

Orange County Sanitation District Comprehensive Annual Financial Report

for the Period Ended June 30, 2012



Orange County, California

We're here for you.

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

Prepared By:
Administrative Services Department
Financial Management Division

Michael D. White, CPA
Controller

(THIS PAGE LEFT INTENTIONALLY BLANK)

ORANGE COUNTY SANITATION DISTRICT
 Comprehensive Annual Financial Report
 Table of Contents
 For the Year Ended June 30, 2012

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal.....	i-vii
GFOA Certificate of Achievement	viii
Board of Directors.....	ix
Organization Chart.....	x
Map of Service Area	xi
FINANCIAL SECTION:	
Independent 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	13-37
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
STATISTICAL SECTION:	
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
OTHER DATA & TRENDS:	
Cash and Investment Portfolio – As of June 30, 2012	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

(THIS PAGE LEFT INTENTIONALLY BLANK)



ORANGE COUNTY SANITATION DISTRICT

November 5, 2012

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, 2012. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2012 and was prepared by the Financial Management Division of the Sanitation District's Administrative Services Department.

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

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

An audit of the books, financial records and transactions of the Sanitation District is conducted annually by independent certified public accountants. The Sanitation District selected the accounting firm of McGladrey, LLP to perform the audit for the year ended June 30, 2012. 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, 2012.

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

GOVERNMENTAL STRUCTURE

The Orange County Sanitation District encompasses the Northern section of Orange County. The Sanitation District provides wastewater treatment for an area of the County covering 479 square miles and serving a population of approximately 2.5 million, or 81 percent of the County's population. The Sanitation District was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at the Sanitation District's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in order to simplify governance structures, reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of collecting sewer user fees at the previously established rate schedules, and were referred to as nine individual revenue areas through June 30, 2000. Effective July 1,

10844 Ellis Avenue
Fountain Valley, CA
92708-7018

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

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

Plants No. 1 and No. 2 have primary treatment capacities, including standby, of 204 million gallons per day (mgd) and 168 mgd, respectively. In fiscal year 2011-12, greater than 98.8 percent of all advanced primary effluent also received secondary treatment. Both plants are master-planned for a future primary and secondary treatment capacity of 235 mgd for a combined total of 470 mgd by the year 2070.

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

Remaining outflows of treated wastewater from Plants 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 2012, the Institute for Economic and Environmental Studies at the California State University Fullerton Mihaylo College of Business and Economics (CSUF) forecasts that the U.S. gross domestic product (GDP) will grow an average of 2.1 percent this year, slow to 1.8 percent in 2013, then rise to 2.7 percent in 2014. The forecast assumes that the U.S. economy will stumble over the next few months as business holds its breath waiting for Washington to act on taxes and the federal deficit and Europe and China to deal with their economic woes. The forecast assumes that Washington will extend all the current Bush tax breaks through the first quarter and delay the major budget cuts scheduled for January 1 before eventually compromising over a combination of tax increases and spending reductions.

CSUF's forecast reports that Orange County's recovery has recently gathered more strength than the national economy. In particular, after the deep national downturn led the housing sector collapse, the county's housing and construction sectors have shown real signs of a self-sustained, broad based recovery. Housing-related sectors, and construction in particular, were the worst hit sectors during this great recession. This was expected, given that the collapse in the mortgage markets led to an unprecedented decline in home prices, which in turn dramatically precipitated the deeper economic decline. However, CSUF forecasts that although the county will lose 1,500 construction jobs this year, it will add 2,500 workers in that sector in 2013, followed by another 7,000 the following year.

Housing permits in Orange County declined steadily from 7,100 in 2007 to 2,200 in 2009, or a year-over year decline of 55.4 percent from 2007 to 2008 and 30.9 percent decline from 2008 to 2009, but have since somewhat recovered to 3,100, or 40.9 percent from 2009 to 2010, and to 4,800, or 54.8 percent from 2010 to 2011, and are now forecasted to rise to 5,200 in 2012, or by 8.3 percent, and to 6,300 in 2013, or by 21.2 percent. Non-residential construction in Orange County fell by 28.2 percent from 2007 to 2008 and by an additional 33.9 percent in 2009, but appears to have recovered from its trough and has been on a steady but moderate path over the second and third quarters of 2012.

The CSUF forecast sees Orange County's economy accelerating from an estimated 1.9 percent annual job-growth rate this year to 3.0 percent by 2014. That translate into a projected 26,500 new jobs countywide in 2013, jumping to 42,400 in 2014. In 2009, during the darkest days of the recession, the County lost 110,000 jobs. Although CSUF believes that it will be several years before all the jobs lost during this most recent economic downturn are recovered, the uptrend noticed at the national level and reinforced at the county level will be sustainable unless unexpected events short-circuit the recovery. Recent improvements in the Housing/Construction, Leisure & Hospitality, High-tech, Professional and Business Services, and Retail trade all point to a healthier growth in the near future. Manufacturing likely will be slower to recover because of the slowdown in exports to Europe and China. CSUF believes the Orange County unemployment rate to average 7.9 percent over 2012, 7.3 percent over 2013, and 6.7 percent in 2014.

According to the California Association of Realtors, the median price for a detached single-family home in Orange County fell to a low of \$442,000 in January 2009 after reaching a high of \$775,000 in June 2007. However, in June 2012, the median price came in at \$568,000. Compared to year-over-year values, home prices turned positive in June 2012 for the first time in almost two years. The Anderson Center for Economic Research at Chapman University forecasts within their June 2012 Economic and Business Review that housing prices in Orange County, measured by the median price of a single-family home, to show an increase of 2.0 percent in 2012 and by 7.1 percent in 2013.

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 six 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.
- July 10, 2012 – Complete construction of Plant No. 1 secondary treatment expansion.

Following is the timeline for the one remaining milestone:

- 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 2012, the staff-generated ideas were presented to the Board of Directors during a workshop, where Board Members discussed and deliberated changes and additions to the plan.

Driven by the Sanitation District’s mission, vision and core values, the 2012 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, 78 percent of the strategic goals identified have been completed. Four new goals were added in the 2012 update and the continuation of ten previous goal was included in the plan.

The New Goals include:

- Biosolids Management – Update Biosolids Policy to reflect Board of Director’s decision to maintain the District’s environmental management system that was first certified by the National Biosolids Partnership in 2003, to reaffirm recycling of at least 88 percent of total biosolids with no more than 12 percent deposited in landfills, and to reaffirm the diversity goals pertaining to percentage limits by market, contractor, or facility as originally recommended by the Long Range Biosolids Management Plan.

- Chemical Sustainability – Develop a diversification model to ensure a reliable and sustainable chemical supply that includes having multiple vendor contracts in place that supports a dependable chemical supply and provides for competitive pricing.
- Odor Control Update and Action Plan – Completion of an Odor Control Master Plan to ensure that the District is limiting offsite odor impacts in a comprehensive and cost effective manner and to ensure that the District's investment in current and potentially future process systems will produce the benefits intended.
- Workforce Planning and Workforce Development - Integrate workforce planning and workforce development efforts to improve workforce capability, adaptability, efficiency, and accountability.
- Business Continuity Planning – Develop a Business Continuity Plan that will define how the District will continue its everyday business functions during an emergency or natural hazard so that services are either uninterrupted or restored rapidly following an interruption. This includes potential financial effects of a crisis as well as having the flexibility to adapt human resource policies to meet the changing needs of employees during an event and to continue providing effective wastewater treatment to the 2.5 million people living in the service area.

Continuation of previous Goals:

- Full-Cost Recovery: Urban runoff division program – Review the feasibility of implementing 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.
- 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 December 2012, the Sanitation District received the 2012 National Environmental Achievement Award in Research and Technology from the National Association of Clean Water its fuel cell demonstration on the Energy and Hydrogen Production project.

In April 2012, the Sanitation District received the 2011 Research and Achievement Award from the Santa Ana River Basin Section of the California Water Environment Association for its engine emissions control demonstration project.

In June 2012, the Sanitation District received the 2012 Project of the Year Award from Communication Media Management Association for the trickling filter project at Plant No. 2.

In July 2012, the Sanitation District received the Gold Peak Performance Award from the National Association of Clean Water Agencies covering Reclamation Plant No. 1 and Treatment Plant No. 2 for

outstanding compliance with the National Pollutant Discharge Elimination System (NPDES) permit limits for 2011-12.

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, 2012 is \$69.8 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, 2012, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated net assets totaled \$577 million, and have been earmarked for the following specific purposes in accordance with the Sanitation District's reserve policy:

Designated For Cash Flow Contingency	\$183 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	199 million
Designated For Debt Service Requirements	<u>138 million</u>
Total Designated Net Assets	<u>\$ 577 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, 2011. This was the eighteenth consecutive year that the Sanitation District has received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS

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

Respectfully submitted,



Michael D. White, CPA
Controller

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, 2011

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.



Linda C. Danison

President

Jeffrey R. Enow

Executive Director

ORANGE COUNTY SANITATION DISTRICT

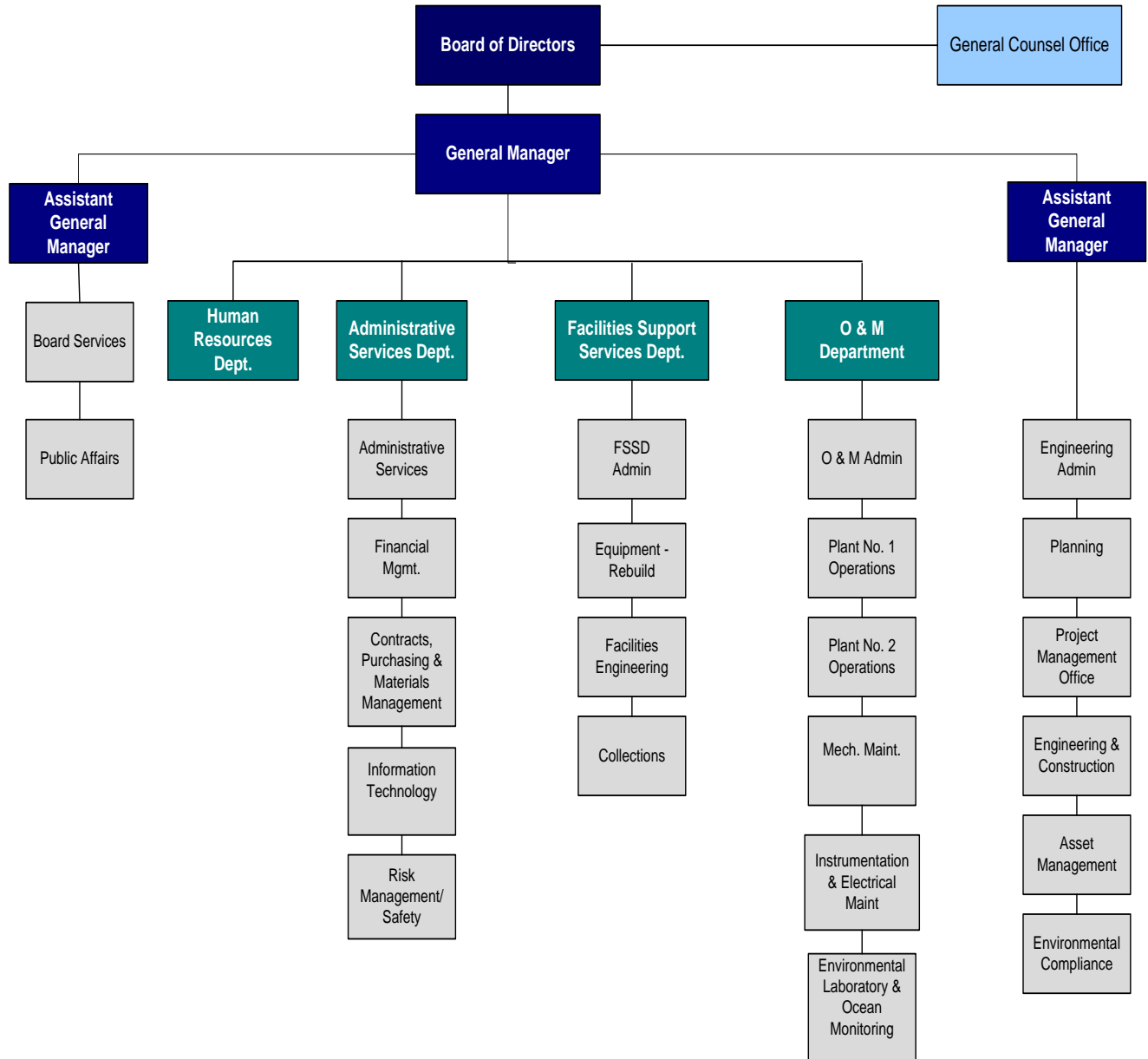
Board of Directors
As of June 30, 2012

<u>Agency</u>	<u>Active Director</u>	<u>Alternate Director</u>
Cities:		
Anaheim	Gail Eastman	Harry Sidhu
Brea	Don Schweitzer	Ron Garcia
Buena Park	Fred Smith	Steve Berry
Cypress	Prakash Narain	Doug Bailey
Fountain Valley	Larry Crandall	Steve Nagel
Fullerton	Gregory Sebourn	Pat McKinley
Garden Grove	Bill Dalton	Kris Beard
Huntington Beach	Joe Carchio	Devin Dwyer
Irvine	Jeffrey Lalloway	Steven Choi
La Habra	Tom Beamish	Rose Espinoza
La Palma	Mark Waldman	Steve Hwangbo
Los Alamitos	Troy Edgar	Gerri Graham-Mejia
Newport Beach	Steven Rosansky	Nancy Gardner
Orange	Jon Dumitru	Denis Bilodeau
Placentia	Scott Nelson	Constance Underhill
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	Rick Barnett
Yorba Linda	John Anderson	Jim Winder
Sanitary Water Districts:		
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
County Areas:		
Member of the Board of Supervisors	Janet Nguyen	Shawn Nelson

