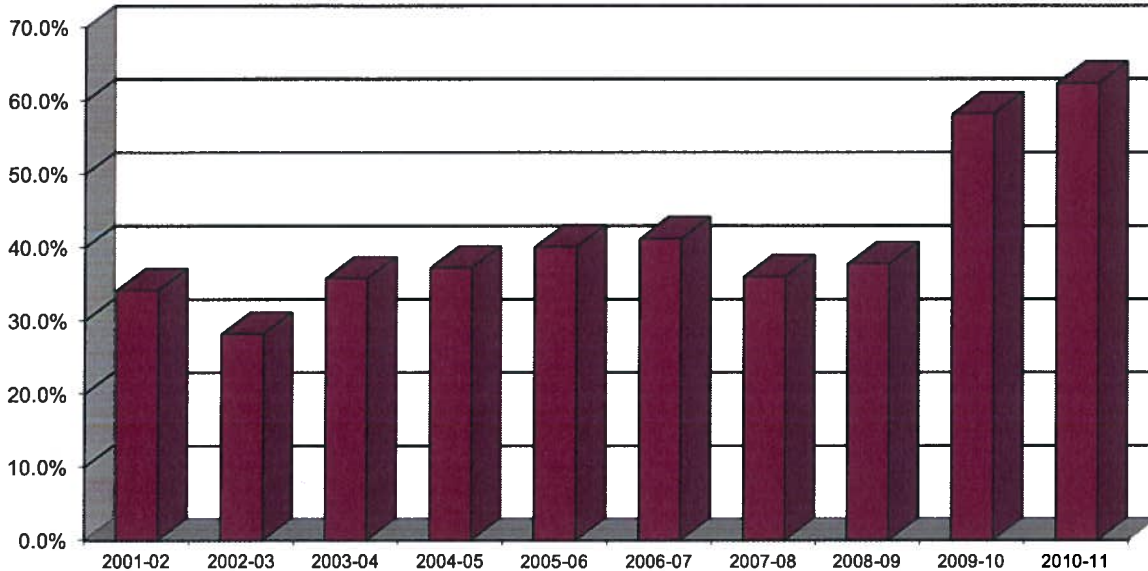
**ORANGE COUNTY SANITATION DISTRICT**  
Principal Sewer Service Customers  
For the Current Fiscal Year and Nine Years Ago

<u>User</u>	<u>Fiscal Year Ended 6/30/11</u>			<u>Fiscal Year Ended 6/30/02</u>		
	<b>Industrial Permittee Service Charges</b>	<b>Rank</b>	<b>% to Total Service Charge Revenue</b>	<b>Industrial Permittee Service Charges</b>	<b>Rank</b>	<b>% to Total Service Charge Revenue</b>
Kimberly-Clark Worldwide, Inc.	\$1,533,243	1	0.63%	\$228,142	6	0.29%
MCP Foods Inc.	1,036,648	2	0.42%	221,760	8	0.28%
Alstyle Apparel-A&G Inc.	909,188	3	0.37%	394,300	3	0.50%
Stremicks Heritage Foods, LLC	756,778	4	0.31%	397,103	2	0.50%
House Foods America Corp.	588,739	5	0.24%	244,030	5	0.31%
Pepsi-Cola Bottling Group	440,707	6	0.18%			
Jazz Semiconductor	344,671	7	0.14%			
Dean Foods Co. of CA Inc.	316,641	8	0.13%			
Schreiber Foods Inc.	298,157	9	0.12%			
Pulmuone Wildwood, Inc.	293,669	10	0.12%			
Disneyland, Inc.				417,759	1	0.52%
Van Law Food Products, Inc.				269,384	4	0.34%
Knotts Berry Farm Foods				226,962	7	0.29%
Nor-Cal Beverage Co. (Main)				184,230	9	0.23%
John A. Thomas				173,590	10	0.22%
	<u>\$6,518,441</u>		<u>2.66%</u>	<u>\$2,757,260</u>		<u>3.48%</u>

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

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

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



<u>Fiscal Year</u>	<u>Principal (1)</u>	<u>Interest</u>	<u>Total Debt Service (3)</u>	<u>Total Operating Expenses (2)</u>	<u>Ratio of Debt Service to Total Operating Expenses</u>
2001-02	\$ 10,370	\$ 13,051	\$ 23,421	\$ 68,563	34.16%
2002-03	11,025	11,433	22,458	79,669	28.19
2003-04	11,610	22,508	34,118	95,403	35.76
2004-05	12,040	25,871	37,911	101,846	37.22
2005-06	12,755	29,563	42,318	105,632	40.06
2006-07	13,465	32,673	46,138	112,155	41.14
2007-08	11,025	36,484	47,509	131,890	36.02
2008-09	21,305	40,840	62,145	164,556	37.77
2009-10	34,280	46,052	80,332	138,085	58.18
2010-11	37,095	49,426	86,521	138,852	62.31

**Notes**

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

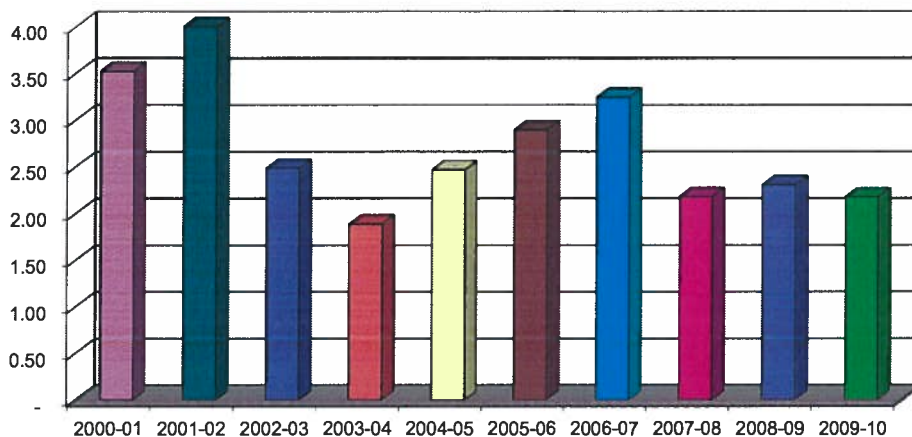
(2) - Excludes depreciation and amortization expense.

(3) - All debt consists of certificates of participation.

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,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Operating &amp; Non-operating Revenues:</b>										
Service Charges, Net of Refunds-Regional	\$ 70.3	\$ 77.0	\$ 86.0	\$ 99.0	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5	\$ 213.3
Service Charges, Net of Refunds-Local	-	-	-	-	-	-	-	5.6	5.6	5.7
Industrial Sewer Service Charges	7.5	6.3	7.5	10.5	12.2	13.4	12.1	9.9	10.8	10.1
Revenue Area No. 14 Fees	2.2	3.2	5.8	6.9	5.3	5.2	7.1	10.3	10.2	11.7
Ad Valorem Taxes	41.1	44.6	46.9	35.8	40.0	60.6	65.2	66.4	64.8	64.3
Interest Earnings	27.8	25.9	6.8	15.1	10.4	22.2	20.2	14.8	19.2	10.1
Other Revenues	2.5	13.5	13.0	6.1	9.2	8.3	6.9	5.8	12.5	5.8
<b>Total Revenues</b>	<b>151.4</b>	<b>170.5</b>	<b>166.0</b>	<b>173.4</b>	<b>209.1</b>	<b>253.5</b>	<b>270.9</b>	<b>290.2</b>	<b>316.6</b>	<b>321.0</b>
<b>Operating Expenses (1)</b>	<b>68.6</b>	<b>79.7</b>	<b>95.4</b>	<b>101.8</b>	<b>105.6</b>	<b>112.2</b>	<b>131.9</b>	<b>164.6</b>	<b>138.1</b>	<b>138.9</b>
<b>Net Revenues</b>	<b>\$ 82.8</b>	<b>\$ 90.8</b>	<b>\$ 70.6</b>	<b>\$ 71.6</b>	<b>\$ 103.5</b>	<b>\$ 141.3</b>	<b>\$ 139.0</b>	<b>\$ 125.6</b>	<b>\$ 178.5</b>	<b>\$ 182.1</b>
<b>Debt Service Requirements</b>										
Principal Payments	10.4	11.0	11.6	12.0	12.8	13.5	11.0	21.3	34.2	37.1
Interest Payments	13.1	11.7	16.8	25.9	29.1	35.3	31.8	36.3	43.1	46.5
<b>Total Debt Service Requirements</b>	<b>\$ 23.5</b>	<b>\$ 22.7</b>	<b>\$ 28.4</b>	<b>\$ 37.9</b>	<b>\$ 41.9</b>	<b>\$ 48.8</b>	<b>\$ 42.8</b>	<b>\$ 57.6</b>	<b>\$ 77.3</b>	<b>\$ 83.6</b>
<b>Coverage Ratios</b>	<b>3.52</b>	<b>4.00</b>	<b>2.49</b>	<b>1.89</b>	<b>2.47</b>	<b>2.90</b>	<b>3.25</b>	<b>2.18</b>	<b>2.31</b>	<b>2.18</b>
<b>Ending Reserves (2)</b>	<b>\$ 430.0</b>	<b>\$ 394.0</b>	<b>\$ 518.0</b>	<b>\$ 407.0</b>	<b>\$ 385.0</b>	<b>\$ 293.0</b>	<b>\$ 425.0</b>	<b>\$ 401.0</b>	<b>\$ 344.0</b>	<b>\$ 420.0</b>

**Notes**

(1) - Operating expenses exclude depreciation and amortization expenses.

(2) - Excludes debt service reserves in accordance with the District's reserve policy.

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

# ORANGE COUNTY SANITATION DISTRICT

## Computation of Direct and Overlapping Debt

June 30, 2011

2010-11 Assessed Valuation (Land & Improvements Only)

\$266,289,398,474 (after deducting \$38,048,469,605 Redevelopment Incremental Valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT (Based on redevelopment adjusted all property assessed valuation of \$270,884,975,258):