ORANGE COUNTY SANITATION DISTRICT

Organizational Chart

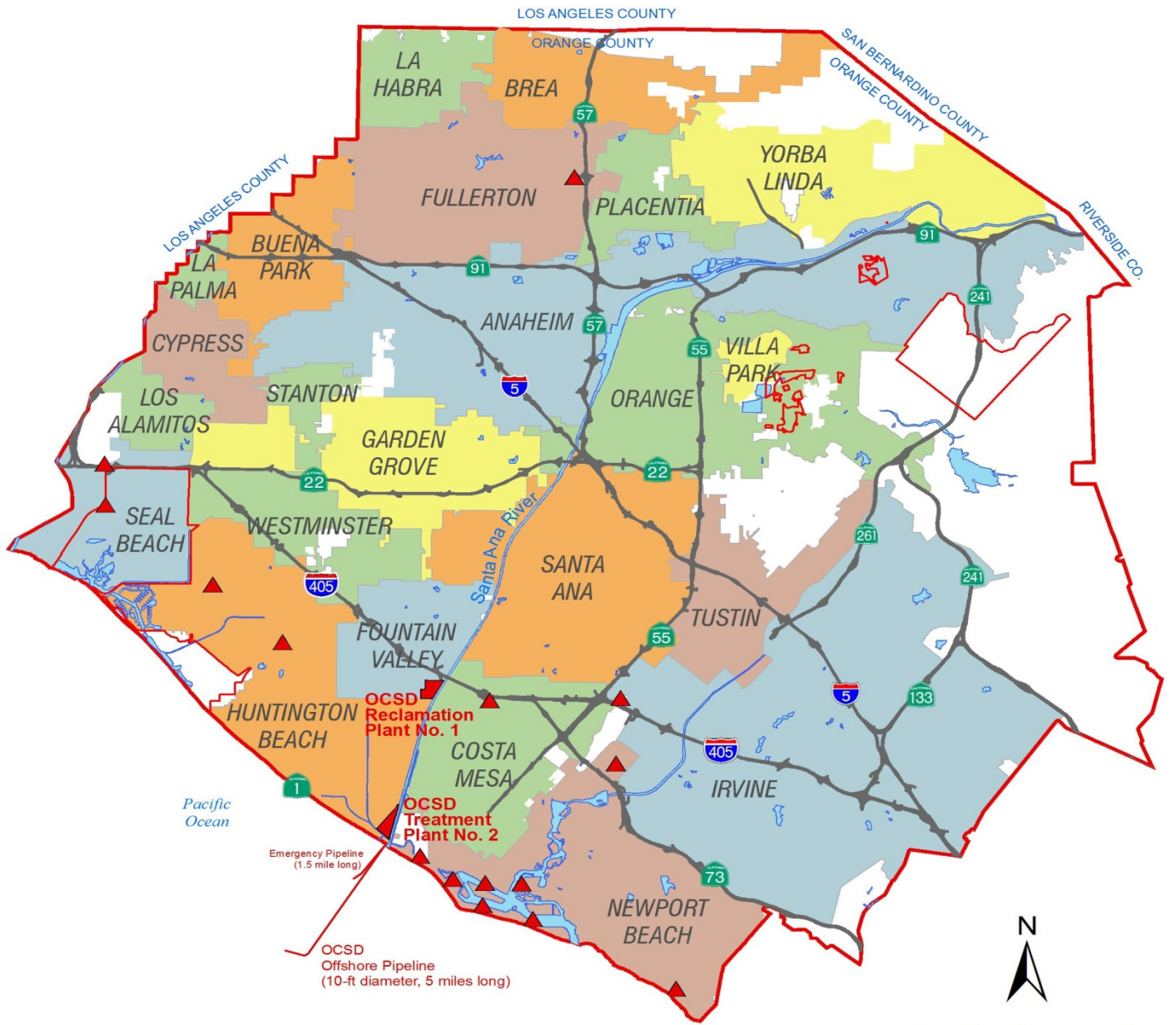
As of June 30, 2012



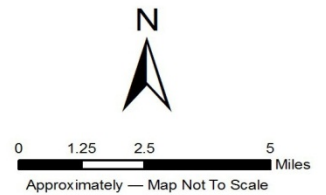
ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2012



- OCSD Service Area Boundary (463 square miles)
- ▲ OCSD Pump Station (15 total)
- Unincorporated Orange County (white)



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: 01/2012

(THIS PAGE LEFT INTENTIONALLY BLANK)

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 (the District) as of and for the years ended June 30, 2012 and 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The "Combining Area" financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information

directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the "Combining Area" financial statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The financial statements include partial or summarized prior year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2011, from which such partial or summarized information was derived.

McGladrey LLP

Irvine, CA
November 5, 2012

Management Discussion and Analysis June 30, 2012

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, 2012. 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, 2012, the assets of the Sanitation District exceeded its liabilities by \$1,605.8 million (net assets). Of this amount, \$479.9 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 \$95.3 million, or 6.3 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$13.3 million, or 0.6 percent over the prior year.
- Net Assets invested in capital assets, net of related debt decreased \$5.1 million, or 0.5 percent.
- Unrestricted Net Assets increased \$100.4 million, or 26.5 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 \$95.3 million, or 6.3 percent to \$1,605.8 million in FY 2011-12 over the prior year. In comparison, net assets increased \$79.4 million, or 5.5 percent, to \$1,510.5 million in FY 2010-11 over FY 2009-10.

(Dollars in thousands)

	June 30, 2012	June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)
Assets				
Current and other assets	\$ 653,545	\$ 648,994	\$ 4,551	0.7%
Capital assets, net	2,414,269	2,400,922	13,347	0.6%
Total assets	3,067,814	3,049,916	17,898	0.6%
Liabilities				
Current liabilities	276,972	292,307	(15,335)	-5.2%
Noncurrent liabilities	1,184,450	1,247,123	(62,673)	-5.0%
Total liabilities	1,461,422	1,539,430	(78,008)	-5.1%
Net assets:				
Investment in capital assets, net of related debt	1,125,966	1,131,063	(5,097)	-0.5%
Unrestricted	479,851	379,423	100,428	26.5%
Total net assets	\$ 1,605,817	\$ 1,510,486	\$ 95,331	6.3%

Current and other assets increased \$4.6 million, or 0.7 percent, due primarily to net cash provided by operations of \$111.5 million, net non-operating revenues of \$20.0 million, and receipt of capital facilities capacity charges of \$8.9 million funding offset by \$73.9 million in capital improvements and \$61.5 million in certificates of participation (COP) debt outlays.

Capital assets, net increased \$13.3 million, or 0.6 percent, due mostly to the ongoing capital improvement program capital additions of \$100.4 million in FY 2011-12 less depreciation of \$56.1 million, and the expensing of \$27.7 million of feasibility studies previously recorded as capital assets. Included in total capital outlays was the New Secondary Treatment System at Plant No. 1. This project 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 \$6.9 million were incurred in FY 2011-12 with total project outlays to date of \$252.5 million. The total projected cost is \$255.6 million with completion expected in the fall of 2012.

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 \$3.3 million were incurred in FY 2011-12 with total project outlays to date of \$219.6 million. The total projected cost is \$220.2 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 replaces 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 2011-12, \$9.5 million of the estimated \$257.7 million was incurred bringing the total outlay to date to \$251.3 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 2011-12.

Net assets invested in capital assets, net of related debt decreased \$5.1 million, or 0.5 percent over the prior year primarily as a result of the \$13.3 million increase in net capital assets offset by an increase of \$18.4 million in net related debt.

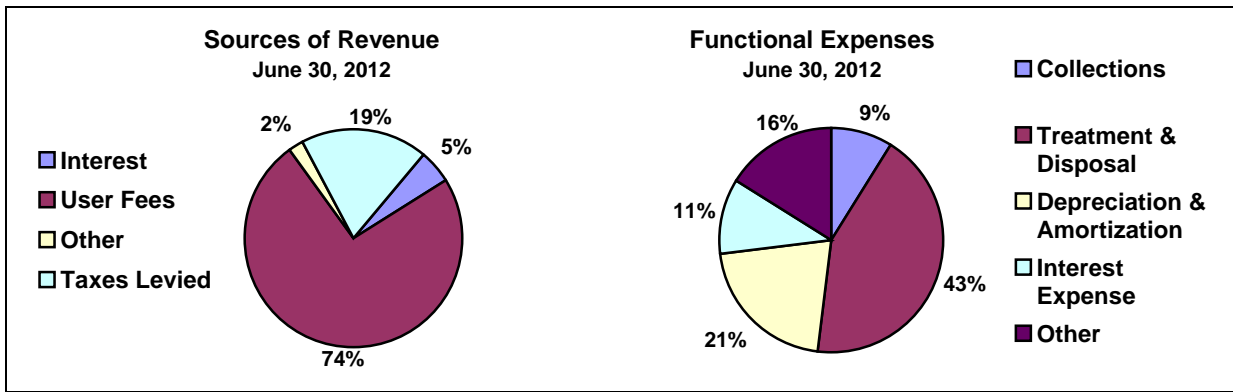
Unrestricted net assets increased \$100.4 million, or 26.5 percent over the prior year, and is due to the overall increase in net assets of \$95.3 coupled with the decrease in investment in capital assets net of related debt of \$5.1 million.

Changes in Net Assets

Net assets increased \$95.3 million in FY 2011-12, a 6.3 percent increase over the prior year.

(Dollars in thousands)

	June 30, 2012	June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service Charges	\$ 259,491	\$ 244,465	\$ 15,026	6.1%
Permit and inspection fees	1,030	784	246	31.4%
Total operating revenues	<u>260,521</u>	<u>245,249</u>	<u>15,272</u>	<u>6.2%</u>
Non-operating revenues				
Property taxes	67,882	64,307	3,575	5.6%
Investment and interest income	15,747	10,092	5,655	56.0%
Contrib. from other government	7,723	9,708	(1,985)	-20.4%
Other	763	1,307	(544)	-41.6%
Total non-operating revenues	<u>92,115</u>	<u>85,414</u>	<u>6,701</u>	<u>7.8%</u>
Total revenues	<u>352,636</u>	<u>330,663</u>	<u>21,973</u>	<u>6.6%</u>
Expenses:				
Operating expense other than depreciation and amortization	172,319	143,388	28,931	20.2%
Depreciation and amortization	56,051	49,288	6,763	13.7%
Non-operating expense	37,871	68,374	(30,503)	-44.6%
Total expenses	<u>266,241</u>	<u>261,050</u>	<u>5,191</u>	<u>2.0%</u>
Income before capital contributions	86,395	69,613	16,782	24.1%
Capital facilities capacity charges	8,936	9,800	(864)	-8.8%
Increase in net assets	95,331	79,413	15,918	20.0%
Beginning net assets	1,510,486	1,431,073	79,413	5.5%
Ending net assets	\$ 1,605,817	\$ 1,510,486	\$ 95,331	6.3%



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 2011-12, operating revenues increased \$15.3 million, or 6.2 percent over the prior year that is predominately reflective of the \$15.0 million, or 6.1 percent increase in service charges. The increase in service charges is primarily due to the 9.4 percent increase in the average sewer user fee rate over the prior year.

The \$6.7 million, or 7.8 percent increase in non-operating revenues primarily consists of a \$5.7 million, or 56.0 percent increase in investment and interest income, a \$3.6 million, or 5.6 percent increase in property tax revenues, a \$2.0 million, or 20.4 percent decrease in contributions from other governments, and a \$0.5 million, or 41.6 percent decrease in other non-operating revenues. The increase in investment and interest income is attributable to higher yields earned on investments and higher cash and investment balances. Yields earned on investments increased from 2.0 percent in FY 2011-12 to 2.8 percent in FY 2011-12 while cash balances increased during this same time period from \$561 million to \$577 million. The increase in property tax revenue is primarily the result of the increase in total assessed valuation of 1.4 percent over the prior year. The decrease in contributions from other governments is reflective of the decrease in capital contributions from the Irvine Ranch Water District (IRWD) primarily as a result of the overall decrease in capital construction in FY 2011-12 as compared to the prior year. The decrease in other non-operating revenues is mostly reflective of the \$400,000 decrease in federal grants earned in the current year in comparison with the prior year.

Operating expense before depreciation and amortization increased \$28.9 million or 20.2 percent over the prior year. The majority of this increase is attributable to the \$29.7 million increase in feasibility studies, of which \$27.4 million was incurred in prior years and previously recorded as construction in progress, a Non-depreciable Capital Asset on the Statement of Net Assets. Although not deemed material in prior years, management made the decision to expense the costs in the current year to conform to generally accepted accounting principles in regards to accounting for feasibility studies.

Excluding feasibility studies, operating expense before depreciation and amortization decreased \$0.7 million or 0.5 percent over the prior year. Operating salaries and benefits totaling \$75.6 million increased \$2.5 million, or 3.3 percent over the prior year. The operating salaries and benefits costs are part of the overall increase of \$0.4 million in total salaries and benefits when including the salaries and benefits

capitalized within the capital improvement program. Overall, total Sanitation District salaries and benefits were \$90.6 million, a 0.4 percent increase over the prior year total of \$90.2 million. This increase is mostly attributable to the \$0.8 million, or 1.6 percent increase in regular salaries primarily over the prior year that was primarily driven by existing bargaining agreements as total authorized staffing levels were reduced by 4.0 full time equivalent positions to 637.0 in FY 2011-12.

Biosolids disposal cost increased \$1.0 million, or 5.8 percent over the prior year as the District continued to move towards full secondary treatment standards by the court consent decree date of December 2012.

Somewhat offsetting the increased cost in personnel services and biosolids disposal was the decrease of \$2.2 million, or 66.0 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 treatment. Also, repairs and maintenance costs decreased \$1.4 million, or 12.6 percent as planned co-generation engine overhauls and digester cleanings were able to be deferred.

Non-operating expense decreased \$30.5 million, or 44.6 percent and is primarily reflective of the decrease in capital distribution back to the Irvine Ranch Water District (IRWD) in FY 2011-12 of \$28.6 million over the prior year, as only \$4.6 million of capital distribution was owed back to IRWD in FY 2011-12, as opposed to \$33.3 million in FY 2010-11. The decline in the reduction is reflective of IRWD's volume of sewage flow contributions coming into alignment with their corresponding equity share in the District's treatment plant.

Capital Facility Capacity Charges decreased \$0.9 million, or 8.8 percent over the prior year due to the continuing effects of the last recession and the continuing decline in construction.

Capital Assets

At June 30, 2012, the Sanitation District had a net investment of \$2.414 billion in capital assets. This amount represents a net increase (including additions and deletions) of \$13.3 million or 0.6 percent over the prior year.

(Dollars in thousands)

	June 30, 2012	June 30, 2011	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 15,960	\$ 19,217	\$ (3,257)	-16.9%
Construction in Progress	1,271,217	1,258,267	12,950	1.0%
Sewage collection facilities	337,561	346,959	(9,398)	-2.7%
Sewage treatment facilities	660,728	639,790	20,938	3.3%
Effluent disposal facilities	42,490	44,136	(1,646)	-3.7%
Solids disposal facilities	346	356	(10)	-2.8%
General and administrative facilities	83,088	88,660	(5,572)	-6.3%
Assets acquired in excess of book value	2,879	3,537	(658)	-18.6%
Capital assets, net	\$ 2,414,269	\$ 2,400,922	\$ 13,347	0.6%

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

- \$ 9.5 million – Headworks Improvements at Plant No. 2
- \$ 8.6 million – Sludge Digester Rehabilitation at Plant No. 1
- \$ 7.3 million – 66-inch Interplant Effluent Pipeline Rehabilitation
- \$ 6.9 million – New Secondary Treatment Systems at Plant No. 1
- \$ 5.9 million – Bitter Point Pump Station

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, 2012, the Sanitation District had \$1.3 billion outstanding in COP debt, a net decrease of \$71.2 million, or 5.1 percent over the prior year. Other than the schedule of debt service payments, this decrease is due to the advance-refunding of \$89.8 million of Series 2000 variable rate debt and the advance-refunding of \$83.3 million of Series 2003 fixed rate debt with the issuance of \$147.6 million in fixed rate debt, Series 2011A Wastewater Refunding Revenue Obligations; the advance-refunding of the remaining \$108.2 million outstanding Series 2003 fixed rate debt with the issuance of \$100.6 million Series 2012A Wastewater Refunding Revenue Obligations. In addition, Revenue Refunding Certificate Anticipation Notes, Series 2011B Certificates of Anticipation Notes (CANs) fixed rate debt was issued in the amount of \$143.2 million in November 2010 to refund the \$154.7 million outstanding principal balance of the CANs Series 2010B fixed rate debt.

Both Standard and Poor's Corporation and Fitch Ratings reaffirmed their AAA rating of the Orange County Sanitation District in the past fiscal year. The Sanitation District's long-range financing plan is designed to maintain this high rating. Over the next five years, the Sanitation District is projecting an additional \$1.1 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.

No new debt issuances is being proposed over the next five years to assist with the funding of the system improvements scheduled over this time period.