	Total Debt 6/30/11	% Applicable (1)	District's Share of Debt 6/30/11
Metropolitan Water District of Southern California	\$227,670,000	15.163%	\$ 34,521,602
Coast Community College District	326,768,867	99.481	325,072,937
North Orange County Joint Community College District	214,514,001	96.969	208,012,082
Rancho Santiago Community College District	309,908,025	98.967	306,706,675
Brea-Olinda and Laguna Beach Unified School Districts	53,719,029	99.948 & 14.722	26,959,960
Garden Grove Unified School District	130,000,160	100.	130,000,160
Los Alamitos Unified School District School Facilities Improvement District No. 1	50,000,032	98.956	49,478,032
Newport Mesa Unified School District	253,714,150	100.	253,714,150
Placentia-Yorba Linda Unified School District	273,148,041	98.619	269,375,867
Saddleback Valley Unified School District	134,935,000	12.007	16,201,645
Santa Ana Unified School District	310,984,745	100.	310,984,745
Tustin Unified School District School Facilities Improvement District No. 2002-1	60,148,766	99.951	60,119,293
Tustin Unified School District School Facilities Improvement District No. 2008-1	50,000,000	99.952	49,976,000
Anaheim Union High School District	113,873,955	100.	113,873,955
Fullerton Joint Union High School District	56,767,910	90.374	51,303,431
Huntington Beach Union High School District	227,824,998	98.863	225,234,628
School Districts	345,454,629	97.152-100	344,655,613
City of Anaheim	3,735,000	99.055	3,699,704
Irvine Ranch Water District Improvement Districts	550,551,700	Various	550,407,022
Rossmore Community Services District Special Tax Obligations	470,000	100.	470,000
Bonita Canyon Community Facilities District No. 98-1	40,465,000	100.	40,465,000
Irvine Unified School District Community Facilities Districts	340,375,117	99.999-100.	340,374,233
Tustin Unified School District Community Facilities Districts	255,027,675	100.	255,027,675
Orange County Community Facilities District No. 87-4	46,656,787	99.992	46,653,054
Other Community Facilities Districts	429,293,000	99.056-100.	429,219,982
Orange County Assessment Districts	103,468,295	100.	103,468,295
City of Irvine 1915 Act Bonds	866,236,799	100	866,236,799
City of Tustin 1915 Act Bonds	32,161,000	100	32,161,000
Other 1915 Act bonds	24,160,000	100	24,160,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$5,488,533,579</b>
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>			
Orange County General Fund Obligations	\$316,898,000	72.512%	\$ 229,789,078
Orange County Pension Obligations	54,682,497	72.512	39,651,372
Orange County Board of Education Certificates of Participation	19,000,000	72.512	13,777,280
South Orange County Community College District Certificates of Participation	17,375,000	36.768	6,388,440
Brea-Olinda Unified School District Certificates of Participation	26,695,000	99.948	26,681,119
Orange Unified School District Certificates of Participation and Benefit Obligations	140,715,000	97.907	137,769,836
Placentia-Yorba Linda Unified School District Certificates of Participation	108,660,670	98.619	107,160,066
Santa Ana Unified School District Certificates of Participation	52,212,863	100.	52,212,863
Other Unified School District Certificates of Participation	36,565,234	Various	36,327,556
Union High School District Certificates of Participation	121,006,090	Various	118,184,170
School District Certificates of Participation	66,685,000	Various	66,154,955
City of Anaheim General Fund Obligations	584,657,465	99.055	579,132,452
City of Costa Mesa General Fund Obligations	37,240,000	100.	37,240,000
City of Garden Grove General Fund Obligations	29,465,000	100	29,465,000
City of Huntington Beach General Fund and Judgment Obligations	60,564,000	99.969	60,545,226
City of La Habra General Fund Obligations	20,145,000	100.	20,145,000
City of Santa Ana General Fund Obligations	100,785,000	100	100,785,000
Other City General Fund Obligations	259,110,961	Various	236,068,829
Orange County Sanitation District	0	100.	0
Irvine Ranch Water District Certificates of Participation	81,400,000	89.742	73,049,988
Municipal Water District of Orange County Water Facilities Corporation	14,120,000	67.611	9,546,673
Yorba Linda County Water District Certificates of Participation	9,200,000	97.636	8,982,512
<b>TOTAL GROSS OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,989,057,415</b>
Less: City of Anaheim self-supporting obligations			567,176,513
Other City self-supporting obligations			35,494,356
MWDOC Water Facilities Corporation (100% self-supporting)			9,546,673
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>			<b>\$1,376,839,873</b>
 <b>GROSS COMBINED TOTAL DEBT</b>			<b>\$7,477,590,954</b> (3)
<b>NET COMBINED TOTAL DEBT</b>			<b>\$6,865,373,452</b>

- (1) Percentage of overlapping agency's redevelopment adjusted all property assessed valuation (\$271,322,083,143) located within boundaries of the district.
- (2) Excludes wastewater revenue certificates of participation. Previously classified certificates of participation have been reclassified as district revenue supported issues and are no longer included as direct debt in the debt statement
- (3) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds are included based on principal due at maturity.

Ratios to:	Total Overlapping Tax and Assessment Debt	Gross Combined Total Debt	Net Combined Total Debt
Adjusted Land and Improvement Assessed Valuation	1.80%	2.81%	2.58%
Adjusted All Property Assessed Valuation	N/A	2.76%	2.53%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics

**ORANGE COUNTY SANITATION DISTRICT**

Ratios of Outstanding Debt  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>(5) Total Outstanding COP Debt</b>	<b>(3) Median Family Income (1)</b>	<b>Debt as a Percentage of Median Family Income</b>	<b>(4) Population Estimate (2)</b>	<b>Debt per Capita</b>
2001-02	\$ 376,000,000	\$ 75,600	0.020%	2,336,400	\$ 160.93
2002-03	364,975,000	70,000	0.019%	2,408,050	151.56
2003-04	633,365,000	74,200	0.012%	2,441,350	259.43
2004-05	621,325,000	75,700	0.012%	2,467,850	251.77
2005-06	808,570,000	78,300	0.010%	2,481,540	325.83
2006-07	801,785,000	78,700	0.010%	2,505,180	320.05
2007-08	1,082,420,000	84,100	0.008%	2,522,820	429.05
2008-09	1,241,530,000	86,100	0.007%	2,539,990	488.79
2009-10	1,287,250,000	87,200	0.007%	2,563,170	502.21
2010-11	1,407,155,000	84,200	0.006%	2,457,571	572.58

**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.

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

<b>Fiscal Year</b>	<b>Millions of Gallons of Waste-water Treated Per Day</b>	<b>Collection, Treatment &amp; Disposal Cost per Million Gallons</b>	<b>Total Operating Costs (In Thousands)</b>	<b>Total Non-Operating Costs (In Thousands)</b>	<b>Total Operating Revenues (In Thousands)</b>	<b>Total Non-Operating Revenues (In Thousands)</b>
2001-02	234	794.05	\$ 114,266	\$ 23,302	\$ 80,005	\$ 71,415
2002-03	239	880.25	121,635	15,653	89,164	71,186
2003-04	238	1,068.43	139,815	21,626	102,327	54,657
2004-05	243	1,095.79	149,941	25,642	121,415	51,933
2005-06	235	1,216.77	155,519	38,645	155,165	53,861
2006-07	229	1,268.38	165,266	37,836	169,656	83,876
2007-08	221	1,541.18	179,657	40,335	185,376	85,458
2008-09	211	1,576.67	197,076	38,741	207,317	82,897
2009-10	196	1,588.72	190,121	41,273	225,688	90,864
2010-11	207	1,816.62	188,140	39,648	245,249	75,706

A Facilities Master Plan to the year 2030 was completed in December 2009 that projects wastewater treatment flows to increase to 279 millions of gallons per day (mgd) in 2020, to 286 mgd in 2025, and to 294 mgd in the year 2030. The anticipated need to meet the projected flows is included in the overall CIP program of \$1.9 billion out to 2020-21.

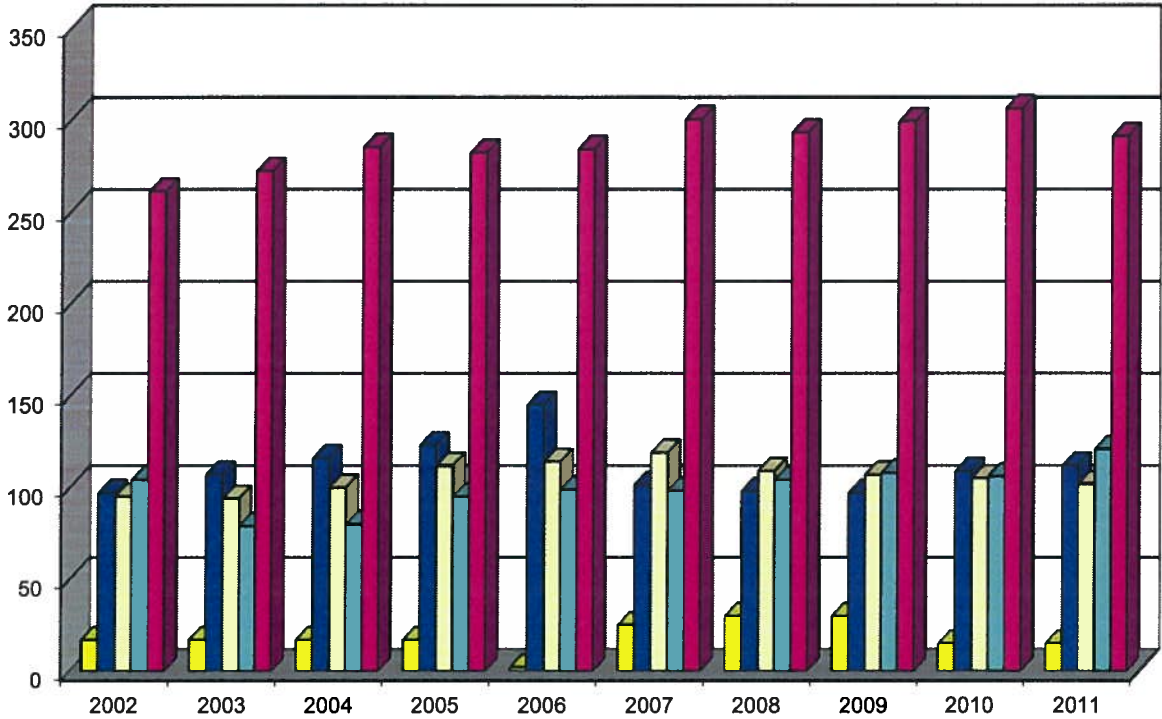
Total expenses in FY 2010-11 increased \$90.2 million, or 65.6 percent since FY 2001-02, primarily as a result of (1) OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moves from a 50/50 mix of primary and secondary effluent treatment to meeting secondary treatment standards by December 31, 2012, and (2) OCSD's decision to eliminate most bacteria from the ocean outfall discharge by disinfecting the effluent beginning in FY 2002-03 at an additional cost in chemicals of \$7 million annually.

Maintenance, chemicals, utilities, and other operating costs represent 36 percent of the increase, primarily due to the increase in the levels of treatment referred to above. Depreciation expense represents another 4 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2010-11, personnel expenses rose 5.0 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized remained constant in FY 2010-11.

As depicted from the chart above, actual wastewater treatment flows have generally remained between 234 mgd and 244 mgd in the past. Due to unusually dry weather conditions during the last five years, FY 2006-07, FY 2007-08, FY 2008-09, FY 2009-10 and FY 2010-11 had flows of only 229 mgd , 221 mgd, 211 mgd, 196 mgd, and 207 mgd respectively.

Source: Orange County Sanitation District.

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



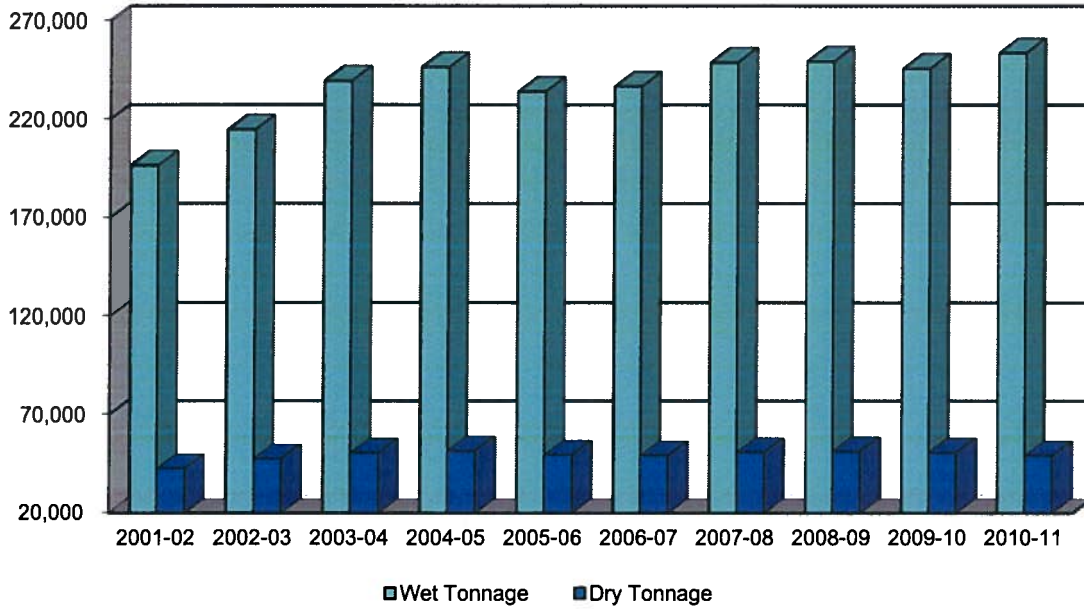
■ General Management   
 ■ Administrative Services   
 ■ Technical Services   
 ■ Engineering   
 ■ Operations and Maintenance