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate within the County of Orange is currently 7.9 percent, an increase from the rate of 9.2 percent a year ago.
- Inflation for Orange County in 2011 increased 2.7 percent based on the 2011 actual percentage change in the consumer price index according to the June 2012 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments increased from the 2.0 percent earnings rate in FY 2010-11 to 2.8 percent for FY 2011-12.

All of these factors were considered in preparing the District's biennium budget beginning July 1, 2012.

The Sanitation District's user fee schedule was increased by 10.1 percent for FY 2012-13 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 \$27.00, from \$267.00 to \$294.00. This rate increase was necessary to finance the Sanitation District's cash flow needs as capital improvement outlays alone are projected to be \$133.9 million in FY 2012-13 and are projected to total \$2.0 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, 2012

(With Comparative Data for June 30, 2011)

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 135,014,420	\$ 127,573,371
Investments	378,937,214	285,952,014
Accounts receivable, net of allowance for uncollectibles \$7,693	9,452,589	10,411,347
Accrued interest receivable	1,576,247	1,296,054
Connection fees receivable	647,485	385,765
Property tax receivable	1,542,223	1,408,477
Inventories	5,596,197	5,366,513
Prepaid expenses	858,826	623,907
Prepaid retirement	14,937,778	14,463,000
Total current assets	<u>548,562,979</u>	<u>447,480,448</u>
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	36,541,736	120,419,824
Investments	26,829,427	26,829,427
Accrued interest receivable	239,070	210,010
Non-depreciable capital assets	1,287,176,876	1,277,484,094
Depreciable capital assets, net of accumulated depreciation	1,127,092,227	1,123,437,456
Deferred charges	9,934,078	10,975,310
Due from other governmental agency	30,852,290	36,000,000
Other noncurrent assets, net	10,344	7,079,922
Total noncurrent assets	<u>2,518,676,048</u>	<u>2,602,436,043</u>
Total assets	<u>3,067,239,027</u>	<u>3,049,916,491</u>
Current liabilities:		
Accounts payable	12,232,536	14,722,600
Accrued expenses	7,410,100	6,654,544
Retentions payable	2,045,987	2,260,426
Interest payable	21,839,400	22,525,700
Due to other governmental agency	47,659,381	57,196,110
Current portion of long-term obligations	185,784,283	188,948,106
Total current liabilities	<u>276,971,687</u>	<u>292,307,486</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	<u>1,184,450,407</u>	<u>1,247,122,884</u>
Total liabilities	<u>1,461,422,094</u>	<u>1,539,430,370</u>
Net assets:		
Invested in capital assets, net of related debt		
Collection system	517,578,982	495,641,055
Treatment and disposal -Land	4,475,751	4,475,751
Treatment and disposal system	1,892,214,370	1,900,804,744
Capital assets related debt	<u>(1,288,302,786)</u>	<u>(1,269,858,548)</u>
Subtotal	1,125,966,317	1,131,063,002
Unrestricted	<u>479,850,616</u>	<u>379,423,119</u>
Total net assets	<u>\$ 1,605,816,933</u>	<u>\$ 1,510,486,121</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, 2012
(With Comparative Data for the Year Ended June 30, 2011)

	2012	2011
Operating revenues:		
Service charges	\$ 259,490,532	\$ 244,464,692
Permit and inspection fees	1,030,329	784,458
Total operating revenues	260,520,861	245,249,150
Operating expenses other than depreciation and amortization:		
Salaries and benefits	75,641,767	73,112,286
Utilities	7,405,843	6,947,781
Supplies, repairs and maintenance	24,254,601	27,018,195
Contractual services	26,698,372	27,048,501
Directors' fees	145,562	152,377
Meetings and training	742,765	613,697
Feasibility studies	34,198,026	4,536,965
Other	3,232,535	3,958,695
Total operating expenses other than depreciation and amortization	172,319,471	143,388,497
Operating income before depreciation and amortization	88,201,390	101,860,653
Depreciation and amortization	56,051,029	49,288,136
Operating income	32,150,361	52,572,517
Non-operating revenues:		
Property taxes	67,882,072	64,307,594
Investment and interest income	15,747,493	10,092,102
Contributions from other government	7,722,571	9,708,267
Other	763,161	1,306,771
Total non-operating revenues	92,115,297	85,414,734
Non-operating expenses:		
Interest	29,438,312	29,129,550
Contributions to other government	4,615,468	33,262,610
Loss on disposal of assets and other	3,817,099	5,981,829
Total non-operating expenses	37,870,879	68,373,989
Income before capital contributions	86,394,779	69,613,262
Capital Contributions:		
Capital facilities capacity charges	8,936,033	9,800,190
Change in net assets	95,330,812	79,413,452
Total net assets - beginning	1,510,486,121	1,431,072,669
Total net assets - ending	\$ 1,605,816,933	\$ 1,510,486,121

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Statement of Cash Flows

For the Year Ended June 30, 2012

(With Comparative Data for the Year Ended June 30, 2011)

	2012	2011
Cash flows from operating activities:		
Receipts from customers and users	\$ 251,972,581	\$ 263,032,782
Payments to employees	(73,257,661)	(72,478,818)
Payments to suppliers	(72,465,597)	(71,041,781)
Net cash provided by operations	<u>106,249,323</u>	<u>119,512,183</u>
Cash flows from noncapital financing activities:		
Proceeds from property taxes	67,748,326	64,939,187
Proceeds from various resources	729,471	-
Net cash provided by noncapital financing activities	<u>68,477,797</u>	<u>64,939,187</u>
Cash flows from capital and related financing activities:		
Capital facilities capacity charges	8,674,313	10,410,855
Additions to property, plant and equipment	(73,861,468)	(159,563,286)
Disposal of other assets	-	1,266,387
Interest paid	(51,661,572)	(46,543,583)
Principal payments on debt obligation	(462,635,000)	(191,760,000)
Proceeds from debt issuances	401,099,196	315,341,085
Debt issuance costs	(824,812)	(495,978)
Net cash (used in) capital and related financing activities	<u>(179,209,343)</u>	<u>(71,344,520)</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	8,625,518,492	3,745,902,911
Purchases of investments	(8,710,267,505)	(3,723,593,143)
SARI project (advance)/payments	5,147,710	(36,000,000)
Interest received	7,646,487	12,409,379
Net cash (used in) investing activities	<u>(71,954,816)</u>	<u>(1,280,853)</u>
Net increase (decrease) in cash and cash equivalents	(76,437,039)	111,825,997
Cash and cash equivalents, beginning of year	247,993,195	136,167,198
Cash and cash equivalents, end of year	<u>\$ 171,556,156</u>	<u>\$ 247,993,195</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 32,150,361	\$ 52,572,517
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	56,051,029	49,288,136
Bad debt expense (Net recoveries)	(29,691)	17,368
Feasibility study amortization	28,979,182	4,536,965
(Increase)/decrease in operating assets:		
Accounts receivable	988,449	2,640,967
Inventories	992,447	23,824
Prepaid and other assets	(709,697)	625,979
Increase/(decrease) in operating liabilities:		
Accounts payable	(2,490,064)	(5,369,395)
Accrued expenses	499,985	(605,963)
Retentions payable	(214,439)	672,440
Due to other governmental agency	(9,536,729)	15,142,665
Pension/OPEB payable	360,710	718,305
Compensated absences	(212,750)	(115,481)
Other payable	116,907	(1,037,481)
Claims and judgments	(696,377)	401,337
Net cash provided by operations	<u>\$ 106,249,323</u>	<u>\$ 119,512,183</u>
<u>Noncash Activities:</u>		
Unrealized gain (loss) on the fair value of investments	\$ 8,236,187	\$ (2,073,978)
Contributions from (to) other government	3,107,103	(23,554,343)
Capital facilities capacity contribution	2,184,800	2,492,300
Feasibility studies with no cash effect	21,909,604	4,536,965

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

(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, 2012, 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, 2012

in conjunction with the government's financial statements for the year ended June 30, 2011, 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 and Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable is shown net of the allowance for uncollectible receivables. Uncollectible receivables were \$7,693 at June 30, 2012. Unbilled sewer services through June 30, 2012 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.

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.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

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, 2012, net interest costs of \$19.1 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. The distribution between current and long-term portions of the liability is based on historical trends.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Claims and Judgments

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

Property Taxes

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

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

Capital Facilities Capacity Charges

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

Operating and Non-operating Revenues and Expenses

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

Construction Commitments

OCSD has active construction projects to add additional capacity, improve treatment, or replace/rehabilitate existing assets. At June 30, 2012, the outstanding commitments with contractors totaled \$69.3 million.

Self-Insurance Plans

For the year ended June 30, 2012, OCSD was self-insured for portions of workers' compensation, property damage, and general liability. The self-insurance portion of the workers' compensation exposure is the \$750,000 deductible per occurrence under the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$250,000 per occurrence deductible (for most perils) under the outside excess property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$100,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. OCSD is self-insured for virtually all property damage from the peril of earthquake. The self-insurance portion of the boiler & machinery exposure is the

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$250,000 per occurrence deductible (\$500,000 for employment practices liability) under the outside excess liability coverage to \$30 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$100,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. There are no significant changes in insurance coverage during the fiscal year ended June 30, 2012.

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, 2012 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.

Reclassifications

Certain non-operating revenues on the Statement of Revenues, Expenses, and Changes in Net Assets as of June 30, 2011 have been reclassified, with no effect on ending total net assets, to be consistent with the classifications adopted as of June 30, 2012.

(2) Cash and Investments

Cash and investments as of June 30, 2012 are classified within the accompanying Statement of Net Assets as follows:

Statement of Net Assets:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 135,014,420
Investments	378,937,214
Subtotal - current, unrestricted	<u>513,951,634</u>
Restricted:	
Cash and cash equivalents	36,541,736
Investments	26,829,427
Subtotal - restricted	<u>63,371,163</u>
Total cash and cash equivalents and investments	<u>\$ 577,322,797</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Cash and investments consist of the following as of June 30, 2012:

Cash on hand		\$ 3,000
Deposits with financial institutions		5,152,164
Managed portfolio - cash and investments (details on page 20)		508,796,470
Subtotal - unrestricted cash and investments		<u>513,951,634</u>
Monies held by trustees:		
Cash and cash equivalents	\$ 36,541,736	
Investment contracts	<u>26,829,427</u>	
Subtotal - monies held by trustees		63,371,163
Grand total cash and investments		<u><u>\$ 577,322,797</u></u>

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

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

Investment Type - Authorized by the California Government Code	Authorized by OCSD's Investment Policy?	Maximum Maturity ⁽¹⁾⁽³⁾	Maximum Percentage of Portfolio ⁽¹⁾	Maximum Investment in a Single Issuer ⁽¹⁾
Local Agency Bonds	Yes	5 years	No limit	No limit
U.S. Treasury Obligations	Yes	5 years	No limit	No limit
California State Treasury Obligations	Yes	5 years	No limit	No limit
U.S. Agency Securities	Yes	5 years	No limit	No limit
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days / 31 days	15% / 25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	No limit
Repurchase Agreements	Yes	1 year	No limit	No limit
Reverse Repurchase Agreements	Yes	90 days ⁽²⁾	5% ⁽²⁾	No limit
Corporate Medium-Term Notes	Yes	5 years	30%	No limit
Mutual Funds	Yes	N/A	15% ⁽²⁾	10%
Money Market Mutual Funds	Yes	N/A	15% ⁽²⁾	No limit
Mortgage Pass-Through Securities/CMO	Yes	5 years	20%	No limit
County Investment Pools	Yes	N/A	No limit	No limit
Local Agency Investment Fund (LAIF)	Yes	N/A	No limit	No limit

Notes

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

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

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Investments Authorized by Debt Agreements

The investment of debt proceeds held by trustees is governed by provisions of the debt covenant agreements, rather than the general provisions of the California Government Code or OCSD's investment policy. The following table identifies the investment types that are authorized for investments held by OCSD's debt trustees. This table, and the subsequent tables on pages 20-22 also identifies certain provisions of the debt covenant agreements that address interest rate risk, credit risk, and concentration of credit risk.

Investment Type - Authorized by Debt Covenant Agreements	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in a Single Issuer
State and Local Agency Bonds	5 years	No limit	No limit
U.S. Treasury Obligations	5 years	No limit	No limit
U.S. Agency Securities	5 years	No limit	No limit
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days / 31 days	15% / 30%	10%
Negotiable Certificates of Deposit	5 years	30%	10%
Repurchase Agreements	1 year	No limit	No limit
Corporate Medium-Term Notes	5 years	30%	No limit
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	No limit
Local Agency Investment Fund (LAIF)	N/A	No limit	No limit
Guaranteed Investment Contracts	N/A	No limit	No limit

Disclosures Relating to Interest Rate Risk

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

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

Following is a table which summarizes OCSD's managed portfolio investments by purpose with the modified duration as of June 30, 2012.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
Short-Term Portfolio:			
U.S. Treasury Bills	\$ 34,572,613	0.399	4.79
U.S. Agency Securities	2,349,789	0.033	0.40
Corporate Medium-term Notes	6,352,350	0.036	0.43
Repurchase Agreement	10,900,000	0.008	0.10
Local Agency Investment Fund	20,668,660	N/A	N/A
Money Market Mutual Funds	553,723	0.083	1.00
Short-term portfolio subtotal	<u>\$ 75,397,135</u>	0.260	3.12
Long-Term Portfolio:			
U.S. Treasury Bills	\$ 92,162,132	0.776	9.31
U.S. Treasury Notes	92,220,940	6.093	73.12
U.S. Treasury Obligations	3,770,753	1.097	13.16
U.S. Treasury Inflation-Protected Securities (TIPS)	33,965,088	9.866	118.39
U.S. Agency Securities	20,186,264	1.223	14.68
U.S. Govt. Backed Mortgage Pools	466,693	4.538	54.46
Taxable Municipal Bonds	20,965,667	9.432	113.18
Tax-Exempt Municipal Bonds	601,805	13.859	166.31
Corporate Medium-Term Notes	74,068,544	2.335	28.02
Repurchase Agreement	83,100,000	0.008	0.10
Money Market Mutual Funds	844,381	0.081	0.97
Mortgage Pass-Through Securities/CMO	11,047,068	3.356	40.27
Long-term portfolio subtotal	<u>\$ 433,399,335</u>	3.268	39.22
Total Portfolio	<u><u>\$ 508,796,470</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, 2012.

	Fair Value	Maturities
Cash equivalents held by fiscal agents:		
Money Market Mutual Funds:		
Blackrock Institutional Funds	\$ 86,725	48 days
US Bank Money Market Fund	463,906	N/A
Local Agency Investment Fund (LAIF)	35,991,105	N/A
Investments held by fiscal agents:		
Guaranteed Investment Agreements:		
Bayerische Landesbank Girozentrale - 2000 COP	9,888,462	August 1, 2016
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 30, 2030
Bayerische Landesbank Girozentrale - 2009A COP	7,422,965	August 1, 2016
Fair Value of Investments Held by Fiscal Agents	<u><u>\$ 63,371,163</u></u>	

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

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 \$17,423,351 including \$11,047,068 of mortgage pass-through securities, \$5,909,590 of U.S. agency securities, and \$466,693 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, 2012

Investment Type and the Lowest Rating Reported at Year End	Fair Value
Investments with no legal minimum rating & no required disclosure:	
U.S. Treasury Obligations	\$ 256,691,526
U.S. Agency Securities - GNMA	<u>466,693</u>
Subtotal	\$ 257,158,219
Investments with no legal minimum rating:	
U.S. Agency Securities (other than GNMA):	
Rating of AA+ (Standard & Poor's)	21,130,439
Rating of A (Standard & Poor's)	1,405,614
Municipal Bonds:	
Rating of Aaa (Moody's)	1,436,220
Rating of Aa1 (Moody's)	1,538,446
Rating of Aa2 (Moody's)	1,625,637
Rating of Aa3 (Moody's)	3,313,655
Rating of AA- (Standard & Poor's)	3,337,817
Rating of A1 (Moody's)	2,643,914
Rating of A2 (Moody's)	390,795
Rating of A3 (Moody's)	5,407,953
Rating of A- (Standard & Poor's)	1,873,035
Repurchase Agreements:	
Not rated at fiscal year end	94,000,000
Local Agency Investment Fund (LAIF):	
Not rated at fiscal year end	56,659,765
Investments with fiscal agents - Guaranteed Investment Contracts:	
Not rated at fiscal year end	<u>26,829,427</u>
Subtotal	221,592,717
Investments with a legal minimum rating (or its equivalent) of A:	
Corporate Medium-Term Notes:	
Rating of AA+ (Standard & Poor's)	29,972,740
Rating of A (Standard & Poor's)	3,415,300
Rating of A2 (Moody's)	5,016,279
Rating of A3 (Moody's)*	8,770,322
Rating of Baa1 (Moody's)*	8,045,416
Rating of BBB+ (Standard and Poor's)*	6,782,615
Rating of Baa2 (Moody's)*	12,202,045
Rating of BBB (Fitch)*	4,245,082
Rating of Baa3 (Moody's)*	1,383,845
Not rated at fiscal year end	587,250
Money Market Mutual Funds:	
Rating of Aaa (Moody's)	1,398,104
Invested with fiscal agents:	
Rating of Aaa-mf (Moody's)	86,725
Rating of A+ (Standard & Poor's)	<u>463,906</u>
Subtotal	82,369,629
Investments with a legal minimum rating (or its equivalent) of AA:	
Mortgage Pass-Through Securities/CMO:	
Rating of Aaa (Moody's)	424,532
Rating of AA+ (Standard & Poor's)	9,902,892
Rating of BBB (Fitch)*	107,357
Rating of BB (Fitch)*	<u>612,287</u>
Subtotal	<u>11,047,068</u>
Total	<u>\$ 572,167,633</u>

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Concentration of Credit Risk

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

Custodial Credit Risk

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

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and OCSD's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of June 30, 2012, 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, 2012.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2012

(3) Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets not depreciated:				
Cost:				
Land	\$ 19,217,480	\$ -	\$ (3,257,921)	\$ 15,959,559
Construction in progress	1,258,266,614	100,359,573	(87,408,870)	1,271,217,317
Total nondepreciable assets	<u>1,277,484,094</u>	<u>100,359,573</u>	<u>(90,666,791)</u>	<u>1,287,176,876</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities	600,551,475	4,023,461	-	604,574,936
Sewage treatment facilities	1,144,716,082	53,966,552	-	1,198,682,634
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities	209,975,740	1,715,789	(155,928)	211,535,601
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>2,075,700,353</u>	<u>59,705,802</u>	<u>(155,928)</u>	<u>2,135,250,227</u>
Accumulated depreciation:				
Sewage collection facilities	(253,592,256)	(13,421,240)	-	(267,013,496)
Sewage treatment facilities	(504,926,403)	(33,027,793)	-	(537,954,196)
Effluent disposal facilities	(52,878,386)	(1,646,535)	-	(54,524,921)
Solids disposal facilities	(3,107,660)	(9,718)	-	(3,117,378)
General and administrative facilities	(121,315,466)	(7,288,037)	155,928	(128,447,575)
Excess purchase price over book value on acquired assets	(16,442,725)	(657,709)	-	(17,100,434)
Subtotal	<u>(952,262,896)</u>	<u>(56,051,032)</u>	<u>155,928</u>	<u>(1,008,158,000)</u>
Net depreciable assets	<u>1,123,437,457</u>	<u>3,654,770</u>	<u>-</u>	<u>1,127,092,227</u>
Net capital assets	<u>\$ 2,400,921,551</u>	<u>\$ 104,014,343</u>	<u>\$ (90,666,791)</u>	<u>\$ 2,414,269,103</u>

Capital asset additions for the fiscal year ended June 30, 2012 are \$27.7 million less than the amount deleted from Construction in Progress primarily due to \$27.4 million of accumulated costs for feasibility studies that were removed from Construction in Progress and recorded as expense in accordance with generally accepted accounting principles.

(4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2012:

	Arbitrage Payable	Compensated Absences	Claims and Judgments	Certificates of Participation/Notes and Revenue Obligation	Net Pension Obligation	Net OPEB Obligation	Totals
Balance, July 1	\$ 290,365	\$ 7,812,631	\$ 2,143,318	\$ 1,407,155,000	\$ 7,471,180	\$ 1,035,686	\$ 1,425,908,180
Additions	455,420	7,018,904	(297,894)	391,445,000	978,398	884,446	400,484,274
Deletions	(338,513)	(7,231,654)	(398,483)	(462,635,000)	(367,210)	(1,134,925)	(472,105,785)
Balance, June 30	407,272	7,599,881	1,446,941	1,335,965,000	8,082,368	785,207	1,354,286,669
Due within one year	-	(6,822,413)	(491,870)	(178,470,000)	-	-	(185,784,283)
Unamortized (discount) premium	-	-	-	40,439,784	-	-	40,439,784
Unamortized deferred amount on refundings	-	-	-	(24,491,763)	-	-	(24,491,763)
Long-term amount	<u>\$ 407,272</u>	<u>\$ 777,468</u>	<u>\$ 955,071</u>	<u>\$ 1,173,443,021</u>	<u>\$ 8,082,368</u>	<u>\$ 785,207</u>	<u>\$ 1,184,450,407</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

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, 2012 is \$407,272.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2012 is \$7,599,881 with an estimated \$6,822,413 to be paid or used within the next fiscal year.

Claims and Judgments Payable

OCSD is self-insured in a number of areas as described in Note 1. The following is a summary of the change in claims and judgments payable for the years ended June 30, 2012 and 2011:

	2011-12	2010-11
Claims and judgments payable at July 1	\$2,143,318	\$1,741,981
Claims incurred during the fiscal year	(297,894)	858,945
Payments on claims during the fiscal year	(398,483)	(457,608)
Claims and judgments payable at June 30	1,446,941	2,143,318
Less: current portion	(491,870)	(487,470)
Total long-term claims and judgments payable	<u>\$ 955,071</u>	<u>\$ 1,655,848</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, 2012 are summarized as follows:

	Amount
2000 refunding certificates of participation	\$ 91,900,000
2007A refunding certificates of participation	92,845,000
2007B certificates of participation	279,250,000
2008A refunding certificates of participation	25,710,000
2008B refunding certificates of participation	26,550,000
2009A certificates of participation	191,265,000
2010A wastewater revenue obligations	80,000,000
2010C wastewater revenue obligations	157,000,000
2011 A wastewater refunding revenue obligations	147,595,000
2011B revenue refunding certificate anticipation notes	143,205,000
2012A wastewater refunding revenue obligations	100,645,000
Total certificates of participation payable	<u>\$ 1,335,965,000</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

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, 2012, the coverage ratio for senior lien debt was 3.21.

August 2000 Refunding Certificates of Participation, Series 2000

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

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, 2012 was 0.10 percent. Annual principal payments are due on August 1, beginning August 1, 2001.

On October 3, 2011, \$89,800,000 of the outstanding principal balance of the 2000 series A and B certificates was advance-refunded with the proceeds of the October 3, 2011 wastewater refunding revenue obligations (see below) in a transaction accounted for as an in-substance defeasance. All of the \$89.8 million is held in an escrow account that is not reflected on OCSD's financial statements because it has been legally defeased. At June 30, 2012, this \$89,800,000 represents the amount still outstanding on bonds considered defeased.

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. However, OCSD has refunded the remaining outstanding series prior to the expiration of the SBPA, and there were no purchase of any refunding certificates by Lloyds TSB Bank up through the final refunding date (see Note 10). The required reserve amount at June 30, 2012 is \$16,793,580.

August 2003 Certificates of Participation, Series 2003

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, 2012

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, 2012, this \$88,500,000 represents the amount still outstanding on bonds considered defeased.

On October 3, 2011, \$83,320,000 of the outstanding principal balance of the 2003 certificates was advance-refunded with the proceeds of the October 3, 2011 wastewater refunding revenue obligations (see below) in a transaction accounted for as an in-substance defeasance. All of the \$83.3 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, 2012, this \$83,320,000 represents the amount still outstanding on bonds considered defeased.

On March 22, 2012, \$108,180,000 of the outstanding principal balance of the 2003 certificates was advance-refunded with the proceeds of the March 22, 2012 wastewater refunding revenue obligations (see below) in a transaction accounted for as an in-substance defeasance. All of the \$108.2 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, 2012, this \$108,180,000 represents the amount still outstanding on bonds considered defeased.

May 2007 Refunding Certificates of Participation, Series 2007A

On May 22, 2007, OCSD completed the sale of \$95,180,000 of refunding certificates of participation. The certificates were issued to refund \$88,500,000 of the outstanding principal balance of the 2003 Series certificates of participation (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, 2012 reserve of \$9,518,000 is held by Union Bank, the trustee, and meets the reserve requirement.

December 2007 Certificates of Participation, Series 2007B

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2012 reserve of \$19,838,777 is held by Union Bank, the trustee, and meets the reserve requirement.

May 2008 Refunding Certificates of Participation, Series 2008A

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2012 reserve of \$7,723,355 is held by US Bank, the trustee, and meets the reserve requirement.

September 2008 Refunding Certificates of Participation, Series 2008B

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2012 reserve of \$2,782,485 is held by US Bank, the trustee, and meets the reserve requirement.

May 2009 Certificates of Participation, Series 2009A

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2012 reserve of \$13,123,671 is held by US Bank, the trustee, and meets the reserve requirement.

May 2010 Wastewater Revenue Obligations, Series 2010A

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

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

December 2010 Wastewater Revenue Obligations, Series 2010C

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

4.1275 percent to 4.16 percent. Annual principal payments are due on February 1, beginning February 1, 2031.

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

October 2011 Wastewater Refunding Revenue Obligations, Series 2011A

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

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$1.3 million. The total future payments for the new debt provide a net present value gain of approximately \$10.7 million to refund the old debts in payments.

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

November 2011 Revenue Refunding Certificate Anticipation Notes, Series 2011B

On November 10, 2011, OCSD completed the sale of \$143,205,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$154,665,000 outstanding principal balance of the November 2010 Series B revenue refunding certificate anticipation notes. The interest rate on the notes is fixed at 2.0 percent. The notes will mature on November 9, 2012. OCSD expects the principal and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$23,000. The total future payments for the new debt provides a net present value loss of approximately \$266,000 to refund the old debt in payments.

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

March 2012 Wastewater Refunding Revenue Obligations, Series 2012A

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

The aggregate difference in debt service between the refunding debt and the refunded debt is a positive amount of approximately \$15.3 million. The total future payments for the new debt provide a net present value gain of approximately \$15.3 million 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, 2012

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation, anticipation notes, and revenue obligations as of June 30, 2012, including the Revenue Refunding Certificates of Anticipation Notes, Series 2011B that currently matures in November 2012, are as follows:

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

Year Ending June 30,	Principal	Estimated Interest	Total
2013	\$ 178,470,000	\$ 50,485,349	\$ 228,955,349
2014	52,890,000	47,103,304	99,993,304
2015	39,975,000	45,867,118	85,842,118
2016	41,905,000	44,690,257	86,595,257
2017	53,075,000	43,302,740	96,377,740
2018-2022	131,820,000	199,716,491	331,536,491
2023-2027	166,520,000	169,616,160	336,136,160
2028-2032	253,180,000	123,532,507	376,712,507
2033-2037	277,835,000	59,298,519	337,133,519
2038-2042	128,020,000	13,677,675	141,697,675
2043-2044	12,275,000	397,908	12,672,908
Total	\$ 1,335,965,000	\$ 797,688,028	\$ 2,133,653,028

(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, 2012 consisted of the following:

	June 30, 2012
Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 2,414,269,103
Outstanding debt issued to acquire capital assets, net of: unamortized bond discount, deferred amount on refundings, and unspent proceeds	(1,288,302,786)
Subtotal	1,125,966,317
Unrestricted:	
All other unrestricted	479,850,616
Total Net Assets	<u>\$ 1,605,816,933</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

(6) Pension Benefits

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

Pension Plan

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

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

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%, 8.28% - 14.52% and 7.93% - 14.52%, respectively, of their annual compensation to OCERS. OCSD is required to make periodic contributions to OCERS in amounts that are estimated to remain a constant percentage of covered employees' compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. For the fiscal years ended June 30, 2012, 2011, and 2010, 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.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

	For the Fiscal Year Ending		
	June 30, 2010	June 30, 2011	June 30, 2012
Total Payroll Costs	\$ 62,934,336	\$ 62,107,324	\$ 62,603,878
Payroll Costs of Employees Covered by OCERS	60,593,735	59,787,560	60,419,910
Contributions Requirements:			
Contributed by Employees	4,317,182	4,422,908	4,566,386
Contributed by the District on Behalf of Employees	2,071,340	2,078,679	2,089,868
Total Employee Required Contribution	6,388,522	6,501,587	6,656,254
District Required Contribution	13,029,795	14,370,158	15,767,050
Total Contribution	<u>\$ 19,418,317</u>	<u>\$ 20,871,745</u>	<u>\$ 22,423,304</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	10.54%	10.87%	11.02%
District Required Contribution as a Percent of Covered Payroll	21.50%	24.04%	26.10%
Total Contribution as a Percent of all Participating Entities' Contributions	3.61%	3.66%	3.60%

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

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

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

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

Fiscal Year	Annual Pension Cost		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	851,009	31.9%	6,956,975
6/30/11	842,288	39.0%	7,471,180
6/30/12	978,398	37.5%	8,082,368

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 Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2005 *	N/A	N/A	N/A	N/A	N/A	N/A
7/1/2007	7,395,472	-	7,395,472	-	49,788,835	14.9%
7/1/2009	8,904,499	-	8,904,499	-	57,681,058	15.4%
7/1/2011	10,753,718	-	10,753,718	-	60,419,910	17.8%

*Actuarial valuation not performed for this year.

The annual pension cost and net pension obligation for the year ended June 30, 2010, 2011 and 2012 were as follows:

	For the Fiscal Year Ending		
	June 30, 2010	June 30, 2011	June 30, 2012
Annual required contribution	\$ 946,999	\$ 946,999	\$ 1,090,849
Interest on net pension obligation	318,871	347,849	373,559
Adjustment to annual required contribution	(414,861)	(452,560)	(486,010)
Annual pension cost	851,009	842,288	978,398
Contributions made	(271,470)	(328,083)	(367,210)
Increase in net pension obligation	579,539	514,205	611,188
Net pension obligation, beginning of year	6,377,436	6,956,975	7,471,180
Net pension obligation, end of year	<u>\$ 6,956,975</u>	<u>\$ 7,471,180</u>	<u>\$ 8,082,368</u>

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, 2012

(7) Other Postemployment Benefits

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

As of the date of the latest actuarial valuation (7/1/11), there were 593 active employees, 72 retirees paying premiums, and 64 retirees whose premium is fully paid by OCSD. Premiums ranged between \$171.43 and \$3,368.32 per month, depending on the plan and number of dependents covered.