	<b>Fiscal Year Ending June 30,</b>									
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Management	17	17	17	17	2	25	30	30	15	15
Administrative Services	97	107	116	123	145	102	98	97	109	112
Technical Services	95	94	100	112	114	119	109	107	105	102
Engineering	104	79	80	95	99	98	104	108	106	121
Operations and Maintenance	261	272	285	282	284	300	293	299	306	291
<b>Total FTE's</b>	<b>574</b>	<b>569</b>	<b>598</b>	<b>629</b>	<b>644</b>	<b>644</b>	<b>634</b>	<b>641</b>	<b>641</b>	<b>641</b>

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



**ORANGE COUNTY SANITATION DISTRICT**  
 Biosolids Produced  
 Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Wet Tonnage</u>	<u>Dry Tonnage</u>
2001-02	196,600	42,505
2002-03	214,600	47,631
2003-04	239,426	50,519
2004-05	246,194	51,700
2005-06	233,996	49,554
2006-07	236,460	49,184
2007-08	248,717	50,884
2008-09	249,202	51,342
2009-10	245,668	50,799
2010-11	253,557	49,133

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

**ORANGE COUNTY SANITATION DISTRICT**  
 Capital Asset Statistics  
 Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Miles of Trunk &amp; Subtrunk Sewers</b>	<b>Number of Pump Stations</b>	<b>Primary Treatment Capacity (1)</b>	<b>Secondary Treatment Capacity (1)</b>
2001-02	650	20	276	200
2002-03	650	20	276	200
2003-04	650	20	276	170
2004-05	620	18	306	170
2005-06	584	16	366	200
2006-07	581	16	372	200
2007-08	568	17	372	200
2008-09	582	17	372	212
2009-10	579	17	372	212
2010-11	587	17	372	212

**Notes**

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

Source: Orange County Sanitation District

**ORANGE COUNTY SANITATION DISTRICT**  
Demographic Statistics  
Covering The Entire County of Orange (1)  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>(2) Population Estimates</b>	<b>Total Personal Income (in thousands)</b>	<b>Per Capita Personal Income</b>	<b>(5) Median Family Income</b>	<b>(6) Public School Enrollment</b>	<b>(7) Unemployment Rate</b>
2001-02	2,940,000	\$ 116,004,953 (3)	\$ 39,457	\$ 75,600	503,000	4.1%
2002-03	2,979,000	122,427,855 (3)	41,097	70,000	512,000	4.0%
2003-04	3,017,000	130,621,396 (3)	43,295	74,200	517,000	3.6%
2004-05	3,047,000	139,408,948 (3)	45,753	75,700	514,000	3.9%
2005-06	3,072,000	150,598,354 (3)	49,023	78,300	510,114	3.7%
2006-07	3,090,000	153,446,600 (4)	49,659	78,700	503,955	3.9%
2007-08	3,108,000	155,068,400 (4)	49,893	84,100	503,492	5.3%
2008-09	3,135,000	148,372,600 (4)	47,328	86,100	504,136	9.3%
2009-10	3,166,000	153,098,600 (4)	48,357	87,200	502,239	9.5%
2010-11	3,030,000	159,007,100 (4),(8)	52,478	84,200	502,903	9.2%

**Notes and Data Sources**

(1) - The Orange County Sanitation District services 471 square miles or 59% 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: 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 Populations Served by the  
Orange County Sanitation District  
June 30, 2011

	<b>Population as of <u>January 1, 2011</u></b>
Anaheim	341,034
Brea	40,065
Buena Park	80,868
Costa Mesa	110,146
Cypress	47,907
Fountain Valley	55,423
Fullerton	135,574
Garden Grove	171,327
Huntington Beach	190,377
Irvine	219,156
La Habra	60,432
La Palma	15,596
Los Alamitos	11,474
Newport Beach	85,376
Orange	136,995
Placentia	50,665
Santa Ana	325,228
Seal Beach	24,215
Stanton	38,317
Tustin	75,781
Villa Park	5,823
Westminister	89,937
Yorba Linda	<u>64,855</u>
Subtotal City (1)	2,376,571
Estimated Population Served in Unincorporated Areas (2)	<u>81,000</u>
	<u><u>2,457,571</u></u>

**Data Sources:**

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

(2) Orange County Sanitation District Financial Management Division.

**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 6/30/11</u>			<u>Fiscal Year Ended 6/30/02</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (4)</u>
University of California, Irvine	20,650	1	1.45%	14,981	3	1.04%
Walt Disney Co.	20,000	2	1.40%	21,275	1	1.47%
County of Orange	17,655	3	1.24%	17,290	2	1.19%
St. Joseph Health System	11,965	4	0.84%	9,435	6	0.65%
Boeing Co.	8,060	5	0.57%	11,179	4	0.77%
BankAmerica Corp.	6,500	6	0.46%	4,813	10	0.33%
YUM! Brands Inc.	6,500	7	0.46%			
SuperValu, Inc.	5,900	8	0.41%			
Kaiser Permanente	5,397	9	0.38%			
Target Corp.	5,325	10	0.37%	4,878	9	0.34%
Albertsons Inc.				9,500	5	0.66%
Tenet Healthcare Corp.				8,389	7	0.58%
SBC Communications, Inc.				7,100	8	0.49%
BankAmerica Corp.						
Total	107,952		7.58%	108,840		7.52%

**Notes & Data Sources**

- (1) - Data is for the entire County of Orange.
- (2) - Data Sources: Orange County Business Journal Book of Lists, County of Orange
- (3) - Data Source: State of California, Employment Development Department.  
- Percentage is calculated by dividing employees by total employment of 1,423,600 as of June 2011.
- (4) - Data Source: State of California, Employment Development Department.  
- Percentage is calculated by dividing employees by total employment of 1,447,000 as of June 2002.