Funding Policy: There are no employee contributions to this plan; OCSD covers 100% of the cost. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom the District pays for a period (see above). An actuarial evaluation was performed as of July 1, 2011, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date, assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used. The rate of increase for healthcare premium was set as 7.0% for the 2012-13 fiscal year, and 7.0% for years thereafter. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan. For fiscal year 2011-12, OCSD contributed \$1,134,925 and retirees contributed \$520,757 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 years ended June 30, 2012, 2011, and 2010:

	June 30, 2010	June 30, 2011	June 30, 2012
Annual required contribution	\$ 819,692	\$ 819,692	\$ 900,035
Interest on net OPEB obligation	32,792	41,579	51,784
Adjustment to annual required contribution	(42,663)	(54,096)	(67,373)
Annual OPEB cost	809,821	807,175	884,446
Contributions made	(634,067)	(603,074)	(1,134,925)
Increase in net OPEB obligation	175,754	204,101	(250,479)
Net OPEB obligation, beginning of year	655,831	831,585	1,035,686
Net OPEB obligation, end of year	\$ 831,585	\$ 1,035,686	\$ 785,207

The District's annual OPEB cost contributed and the net OPEB obligation for the years ended 2012, 2011, and 2010 are shown in the following table.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Fiscal Year	Annual OPEB Cost			Net OPEB Obligation
	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	
6/30/10	809,821	634,067	78.3%	831,585
6/30/11	807,175	603,074	74.7%	1,035,686
6/30/12	884,446	1,134,925	128.3%	785,207

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%
7/1/2011	-	10,706,789	10,706,789	0%	60,419,910	17.72%

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

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

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

The ARC for the current year was determined as part of the 7/1/11 actuarial valuation using the Projected Unit Credit cost method. The actuarial assumptions include a 5% investment rate of return (changed from 6% for the 7/1/07 valuation), an annual rate of inflation of 2.5%, and an annual healthcare cost trend rate of 7%. The UAAL is being amortized ratably over 30 years.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Inflation assumptions are included as part of the healthcare cost trend. No benefit increase is anticipated and the benefit is unaffected by changes in salary.

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

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

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

In accordance with the negotiated agreement between OCSD and IRWD, IRWD paid OCSD \$34,532,000 for an initial 15,000,000 gallons per day capacity in OCSD's joint treatment facilities (with an ultimate collection capacity of 32,000,000 gallons per day) and for a pro-rata interest in real property (based on flow of 32,000,000 gallons per day). The book value of the assets acquired was determined to be \$14,553,000 as of June 30, 1986; these assets were recorded at book value in Revenue Area 14. The excess of the purchase price over the assets' book value was \$19,979,000 and was recorded as an intangible asset in Revenue Area 14. The excess of the purchase price over the assets' book value is being amortized over the remainder of the useful lives of the original assets acquired. As of June 30, 2012, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$2,878,566.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 on January 1, 1986 whereby IRWD agreed to fund quarterly payments of Revenue Area 14's proportionate share of OCSD's joint capital outlay revolving fund budget requirements and certain capital improvements during the term of the agreement, which contribution of \$3,677,786 was recorded in 2012. 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 \$4,615,468 to Revenue Area 14 was recognized and reported as contributions to other government in 2012. 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 \$4,044,785 solids capital contribution was recorded in 2012. The total amount of joint capital outlay and solids capital contribution is \$7,722,571 and is reported as contributions from other government for the year ended June 30, 2012.

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 \$47,659,381 as of June 30, 2012.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2012; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$9.8 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.

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. At the time the consent decree was issued, it was estimated that it would take a total of approximately eleven years and additional capital improvement costs of \$623 million to reach secondary treatment discharge standards. As of June 30, 2012, remaining construction commitments totaled \$164,237.

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, 2012, \$36 million has been loaned to OCFCD, of which \$5,147,710 has been repaid leaving an outstanding loan balance of \$30,852,290 at June 30, 2012.

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

(10) Subsequent Events

Debt Financing Issued:

On August 16, 2012, the District issued fixed rate Wastewater Refunding Revenue Obligations, Series 2012B (Series 2012B), in the amount of \$66,395,000. The obligations were issued to refund the remaining \$91,900,000 of outstanding Refunding Certificates of Participation, Series 2000A and 2000B (Series 2000A and 2000B). The debt was issued at a premium of

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2012

\$15,965,000. The total proceeds of \$82,360,000 along with \$9,901,000 in Series 2000A and 2000B reserves were used to refund the entire outstanding Series 2000A and 2000B obligation. The interest rates on the Series 2012B obligations range from 3.00% - 5.00% and the final maturity date is February 1, 2026.

**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Net Assets
June 30, 2012
With Comparative Totals for June 30, 2011

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2012	2011
Current assets:				
Cash and cash equivalents	\$ 12,520,057	\$ 122,494,363	\$ 135,014,420	\$ 127,573,371
Investments	35,139,324	343,797,890	378,937,214	285,952,014
Accounts receivable, net of allowance for uncollectibles \$7,693	-	9,452,589	9,452,589	10,411,347
Accrued interest receivable	-	1,576,247	1,576,247	1,296,054
Connection fees receivable	-	647,485	647,485	385,765
Property tax receivable	-	1,542,223	1,542,223	1,408,477
Inventories	-	5,596,197	5,596,197	5,366,513
Prepaid expenses	-	858,826	858,826	623,907
Prepaid retirement	-	14,937,778	14,937,778	14,463,000
Total current assets	47,659,381	500,903,598	548,562,979	447,480,448
Noncurrent assets:				
Restricted:				
Cash and cash equivalents	-	36,541,736	36,541,736	120,419,824
Investments	-	26,829,427	26,829,427	26,829,427
Accrued interest receivable	-	239,070	239,070	210,010
Non-depreciable capital assets	28,190,418	1,258,986,458	1,287,176,876	1,277,484,094
Depreciable capital assets, net of accumulated depreciation	45,887,558	1,081,204,669	1,127,092,227	1,123,437,456
Deferred charges	-	9,934,078	9,934,078	10,975,310
Due from other governmental agency	-	30,852,290	30,852,290	36,000,000
Other noncurrent assets, net	-	10,344	10,344	7,079,922
Total noncurrent assets	74,077,976	2,444,598,072	2,518,676,048	2,602,436,043
Total assets	121,737,357	2,945,501,670	3,067,239,027	3,049,916,491
Current liabilities:				
Accounts payable	-	12,232,536	12,232,536	14,722,600
Accrued expenses	-	7,410,100	7,410,100	6,654,544
Retentions payable	-	2,045,987	2,045,987	2,260,426
Interest payable	-	21,839,400	21,839,400	22,525,700
Due to other governmental agency	47,659,381	-	47,659,381	57,196,110
Current portion of long-term obligations	-	185,784,283	185,784,283	188,948,106
Total current liabilities	47,659,381	229,312,306	276,971,687	292,307,486
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	-	1,184,450,407	1,184,450,407	1,247,122,884
Total liabilities	47,659,381	1,413,762,713	1,461,422,094	1,539,430,370
Net assets:				
Invested in capital assets, net of related debt:				
Collection system	19,116,647	498,462,335	517,578,982	495,641,055
Treatment and disposal -Land	406,846	4,068,905	4,475,751	4,475,751
Treatment and disposal system	54,554,483	1,837,659,887	1,892,214,370	1,900,804,744
Capital assets related debt	-	(1,288,302,786)	(1,288,302,786)	(1,269,858,548)
Subtotal	74,077,976	1,051,888,341	1,125,966,317	1,131,063,002
Unrestricted	-	479,850,616	479,850,616	379,423,119
Total net assets	\$ 74,077,976	\$ 1,531,738,957	\$ 1,605,816,933	\$ 1,510,486,121

ORANGE COUNTY SANITATION DISTRICT
Combining Area Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012
With Comparative Totals for June 30, 2011

	Revenue	Consolidated	Totals	
	Area No. 14	Revenue Area	2012	2011
Operating revenues:				
Service charges	\$ 6,502,000	\$ 252,988,532	\$ 259,490,532	\$ 244,464,692
Permit and inspection fees	8,767	1,021,562	1,030,329	784,458
Total operating revenues	<u>6,510,767</u>	<u>254,010,094</u>	<u>260,520,861</u>	<u>245,249,150</u>
Operating expenses other than depreciation and amortization:				
Salaries and benefits	1,292,451	74,349,316	75,641,767	73,112,286
Utilities	194,826	7,211,017	7,405,843	6,947,781
Supplies, repairs and maintenance	840,847	23,413,754	24,254,601	27,018,195
Contractual services	8,023,120	18,675,252	26,698,372	27,048,501
Directors' fees	20,139	125,423	145,562	152,377
Meetings and training	14,301	728,464	742,765	613,697
Feasibility studies	751,953	33,446,073	34,198,026	4,536,965
Other	56,078	3,176,457	3,232,535	3,958,695
Total operating expenses other than depreciation and amortization	<u>11,193,715</u>	<u>161,125,756</u>	<u>172,319,471</u>	<u>143,388,497</u>
Operating income (loss) before depreciation and amortization	(4,682,948)	92,884,338	88,201,390	101,860,653
Depreciation and amortization	<u>2,417,617</u>	<u>53,633,412</u>	<u>56,051,029</u>	<u>49,288,136</u>
Operating income (loss)	<u>(7,100,565)</u>	<u>39,250,926</u>	<u>32,150,361</u>	<u>52,572,517</u>
Non-operating revenues:				
Property taxes	1,894,442	65,987,630	67,882,072	64,307,594
Investment and interest income	1,889,475	13,858,018	15,747,493	10,092,102
Contributions from other government	7,722,571	-	7,722,571	9,708,267
Other	10,199	752,962	763,161	1,306,771
Total non-operating revenues	<u>11,516,687</u>	<u>80,598,610</u>	<u>92,115,297</u>	<u>85,414,734</u>
Non-operating expenses:				
Interest	-	29,438,312	29,438,312	29,129,550
Contributions to other government	4,615,468	-	4,615,468	33,262,610
Loss on disposal of assets and other	80,565	3,736,534	3,817,099	5,981,829
Total non-operating expenses	<u>4,696,033</u>	<u>33,174,846</u>	<u>37,870,879</u>	<u>68,373,989</u>
Income (loss) before transfer and capital contributions	(279,911)	86,674,690	86,394,779	69,613,262
Capital Contributions:				
Capital facilities capacity charges	-	8,936,033	8,936,033	9,800,190
Change in net assets	(279,911)	95,610,723	95,330,812	79,413,452
Total net assets - beginning	<u>74,357,887</u>	<u>1,436,128,234</u>	<u>1,510,486,121</u>	<u>1,431,072,669</u>
Total net assets - ending	<u>\$ 74,077,976</u>	<u>\$ 1,531,738,957</u>	<u>\$ 1,605,816,933</u>	<u>\$ 1,510,486,121</u>

ORANGE COUNTY SANITATION DISTRICT

Combining Area Schedule of Cash Flows

For the Year Ended June 30, 2012

With Comparative Totals for June 30, 2011

	Revenue	Consolidated	Eliminations	Totals	
	Area No. 14	Revenue Area		2012	2011
Cash flows from operating activities:					
Receipts from customers and users	\$ (3,025,962)	\$ 254,998,543	\$ -	\$ 251,972,581	\$ 263,032,782
Payments to employees	(1,312,590)	(71,945,071)	-	(73,257,661)	(72,478,818)
Payments to suppliers	(9,217,299)	(63,248,298)	-	(72,465,597)	(71,041,781)
Net cash provided by (used in) operations	<u>(13,555,851)</u>	<u>119,805,174</u>	<u>-</u>	<u>106,249,323</u>	<u>119,512,183</u>
Cash flows from noncapital financing activities:					
Proceeds from property taxes	1,894,442	65,853,884	-	67,748,326	64,939,187
Proceeds from various resources	34,185	695,286	-	729,471	-
Net cash provided by noncapital financing activities	<u>1,928,627</u>	<u>66,549,170</u>	<u>-</u>	<u>68,477,797</u>	<u>64,939,187</u>
Cash flows from capital and related financing activities:					
Capital facilities capacity charges	-	8,674,313	-	8,674,313	10,410,855
Additions to property, plant and equipment	(2,906,083)	(75,411,565)	4,456,180	(73,861,468)	(159,563,286)
Disposal of property, plant, and equipment	-	1,349,077	(1,349,077)	-	-
Disposal of other assets	-	-	-	-	1,266,387
Interest paid	-	(51,661,572)	-	(51,661,572)	(46,543,583)
Principal payments on debt obligation	-	(462,635,000)	-	(462,635,000)	(191,760,000)
Proceeds from debt issuances	-	401,099,196	-	401,099,196	315,341,085
Debt issuance costs	-	(824,812)	-	(824,812)	(495,978)
Contribution from other government	3,107,103	-	(3,107,103)	-	-
Net cash provided by (used in) capital and related financing activities	<u>201,020</u>	<u>(179,410,363)</u>	<u>-</u>	<u>(179,209,343)</u>	<u>(71,344,520)</u>
Cash flows from investing activities:					
Proceeds from the sale of investments	789,099,505	7,836,418,987	-	8,625,518,492	3,745,902,911
Purchases of investments	(783,924,076)	(7,926,343,429)	-	(8,710,267,505)	(3,723,593,143)
SARI project (advance)/payments	-	5,147,710	-	5,147,710	(36,000,000)
Interest received	1,125,723	6,520,764	-	7,646,487	12,409,379
Net cash provided by (used in) investing activities	<u>6,301,152</u>	<u>(78,255,968)</u>	<u>-</u>	<u>(71,954,816)</u>	<u>(1,280,853)</u>
Net increase (decrease) in cash and cash equivalents	(5,125,052)	(71,311,987)	-	(76,437,039)	111,825,997
Cash and cash equivalents, beginning of year	<u>17,645,109</u>	<u>230,348,086</u>	<u>-</u>	<u>247,993,195</u>	<u>136,167,198</u>
Cash and cash equivalents, end of year	<u>\$ 12,520,057</u>	<u>\$ 159,036,099</u>	<u>\$ -</u>	<u>\$ 171,556,156</u>	<u>\$ 247,993,195</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (7,100,565)	\$ 39,250,926	\$ -	\$ 32,150,361	\$ 52,572,517
Adjustments to reconcile operating income (loss) to net cash provided by operations:					
Depreciation and amortization					
Depreciation and amortization	2,417,617	53,633,412	-	56,051,029	49,288,136
Bad debt expense (Net recoveries)	-	(29,691)	-	(29,691)	17,368
Feasibility study amortization	663,826	28,315,356	-	28,979,182	4,536,965
(Increase)/decrease in operating assets:					
Accounts receivable	-	988,449	-	988,449	2,640,967
Inventories	-	992,447	-	992,447	23,824
Prepaid and other assets	-	(709,697)	-	(709,697)	625,979
Increase/(decrease) in operating liabilities:					
Accounts payable	-	(2,490,064)	-	(2,490,064)	(5,369,395)
Accrued expenses	-	499,985	-	499,985	(605,963)
Retentions payable	-	(214,439)	-	(214,439)	672,440
Due to other governmental agency	(9,536,729)	-	-	(9,536,729)	15,142,665
Pension/OPEB payable	-	360,710	-	360,710	718,305
Compensated absences	-	(212,750)	-	(212,750)	(115,481)
Other payable	-	116,907	-	116,907	(1,037,481)
Claims and judgments	-	(696,377)	-	(696,377)	401,337
Net cash provided by operations	<u>\$(13,555,851)</u>	<u>\$ 119,805,174</u>	<u>\$ -</u>	<u>\$ 106,249,323</u>	<u>\$ 119,512,183</u>
Noncash Activities:					
Unrealized gain (loss) on the fair value of investments	\$ 763,752	\$ 7,472,435		\$ 8,236,187	\$ (2,073,978)
Contributions from (to) other government	3,107,103	-		3,107,103	(23,554,343)
Capital facilities capacity contribution	-	2,184,800		2,184,800	2,492,300
Feasibility studies with no cash effect	449,203	21,460,401		21,909,604	4,536,965

**ORANGE COUNTY SANITATION DISTRICT
STATISTICAL SECTION**

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

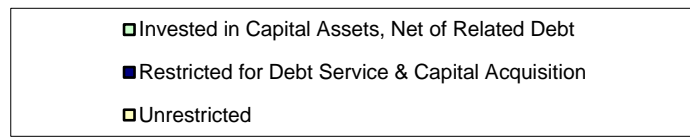
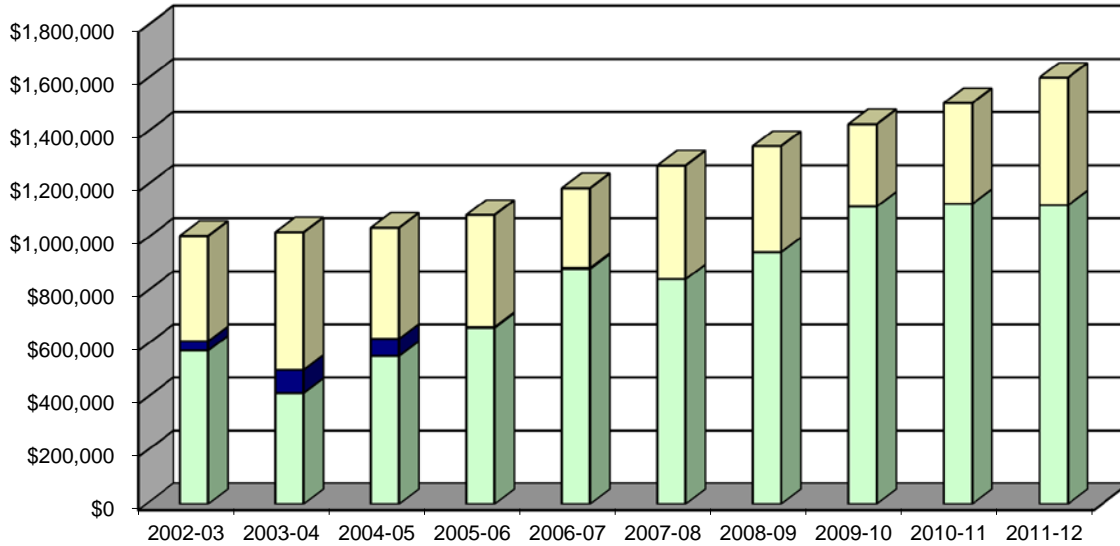
<u>Contents</u>	<u>Pages</u>
Financial Position and Trends These schedules contain current and trend information to help the reader understand OCSD's financial position and how OCSD's financial performance and well-being have changed over time.	44 - 48
Revenue Capacity These schedules contain information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

ORANGE COUNTY SANITATION DISTRICT

Net Assets by Component

(Dollars in Thousands)

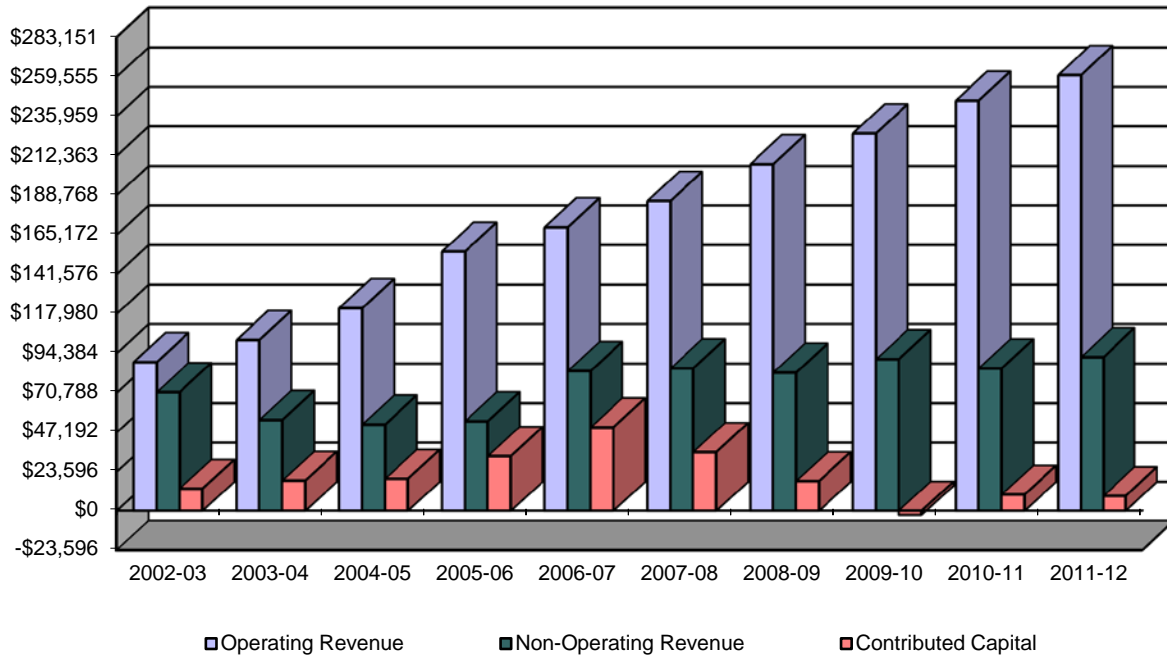
Last Ten Fiscal Years



<u>Fiscal Year</u>	<u>Invested in Capital Assets, Net of Related Debt</u>	<u>Restricted for Debt Service & Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
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
2011-12	1,125,966	-	479,851	1,605,817

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

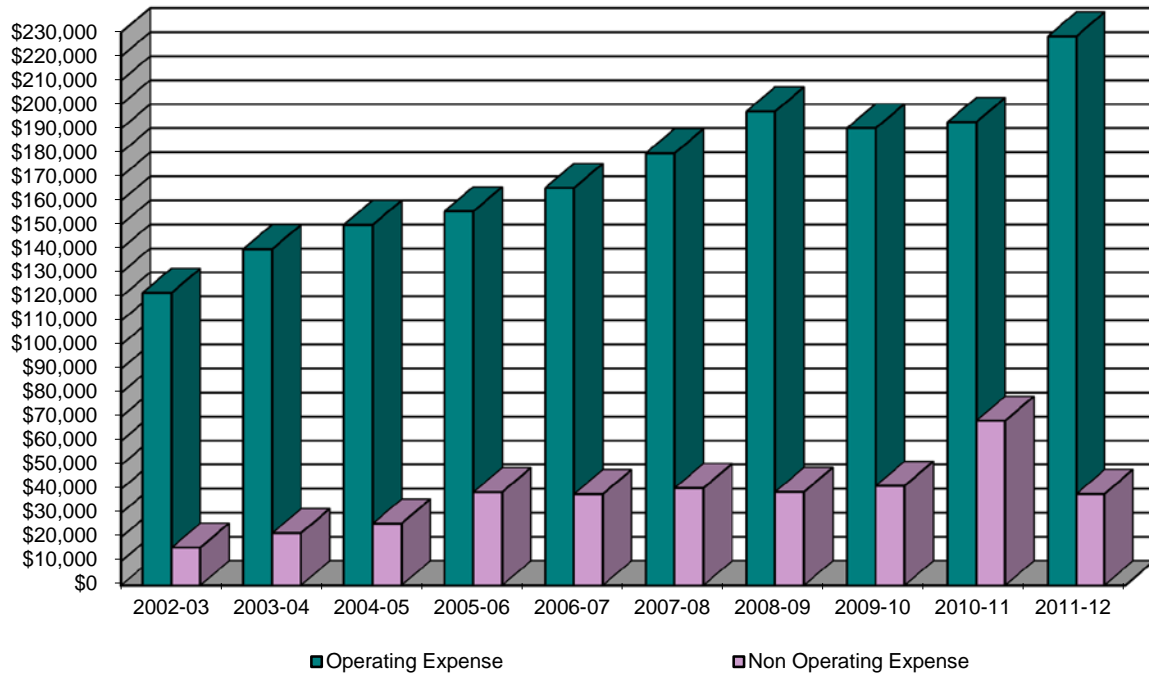


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2002-03	\$ 88,640	\$ 524	\$ 89,164	\$ 44,591	\$ 25,889	\$ 706	\$ 71,186	\$13,312
2003-04	101,995	332	102,327	46,943	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	11,015	85,414	9,800
2011-12	259,491	1,030	260,521	67,882	15,748	8,485	92,115	8,936

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

ORANGE COUNTY SANITATION DISTRICT

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

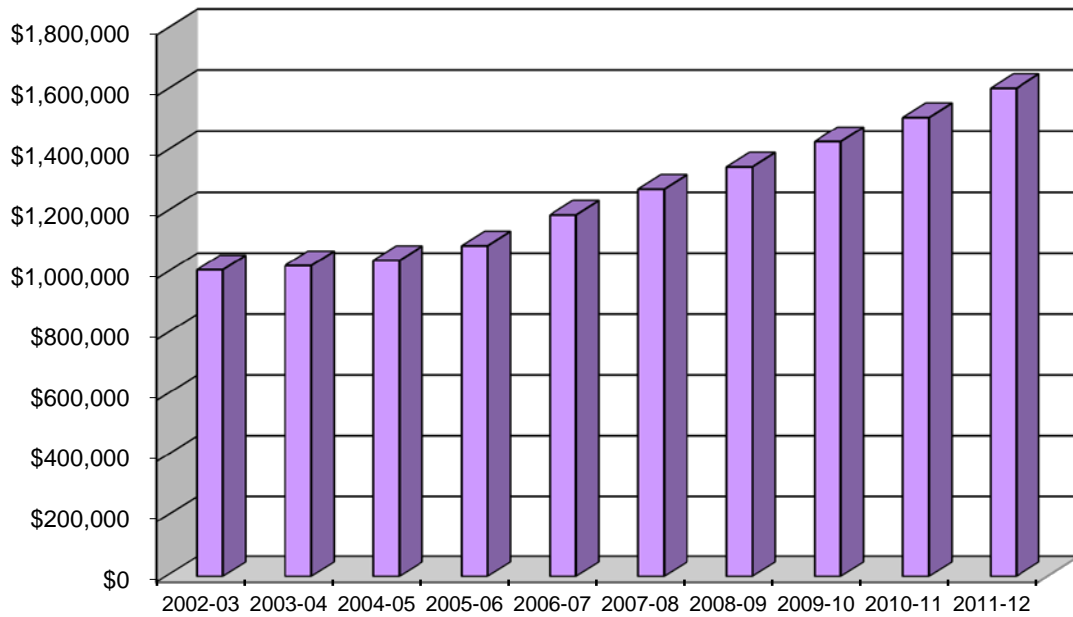


Fiscal Year	Operating				Non - Operating			
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort	Total Operating	Interest Expense	Other	Total Non-Operating
2002-03	\$ 38,733	\$ 4,622	\$ 36,314	\$ 41,966	\$ 121,635	\$ 12,731	\$ 2,922	\$ 15,653
2003-04	48,711	5,408	41,284	44,412	139,815	15,524	6,102	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	63,328	49,288	192,676	29,129	39,245	68,374
2011-12	75,642	7,405	89,271	56,051	228,369	29,438	8,433	37,871

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

ORANGE COUNTY SANITATION DISTRICT

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



Ending Net Assets by Fiscal Year

Fiscal Year	Total Revenues	Total Expenses	Change in Net Assets	Beginning Net Assets	Ending Net Assets
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	340,463	261,050	79,413	1,431,073	1,510,486
2011-12	361,572	266,241	95,331	1,510,486	1,605,817

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

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

Fiscal Year	Cash Flow Contingency	Self- Insurance	Capital Improvement Program	Debt Service Requirements	Total
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
2011-12	196	57	181	143	577

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.

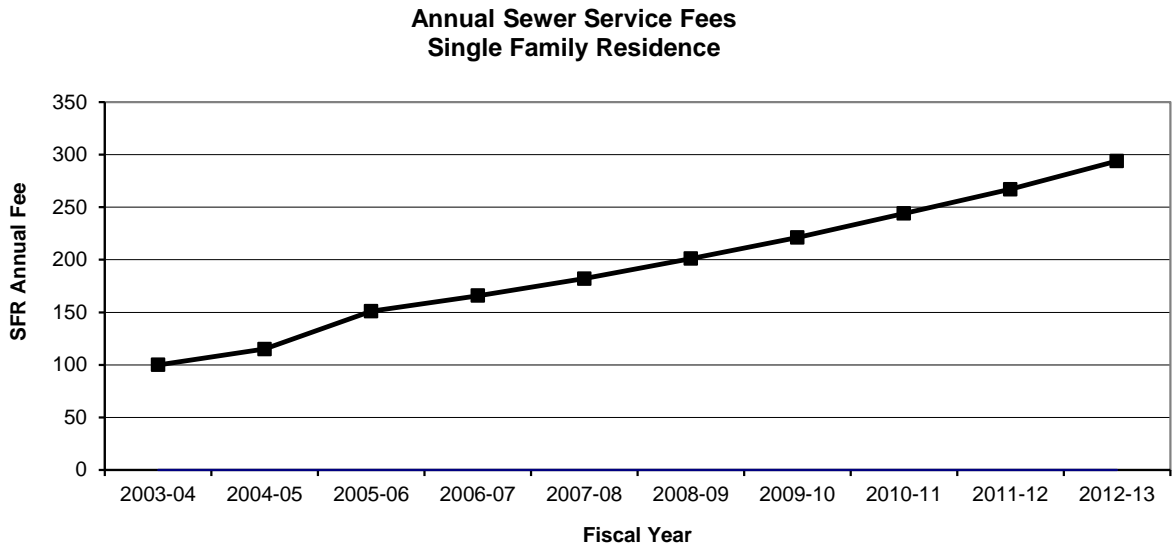
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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.