**ORANGE COUNTY SANITATION DISTRICT**

Operating Indicators

June 30, 2011

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

**Consolidated Revenue Area**

County of Orange (unincorporated areas)

Cities:

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

Special Districts:

- Midway City Sanitary District
- Costa Mesa Sanitary District

**Revenue Area No. 14**

County of Orange (unincorporated areas)

Cities:

- Irvine
- Orange
- Tustin

Special District:

- Irvine Ranch Water District

<b>Governing Body:</b>	25-member Board of Directors
<b>Authorized Full-Time Equivalent Employees:</b>	637
<b>Operational Date:</b>	July 1, 1954
<b>Authority:</b>	California Health & Safety Code Section 4700 et. seq.
<b>Services:</b>	Wastewater collection, treatment, and disposal
<b>Service Area:</b>	463 square miles
<b>Population Served:</b>	2.5 million
<b>Total Miles of Sewers (including force mains):</b>	587 miles
<b>Number of Pumping Stations:</b>	17

**Wastewater System Treatment Capacities (Million Gallons per Day)**

	<u>Actual Flows</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>	<u>Planned Secondary Capacity by 2020</u>
Plant 1	96	204	122	182
Plant 2	<u>111</u>	<u>168</u>	<u>90</u>	<u>150</u>
Total	<u>207</u>	<u>372</u>	<u>212</u>	<u>332</u>

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

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**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 Certificates of Participation 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, 2011

	Cost		Market Value	Net Unrealized Gain/Loss	
	Shares Par	Base	Base	% of Total	Base
<b>Investment Portfolio:</b>					
<b>Cash and Cash Equivalents (U.S. Dollar):</b>					
Pending Trades	\$ -	\$ 6,623,985.67	\$ 6,623,985.67	1.75%	\$ -
Cash Equivalents	104,812.50	104,812.50	26,203.13	0.01%	(78,609.37)
Fed Hm Loan Bnk - Less Than 1 Year	4,055,000.00	4,049,479.27	4,049,479.27	1.07%	-
Federal Home Loan Mortgage-Less Than 1 Yr	8,700,000.00	8,698,345.63	8,698,345.63	2.29%	-
FNMA Issues - Less Than 1 Year	19,400,000.00	19,396,275.06	19,396,275.06	5.11%	-
Repurchase Agreements	600,000.00	600,000.00	600,000.00	0.16%	-
Short Term Investment Funds (US Regulated)	1,106,328.43	1,106,328.43	1,106,328.43	0.29%	-
Treasury Bills - Less Than 1 Year	83,172,000.00	83,165,296.26	83,165,296.26	21.92%	-
Subtotal	<u>117,138,140.93</u>	<u>123,744,522.82</u>	<u>123,665,913.45</u>	<u>32.60%</u>	<u>(78,609.37)</u>
<b>Fixed Income Securities (U.S. Dollar):</b>					
Asset Backed Securities - Car Loans	501,712.33	508,336.50	505,058.75	0.13%	(3,277.75)
Asset Backed Securities - Home Equity	133,743.29	100,432.85	110,585.64	0.03%	10,152.79
Asset Backed Securities - Small Bus Admin	804,717.20	804,717.20	878,276.40	0.23%	73,559.20
Asset Backed Securities - Student Loans	889,474.78	887,538.58	890,655.47	0.23%	3,116.89
Automobiles & Components	1,545,000.00	1,763,478.45	1,718,797.05	0.45%	(44,681.40)
Banking & Finance	70,172,000.00	69,495,080.31	69,988,093.84	18.45%	493,013.53
Collateralized Mortgage Obligation	2,350,515.67	2,352,704.17	2,349,266.46	0.62%	(3,437.71)
FDIC Guaranteed Bank & Finance	36,924,000.00	37,673,156.12	37,393,597.26	9.86%	(279,558.86)
FHLMC Multiclass	2,950,884.77	3,243,138.64	3,229,521.88	0.85%	(13,616.76)
FHLMC Pools	11,622.13	11,338.85	12,116.30	0.00%	777.45
FNMA Pools	9,156,661.71	9,089,927.14	9,159,438.49	2.41%	69,511.35
FNMA Remic	4,145,679.84	4,204,519.46	4,230,694.38	1.12%	26,174.92
Food Products	2,600,000.00	2,940,824.00	2,859,482.00	0.75%	(81,342.00)
GNMA Multi Family Pools	499,802.68	499,507.32	519,512.97	0.14%	20,005.65
Health Care	1,000,000.00	996,290.00	953,510.00	0.25%	(42,780.00)
Insurance	6,010,000.00	5,093,792.00	6,183,031.70	1.63%	1,089,239.70
Muni - Medical	500,000.00	508,595.00	537,255.00	0.14%	28,660.00
Oil & Gas	100,000.00	100,000.00	100,950.00	0.03%	950.00
Taxable Municipals	17,440,000.00	17,738,875.89	18,714,541.60	4.93%	975,665.71
Technology	3,200,000.00	3,200,000.00	3,207,264.00	0.85%	7,264.00
U.S. Agencies	20,848,061.88	21,139,154.46	21,039,106.93	5.55%	(100,047.53)
U.S. Governments	61,210,000.00	61,437,796.80	61,528,890.80	16.22%	91,094.00
Utility - Electric	7,097,000.00	7,317,343.61	7,254,539.52	1.91%	(62,804.09)
Utility - Telephone	2,020,000.00	2,084,034.00	2,314,819.00	0.61%	230,785.00
Subtotal	<u>252,110,876.28</u>	<u>253,190,581.35</u>	<u>255,679,005.44</u>	<u>67.40%</u>	<u>2,488,424.09</u>
Total Investment Portfolio	<u>\$ 369,249,017.21</u>	<u>376,935,104.17</u>	<u>379,344,918.89</u>	<u>100.00%</u>	<u>\$ 2,409,814.72</u>
Demand Cash Accounts		1,142,438.00	1,142,438.00		
Monies Held With Fiscal Agents		147,249,251.00	147,249,251.00		
Monies with the Local Agency Investment Fund		32,986,025.91	33,038,027.00		
Total Cash and Investments		<u>\$ 558,312,819.08</u>	<u>\$ 560,774,634.89</u>		

Source: BNY Mellon Trust and the Orange County Sanitation District's Financial Management Division.