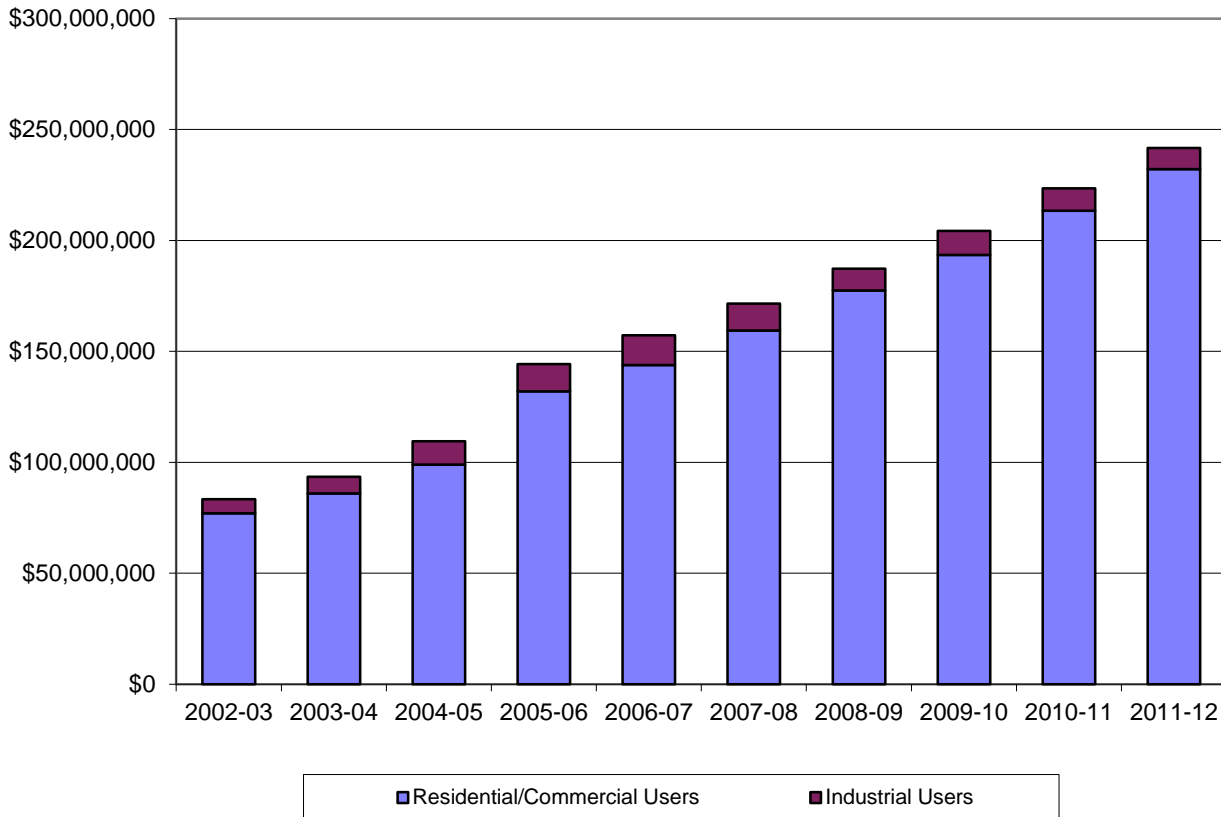
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2003-04	\$ 100.00
2004-05	115.00
2005-06	151.00
2006-07	165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00
2011-12	267.00
2012-13	294.00



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
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%
2011-12	869,709	232.2	96%	516	9.5	4%



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

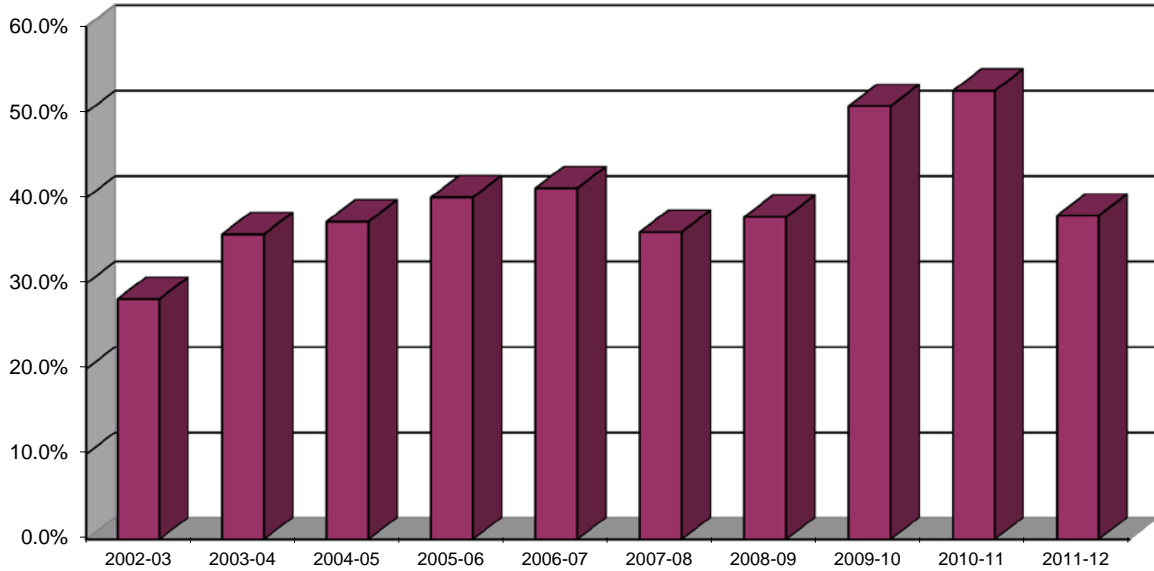
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Current Fiscal Year and Nine Years Ago

User	Fiscal Year Ended 6/30/12			Fiscal Year Ended 6/30/03		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
Stremicks Heritage Foods, LLC	\$ 958,066	1	0.37%	\$ 564,646	1	0.64%
Kimberly-Clark Worldwide, Inc.	872,777	2	0.34%	244,106	6	0.28%
MCP Foods, Inc.	764,660	3	0.29%	309,590	4	0.35%
House Foods America Corp.	719,741	4	0.28%	284,033	5	0.32%
Pulmuone Wildwood, Inc.	550,742	5	0.21%			
Dean Foods Co. of CA Inc.	498,750	6	0.19%			
Schreiber Foods Inc.	428,853	7	0.17%			
Jazz Semiconductor	382,420	8	0.15%			
Pepsi-Cola Bottling Group	368,506	9	0.14%			
Cargill, Inc.	316,631	10	0.12%			
Alstyle Apparel-A&G Inc.				488,492	2	0.55%
Disneyland Resort & Park				374,719	3	0.42%
Royalty Carpet Mills, Inc.				211,966	7	0.24%
Nor-Cal Beverage Co. Inc. (Main)				191,326	8	0.22%
Seven-Up Bottling Company				186,113	9	0.21%
Knotts Berry Farm Foods				180,651	10	0.20%
	<u>\$ 5,861,146</u>		<u>2.26%</u>	<u>\$ 3,035,642</u>		<u>3.43%</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>
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	24,030	46,052	70,082	138,085	50.75
2010-11	25,895	49,426	75,321	143,388	52.53
2011-12	14,370	50,975	65,345	172,318	37.92

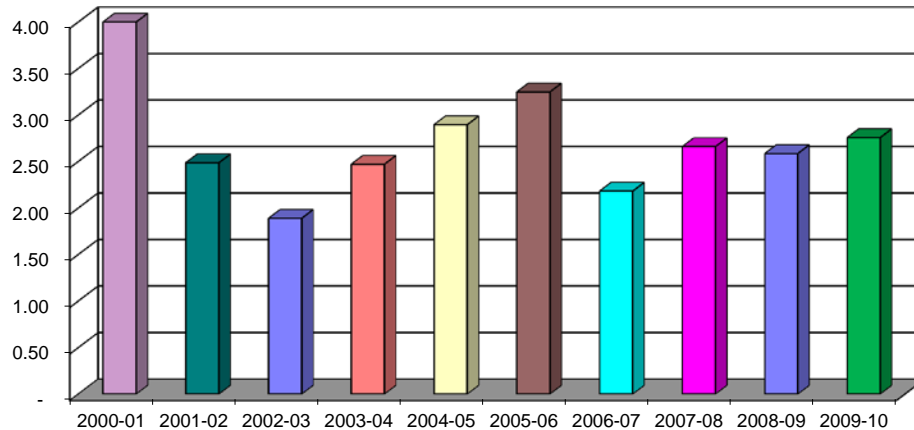
Notes

- (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,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating & Non-operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 77.0	\$ 86.0	\$ 99.0	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5	\$ 213.3	\$ 232.2
Service Charges, Net of Refunds-Local	-	-	-	-	-	-	5.6	5.6	5.7	5.7
Industrial Sewer Service Charges	6.3	7.5	10.5	12.2	13.4	12.1	9.9	10.8	10.1	9.5
Revenue Area No. 14 Fees	3.2	5.8	6.9	5.3	5.2	7.1	10.3	10.2	21.4	18.0
Ad Valorem Taxes	44.6	46.9	35.8	40.0	60.6	65.2	66.4	64.8	64.3	67.9
Interest Earnings	25.9	6.8	15.1	10.4	22.2	20.2	14.8	19.2	10.1	15.7
Other Revenues	13.5	13.0	6.1	9.2	8.3	6.9	5.8	12.5	5.7	3.6
Total Revenues	170.5	166.0	173.4	209.1	253.5	270.9	290.2	316.6	330.6	352.6
Operating Expenses (1)	79.7	95.4	101.8	105.6	112.2	131.9	164.6	138.1	143.4	172.3
Net Revenues	\$ 90.8	\$ 70.6	\$ 71.6	\$ 103.5	\$ 141.3	\$ 139.0	\$ 125.6	\$ 178.5	\$ 187.2	\$ 180.3
Debt Service Requirements										
Principal Payments	11.0	11.6	12.0	12.8	13.5	11.0	21.3	24.0	25.9	14.4
Interest Payments	11.7	16.8	25.9	29.1	35.3	31.8	36.3	43.1	46.5	51.0
Total Debt Service Requirements	\$ 22.7	\$ 28.4	\$ 37.9	\$ 41.9	\$ 48.8	\$ 42.8	\$ 57.6	\$ 67.1	\$ 72.4	\$ 65.4
Coverage Ratios	4.00	2.49	1.89	2.47	2.90	3.25	2.18	2.66	2.59	2.76
Ending Reserves (2)	\$ 394.0	\$ 518.0	\$ 407.0	\$ 385.0	\$ 293.0	\$ 425.0	\$ 401.0	\$ 344.0	\$ 420.0	\$ 434.0

Notes

- (1) - Operating expenses exclude depreciation and amortization expenses.
- (2) - Excludes debt service reserves in accordance with the District's reserve policy.

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

ORANGE COUNTY SANITATION DISTRICT
Computation of Direct and Overlapping Debt
June 30, 2012

2011-12 Assessed Valuation (Land & Improvements Only): \$269,668,276,190 (after deducting 39,022,673,309 Redevelopment Incremental Valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT (Based on redevelopment adjusted all property assessed valuation of \$273,998,241,405):

	Total Debt 6/30/12	% Applicable (1)	District's Share of Debt 6/30/12
Metropolitan Water District of Southern California	\$196,545,000	15.170%	\$ 29,815,877
Coast Community College District	317,803,867	99.462	316,094,082
North Orange County Joint Community College District	206,464,001	96.946	200,158,590
Rancho Santiago Community College District	302,555,660	99.145	299,968,809
Brea-Olinda and Laguna Beach Unified School Districts	51,884,029	99.955 & 14.918	25,941,403
Garden Grove Unified School District	128,500,160	100.	128,500,160
Los Alamitos Unified School District School Facilities Improvement District No. 1	68,721,127	98.823	67,912,279
Newport Mesa Unified School District	246,399,150	100.	246,399,150
Placentia-Yorba Linda Unified School District	268,181,187	98.648	264,555,377
Saddleback Valley Unified School District	131,925,000	11.959	15,776,911
Santa Ana Unified School District	302,027,117	100.	302,027,117
Tustin Unified School District School Facilities Improvement District No. 2002-1	57,675,577	99.955	57,649,623
Tustin Unified School District School Facilities Improvement District No. 2008-1	49,000,000	99.955	48,977,950
Anaheim Union High School District	110,073,955	100.	110,073,955
Fullerton Joint Union High School District	55,152,910	90.243	49,771,641
Huntington Beach Union High School District	225,384,998	98.839	222,768,278
School Districts	367,772,752	97.071-100.	366,990,832
City of Anaheim	3,185,000	99.069	3,155,348
Irvine Ranch Water District Improvement Districts	540,820,240	Various	540,818,950
Rossmore Community Services District Special Tax Obligations	415,000	100.	415,000
Bonita Canyon Community Facilities District No. 98-1	38,330,000	100.	38,330,000
Irvine Unified School District Community Facilities Districts	399,750,838	100.	399,750,838
Tustin Unified School District Community Facilities Districts	251,987,675	100.	251,987,675
City of Tustin Community Facilities Districts	78,620,000	100.	78,620,000
Other Community Facilities Districts	372,494,700	98.935-100.	372,414,283
Orange County Assessment Districts	93,328,295	100.	93,328,295
City of Irvine 1915 Act Bonds	807,707,210	100.	807,707,210
Other 1915 Act bonds	20,475,000	100.	20,475,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$5,360,384,633
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Orange County General Fund Obligations	\$233,751,000	72.722%	\$ 169,988,402
Orange County Pension Obligations	214,405,353	72.722	155,919,861
Orange County Board of Education Certificates of Participation	16,000,000	72.722	11,635,520
Coast Community College District General Fund Obligations	20,240,000	99.462	20,131,109
Brea-Olinda Unified School District Certificates of Participation	25,525,000	99.955	25,513,514
Orange Unified School District Certificates of Participation and Benefit Obligations	138,420,000	98.287	136,048,866
Placentia-Yorba Linda Unified School District Certificates of Participation	108,410,670	98.648	106,944,958
Santa Ana Unified School District Certificates of Participation	50,672,741	100.	50,672,740
Other Unified School District Certificates of Participation	58,334,337	Various	57,786,089
Union High School District Certificates of Participation	119,409,185	Various	116,545,042
School District Certificates of Participation	63,955,000	Various	63,423,433
City of Anaheim General Fund Obligations	563,032,465	99.069	557,790,633
City of Costa Mesa General Fund Obligations	33,910,000	100.	33,910,000
City of Garden Grove General Fund Obligations	18,970,000	100.	18,970,000
City of Huntington Beach General Fund and Judgment Obligations	53,814,000	99.974	53,800,009
City of La Habra General Fund Obligations	19,595,000	100.	19,595,000
City of Santa Ana General Fund Obligations	95,015,000	100.	95,015,000
Other City General Fund Obligations	251,692,551	Various	230,012,869
Orange County Sanitation District	0	100.	0 (2)
Irvine Ranch Water District Certificates of Participation	77,190,000	90.001	69,471,772
Municipal Water District of Orange County Water Facilities Corporation	12,145,000	67.859	8,241,476
Yorba Linda County Water District Certificates of Participation	8,965,000	97.704	8,759,164
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$2,010,175,457
Less: City of Anaheim self-supporting obligations			546,808,834
Other City self-supporting obligations			32,100,771
MWDOC Water Facilities Corporation (100% self-supporting)			8,241,476
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$1,423,024,376
 GROSS COMBINED TOTAL DEBT (3)			
NET COMBINED TOTAL DEBT			\$6,783,409,009

- (1) Percentage of overlapping agency's redevelopment adjusted all property assessed valuation 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	1.74%	2.73%	2.69%
Adjusted All Property Assessed Valuation	N/A	2.52%	2.48%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/12: \$0

Source: California Municipal Statistics

ORANGE COUNTY SANITATION DISTRICT

Ratios of Outstanding Debt
Last Ten Fiscal Years

Fiscal Year	(5) Total Outstanding COP Debt	(3) Median Family Income (1)	Debt as a Percentage of Median Family Income	(4) Population Estimate (2)	Debt per Capita
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
2011-12	1,335,965,000	85,300	0.006%	2,472,122	540.41

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

Fiscal Year	Millions of Gallons of Waste-water Treated Per Day	Collection, Treatment & Disposal Cost per Million Gallons	Total Operating Costs (In Thousands)	Total Non-Operating Costs (In Thousands)	Total Operating Revenues (In Thousands)	Total Non-Operating Revenues (In Thousands)
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	192,676	68,374	245,249	85,414
2011-12	201	1,871.47	228,369	37,871	260,521	92,115