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

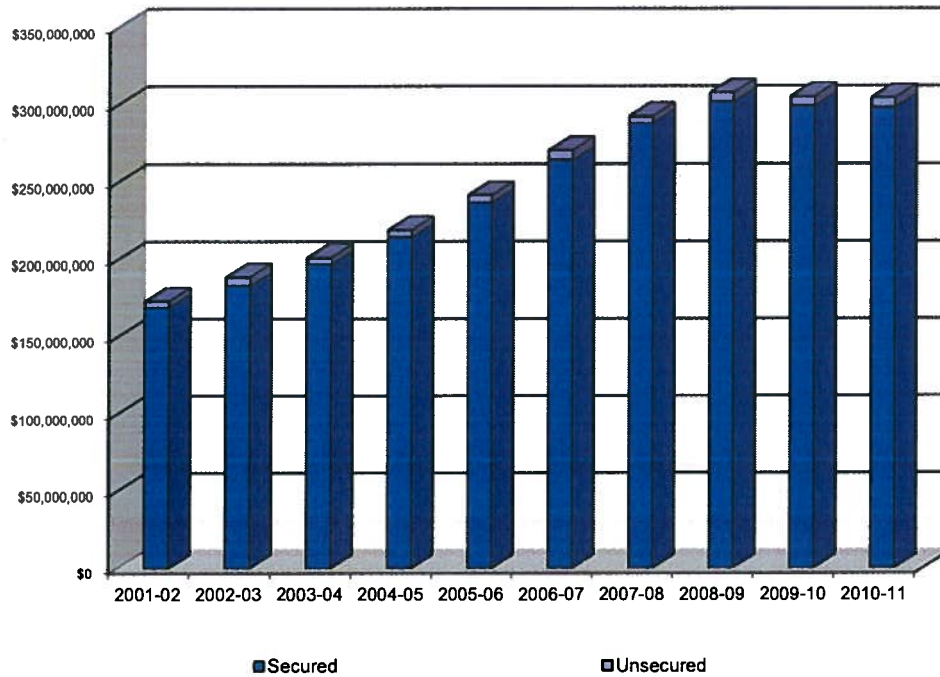
<b>Fiscal Year</b>	<b>Tax Rate</b>			<b>OCSD's Average Share of Basic Levy</b>
	<b>Basic Levy</b>	<b>OCSD 1958 General Obligation Bonds</b>	<b>Total Tax Rate</b>	
2001-02	1.00%	0.00%	1.00%	2.80%
2002-03	1.00%	0.00%	1.00%	2.80%
2003-04	1.00%	0.00%	1.00%	2.80%
2004-05	1.00%	0.00%	1.00%	1.60%
2005-06	1.00%	0.00%	1.00%	1.60%
2006-07	1.00%	0.00%	1.00%	2.80%
2007-08	1.00%	0.00%	1.00%	2.80%
2008-09	1.00%	0.00%	1.00%	2.80%
2009-10	1.00%	0.00%	1.00%	2.80%
2010-11	1.00%	0.00%	1.00%	2.80%

**Notes**

In 1978, California voters passed Proposition 13 which set the property tax rate at a 1.00% fixed amount of assessed value. This 1.00% is shared by all taxing agencies within which the subject property resides. In addition to the 1.00% fixed amount, property owners were charged taxes as a percentage of assessed property values for the payment of OCSD general obligation bonds (which were paid in full in fiscal year 1998-99).

Source: County of Orange Auditor-Controller's Office.

**ORANGE COUNTY SANITATION DISTRICT**  
**Assessed and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

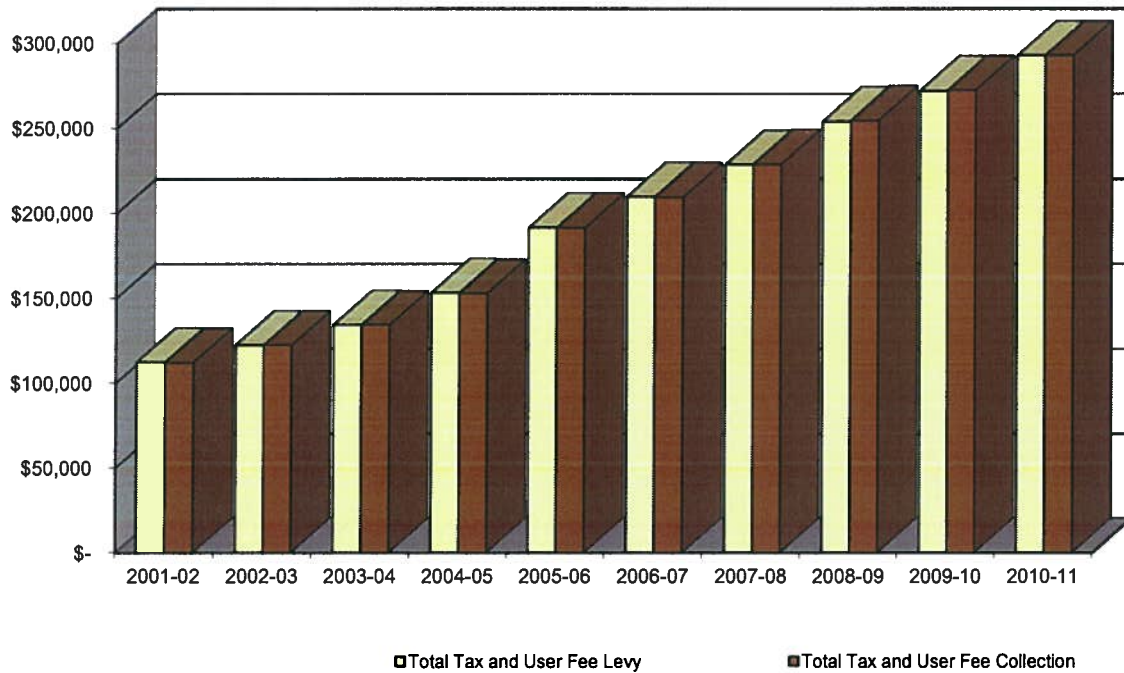


<u>Fiscal Year</u>	<u>Secured</u>	<u>Unsecured</u>	<u>Total</u>	<u>Percent Change in Assessed Value</u>
2001-02	169,357,000	4,066,000	173,423,000	9.40%
2002-03	183,223,000	5,657,000	188,880,000	8.91%
2003-04	197,143,000	4,309,000	201,452,000	6.66%
2004-05	214,529,000	4,743,000	219,272,000	8.85%
2005-06	236,826,573	5,023,423	241,849,996	10.30%
2006-07	264,241,033	6,452,111	270,693,144	11.93%
2007-08	288,051,467	4,681,838	292,733,305	8.14%
2008-09	301,717,479	5,894,003	307,611,482	5.08%
2009-10	299,038,654	6,116,530	305,155,184	-0.80%
2010-11	298,099,034	6,238,834	304,337,868	-0.27%

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

Source: Orange County Auditor - Controller's Office.

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



<b>Fiscal Year</b>	<b>Total Tax and User Fee Levy</b>	<b>ERAF III Deduction</b>	<b>Current Tax and User Fee Collection</b>	<b>Percent of Levy Collected</b>	<b>Delinquent Collection</b>	<b>Total Tax and User Fee Collection</b>	<b>% of Total Collection to Levy</b>	<b>O/S Delinquencies</b>	<b>% of Delinquencies to Tax Levy</b>
2001-02	\$ 112,419	\$ -	\$ 112,087	99.70	\$ 83	\$ 112,170	99.78	\$ 245	0.22
2002-03	122,450	-	122,210	99.80	98	122,308	99.88	332	0.27
2003-04	134,389	-	134,132	99.81	94	134,226	99.88	241	0.18
2004-05	153,187	(16,198)	152,745	99.71	92	152,837	99.77	257	0.17
2005-06	191,711	(16,198)	191,290	99.78	122	191,412	99.84	421	0.22
2006-07	209,766	-	209,206	99.73	215	209,421	99.84	560	0.27
2007-08	228,622	-	228,635	100.01	329	228,964	100.15	(13)	(0.01)
2008-09	254,092	-	254,106	100.01	395	254,501	100.16	(14)	(0.01)
2009-10	272,050	-	272,110	100.02	226	272,336	100.11	(60)	(0.02)
2010-11	292,646	-	292,689	100.01	120	292,809	100.06	(43)	(0.01)

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

<b>Assessed Property Value (2)</b>		<b>Calendar Year</b>	<b>Non- Residential Constr. (3)</b>	<b>Residential Construction (3)</b>		<b>Total Construction Value (3)</b>
<b>Fiscal Year</b>	<b>Value</b>		<b>Value</b>	<b>No. of Units</b>	<b>Value</b>	
2001-02	\$ 248,966,581	2002	\$ 1,208,626	12,020	\$ 2,328,123	\$ 3,536,749
2002-03	269,684,864	2003	1,005,547	9,311	2,076,976	3,082,523
2003-04	287,923,828	2004	1,132,848	9,322	2,243,642	3,376,490
2004-05	311,802,395	2005	1,494,759	7,206	2,100,436	3,595,195
2005-06	342,576,859	2006	2,400,569	8,371	2,316,948	4,717,517
2006-07	381,007,391	2007	2,005,198	7,072	1,792,270	3,797,468
2007-08	412,669,779	2008	1,439,120	3,159	1,037,713	2,476,833
2008-09	428,809,224	2009	952,480	2,200	855,193	1,807,673
2009-10	422,965,596	2010	1,151,929	3,181	1,026,857	2,178,786
2010-11	420,751,575	2011 (4)	1,118,417	3,975	1,223,446	2,341,863

**Notes and Data Sources**

(1) - The Orange County Sanitation District services 480 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 - "The Chapman University Economic & Business Review."

(4) - Forecasted numbers.

**ORANGE COUNTY SANITATION DISTRICT**

Insurance in Force

As of July 1, 2011

<u>Type</u>	<u>Insurer</u>	<u>Deductible</u>	<u>Limit</u>
<b><u>All-Risk Property</u></b>			
Fire and Other Perils	Public Entity Property Insurance Program (Lexington and others)	\$250,000 per occurrence	\$1 billion/occurrence
Flood	Public Entity Property Insurance Program	\$100,000 per occurrence	\$300 million/occurrence
Earthquake	Not Applicable	Not Applicable	Self-insured
<b><u>Boiler &amp; Machinery</u></b>	Public Entity Property Insurance Program (Lexington and others)	\$25,000 to \$350,000	\$100 million/occurrence
<b><u>Crime Insurance</u></b>	National Union Fire	\$25,000	\$5 million
<b><u>Excess General Liability</u></b>	Security National Insurance (first \$10 million layer); Starr Indemnity & Liability (\$20 million layer excess \$10 million)	\$250,000 \$500,000 for EPLI	\$30 million/occurrence and annual aggregate
<b><u>Travel &amp; Accident</u></b>	Chubb Group of Insurance Companies	None	Accidental Death & Dismemberment: Class 1: Elected Officials, \$500,000 per occurrence Class 2: Employees, 10X annual salary, up to \$500,000 per occur.
<b><u>Excess Workers' Compensation</u></b>	CSAC Excess Insurance Authority Program	\$750,000 Each Accident	Unlimited statutory coverage each accident, each employee \$4.5 million employer's liability
<b><u>Pollution Liability</u></b>	CSAC Excess Insurance Authority Program	\$100,000	\$10,000,000 per loss
<b><u>Watercraft</u></b>			
Liability	Northern Assurance Co. of Am.	\$15,000	\$10 million
Hull & Machinery	Northern Assurance Co. of Am.	\$15,000	\$1.3 million
Pollution Liability	Great American Ins. Co,	None	\$5 million
<b><u>OCIP Main Basket</u></b> ("OCIP" = Owner Controlled Ins. Program for Construction)			
Workers Comp.	Liberty Mutual	\$250,000/occur.	Unlimited statutory coverage
General Liability	Liberty Mutual	\$250,000/occur.	\$2 million/occurrence; \$4 million agg.
<b><u>OCIP Excess Liability</u></b>	AIG	\$10,000	\$100 million
<b><u>OCIP Pollution Liability</u></b>	Liberty Surplus	\$250,000	\$15 million

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

**(THIS PAGE INTENTIONALLY LEFT BLANK)**