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

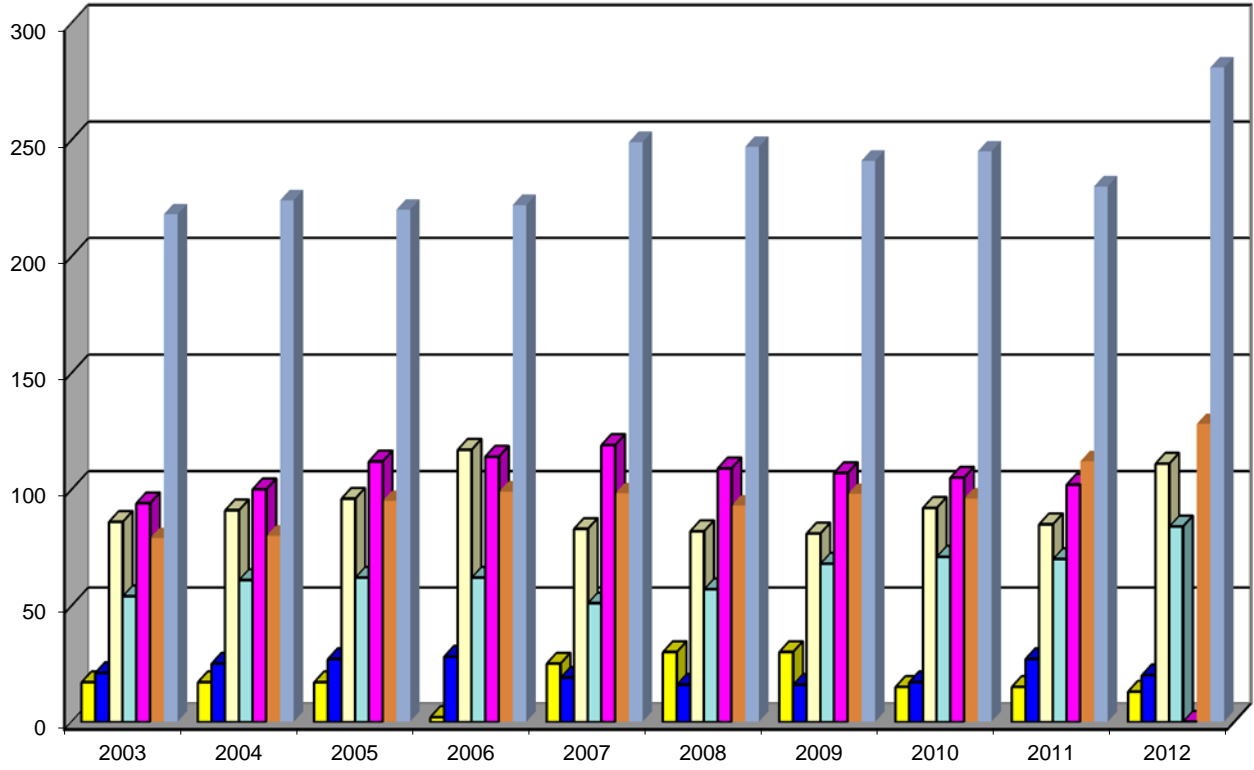
Total expenses in FY 2011-12 increased \$128.9 million, or 93.9 percent since FY 2002-03, primarily as a result of (1) OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moves from a 50/50 mix of primary and secondary effluent treatment to meeting secondary 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 43 percent of the increase, primarily due to the increase in the levels of treatment referred to above and an increase of feasibility study in FY 2011-12. Depreciation expense represents another 11 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2011-12, personnel expenses rose 3.5 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized decreased by 4 in FY 2011-12.

As depicted from the chart above, actual wastewater treatment flows have generally remained between 229 mgd and 243 mgd in the past. Due to unusually dry weather conditions during the last five years, FY 2007-08, FY 2008-09, FY 2009-10, FY 2010-11 and FY 2011-12 had flows of only 221 mgd, 211 mgd, 196 mgd, 207 mgd and 201 respectively.

Source: Orange County Sanitation District.

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

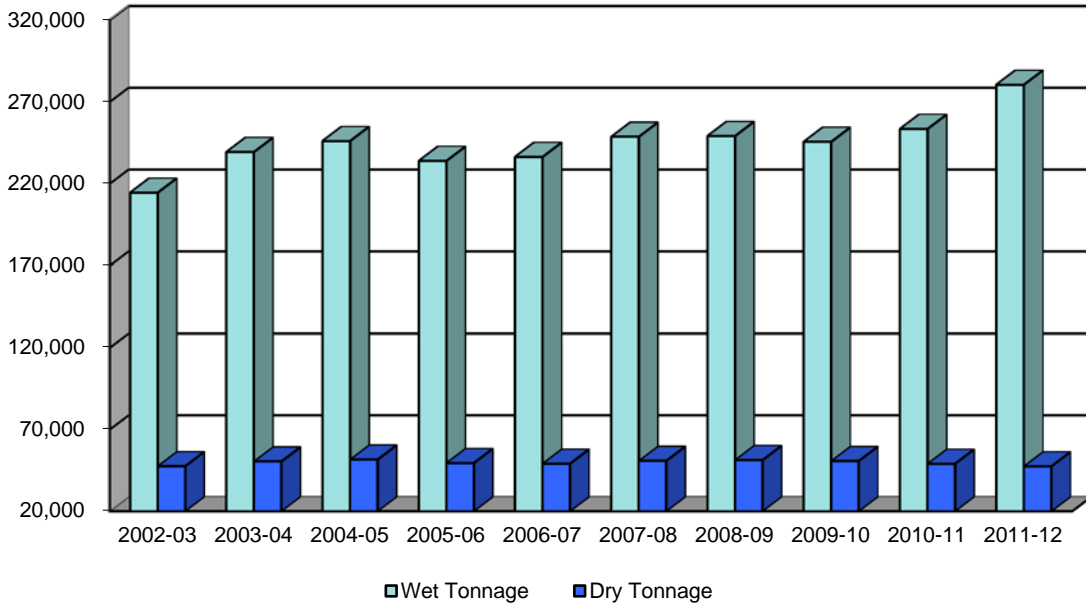


General Management
 Human Resources
 Administrative Services
 Facilities Support Services
 Technical Services
 Engineering
 Operations and Maintenance

	Fiscal Year Ending June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Management	17	17	17	2	25	30	30	15	15	13
Human Resources	21	25	27	28	19	16	16	17	27	20
Administrative Services	86	91	96	117	83	82	81	92	85	111
Facilities Support Services	54	61	62	62	51	57	68	71	70	84
Technical Services	94	100	112	114	119	109	107	105	102	-
Engineering	79	80	95	99	98	93	98	96	112	128
Operations and Maintenance	218	224	220	222	249	247	241	245	230	281
Total FTE's	569	598	629	644	644	634	641	641	641	637

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>
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
2011-12	280,572	47,556

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

ORANGE COUNTY SANITATION DISTRICT

Capital Asset Statistics

Last Ten Fiscal Years

Fiscal Year	Miles of Trunk & Subtrunk Sewers	Number of Pump Stations	Primary Treatment Capacity (1)	Secondary Treatment Capacity (1)
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
2011-12	572	17	372	332

Notes

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

Source: Orange County Sanitation District

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

Fiscal Year	(2) Population Estimates	Total Personal Income (in thousands)	Per Capita Personal Income	(5) Median Family Income	(6) Public School Enrollment	(7) Unemployment Rate
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)	52,478	84,200	502,903	9.2%
2011-12	3,056,000	166,345,500 (4)	54,432	85,300	502,195	7.9%

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, 2012

	Population as of <u>January 1, 2012</u>
Anaheim	343,793
Brea	40,932
Buena Park	81,460
Costa Mesa	110,757
Cypress	48,273
Fountain Valley	55,810
Fullerton	137,481
Garden Grove	172,648
Huntington Beach	192,524
Irvine	223,729
La Habra	60,871
La Palma	15,700
Los Alamitos	11,557
Newport Beach	85,990
Orange	138,010
Placentia	51,084
Santa Ana	327,731
Seal Beach	24,354
Stanton	38,498
Tustin	76,567
Villa Park	5,867
Westminister	90,677
Yorba Linda	65,777
Subtotal City (1)	<u>2,400,090</u>
Estimated Population Served in Unincorporated Areas (2)	<u>72,032</u>
	<u><u>2,472,122</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 6/30/12</u>			<u>Fiscal Year Ended 6/30/03</u>		
	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (3)</u>	<u>Number of Employees (2)</u>	<u>Rank</u>	<u>Percentage of Total County Employment (4)</u>
Walt Disney Co.	22,000	1	1.48%	21,275	1	1.45%
University of California, Irvine	21,291	2	1.43%	14,981	3	1.02%
County of Orange	17,321	3	1.16%	17,741	2	1.21%
St. Joseph Health System	12,048	4	0.81%	9,435	6	0.64%
Boeing Co.	7,700	5	0.52%	11,179	4	0.76%
BankAmerica Corp.	6,300	6	0.42%	4,813	10	0.33%
YUM! Brands Inc.	6,300	7	0.42%			
Kaiser Permanente	5,968	8	0.40%			
Target Corp.	5,527	9	0.37%	4,878	9	0.33%
Cedar Fair LP	5,200	10	0.35%			
Albertsons Inc.				9,500	5	0.65%
Tenet Healthcare Corp.				8,389	7	0.57%
SBC Communications, Inc.				7,100	8	0.48%
Total	109,655		7.36%	109,291		7.44%

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 1,491,000 as of June 2012.
- (4) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,469,800 as of June 2003.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators
June 30, 2012

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

Consolidated Revenue Area

County of Orange (unincorporated areas)

Cities:

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

Special Districts:

- Midway City Sanitary District
- Costa Mesa Sanitary District

Revenue Area No. 14

County of Orange (unincorporated areas)

Cities:

- Irvine
- Orange
- Tustin

Special District:

- Irvine Ranch Water District

Governing Body:	25-member Board of Directors
Authorized Full-Time Equivalent Employees:	637
Operational Date:	July 1, 1954
Authority:	California Health & Safety Code Section 4700 et. seq.
Services:	Wastewater collection, treatment, and disposal
Service Area:	479 square miles
Population Served:	2.5 million
Total Miles of Sewers (including force mains):	572 miles
Number of Pumping Stations:	17

Wastewater System Treatment Capacities (Million Gallons per Day)

	<u>Actual Flows</u>	<u>Existing Primary Treatment Capacity</u>	<u>Existing Secondary Treatment Capacity</u>	<u>Planned Secondary Capacity by 2020</u>
Plant 1	96	204	182	182
Plant 2	<u>105</u>	<u>168</u>	<u>150</u>	<u>150</u>
Total	<u>201</u>	<u>372</u>	<u>332</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, 2012

	Cost		Market Value	Net Unrealized Gain/Loss	
	Shares Par	Base	Base	% of Total	Base
INVESTMENT PORTFOLIO:					
CASH & CASH EQUIVALENTS (U.S. DOLLAR):					
CASH EQUIVALENTS	\$ 104,812.50	\$ 104,812.50	\$ 26,203.13	0.01%	\$ (78,609.37)
REPURCHASE AGREEMENTS	183,900,000.00	183,900,000.00	183,900,000.00	37.67%	-
SHORT TERM INVESTMENT FUNDS (US REGULATED)	1,371,900.94	1,371,900.94	1,371,900.94	0.28%	-
TREASURY BILLS- LESS THAN 1YR	126,900,000.00	126,734,746.22	126,734,746.22	25.96%	-
PENDING TRADES	-	(86,082,604.70)	(86,082,604.70)	-17.64%	-
SUBTOTAL - CASH & CASH EQUIVALENTS	<u>312,276,713.44</u>	<u>226,028,854.96</u>	<u>225,950,245.59</u>	<u>46.29%</u>	<u>(78,609.37)</u>
FIXED INCOME SECURITIES (U.S. DOLLAR):					
ABS - HOME EQUITY	1,207,623.68	1,094,536.64	1,144,175.94	0.23%	49,639.30
ABS - SMALL BUSINESS ADMINISTRATION	568,100.16	568,100.16	633,408.95	0.13%	65,308.79
ABS-STUDENT LOANS	654,128.78	652,677.87	645,016.00	0.13%	(7,661.87)
AUTOMOBILES & COMPONENTS	1,545,000.00	1,763,478.45	1,656,147.30	0.34%	(107,331.15)
BANKING & FINANCE	51,972,000.00	52,254,394.43	50,964,803.64	10.44%	(1,289,590.79)
CMO - US AGENCIES	111,151.38	111,151.38	111,990.57	0.02%	839.19
COLLATERALIZED MORTGAGE OBLIGATION	753,912.88	755,856.57	764,015.31	0.16%	8,158.74
COMMIT TO PURCHASE FNMA POOLS	(3,600,000.00)	(3,814,312.50)	(3,831,192.00)	-0.78%	(16,879.50)
FDIC GUARANTEED BANK & FINANCE	6,350,000.00	6,467,278.15	6,352,349.50	1.30%	(114,928.65)
FHLMC MULTICLASS	2,738,964.41	3,008,868.43	3,142,594.30	0.64%	133,725.87
FHLMC POOLS	7,068.15	6,895.87	7,492.52	0.00%	596.65
FNMAPOOLS	5,545,421.90	5,556,349.73	5,926,469.90	1.21%	370,120.17
FNMA REMIC	3,351,705.57	3,403,398.04	3,461,340.90	0.71%	57,942.86
FOOD PRODUCTS	2,600,000.00	2,940,824.00	2,950,994.00	0.60%	10,170.00
GNMA MULTI FAMILY POOLS	450,130.91	449,975.02	466,693.26	0.10%	16,718.24
HEALTH CARE	1,000,000.00	996,290.00	1,035,560.00	0.21%	39,270.00
INFLATION INDEXED SECURITIES	30,574,160.00	33,513,033.57	33,965,088.59	6.96%	452,055.02
INSURANCE	5,610,000.00	4,694,792.00	5,753,211.60	1.18%	1,058,419.60
MUNI-MEDICAL	500,000.00	508,595.00	601,805.00	0.12%	93,210.00
OIL & GAS	100,000.00	100,000.00	100,840.00	0.02%	840.00
TAXABLE MUNICIPALS	17,440,000.00	17,738,875.89	20,965,666.80	4.30%	3,226,790.91
TECHNOLOGY	3,200,000.00	3,200,000.00	3,193,024.00	0.65%	(6,976.00)
US AGENCIES	16,565,000.00	16,811,275.08	16,618,934.55	3.40%	(192,340.53)
US GOVERNMENTS	92,600,000.00	92,544,698.42	95,991,693.30	19.67%	3,446,994.88
UTILITY- ELECTRIC	5,097,000.00	5,310,583.61	5,952,997.16	1.22%	642,413.55
UTILITY - TELEPHONE	2,020,000.00	2,084,034.00	2,460,966.00	0.50%	376,932.00
WHOLE LOAN- CMO - COLLATERALIZED MTG OBLIG	1,141,123.67	1,141,118.42	1,141,477.42	0.23%	359.00
SUBTOTAL - FIXED INCOME SECURITIES	<u>250,102,491.49</u>	<u>253,862,768.23</u>	<u>262,177,564.51</u>	<u>53.71%</u>	<u>8,314,796.28</u>
TOTAL INVESTMENT PORTFOLIO	<u>\$ 562,379,204.93</u>	<u>479,891,623.19</u>	<u>488,127,810.10</u>	<u>100.00%</u>	<u>\$ 8,236,186.91</u>
DEMAND DEPOSITS AND CASH ON HAND		5,155,163.91	5,155,163.91		
MONIES HELD WITH FISCAL AGENTS		63,371,163.29	63,371,163.29		
MONIES WITH THE LOCAL AGENCY INVESTMENT FUND		20,643,482.19	20,668,659.87		
TOTAL CASH AND INVESTMENTS		<u>\$ 569,061,432.58</u>	<u>\$ 577,322,797.17</u>		

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

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

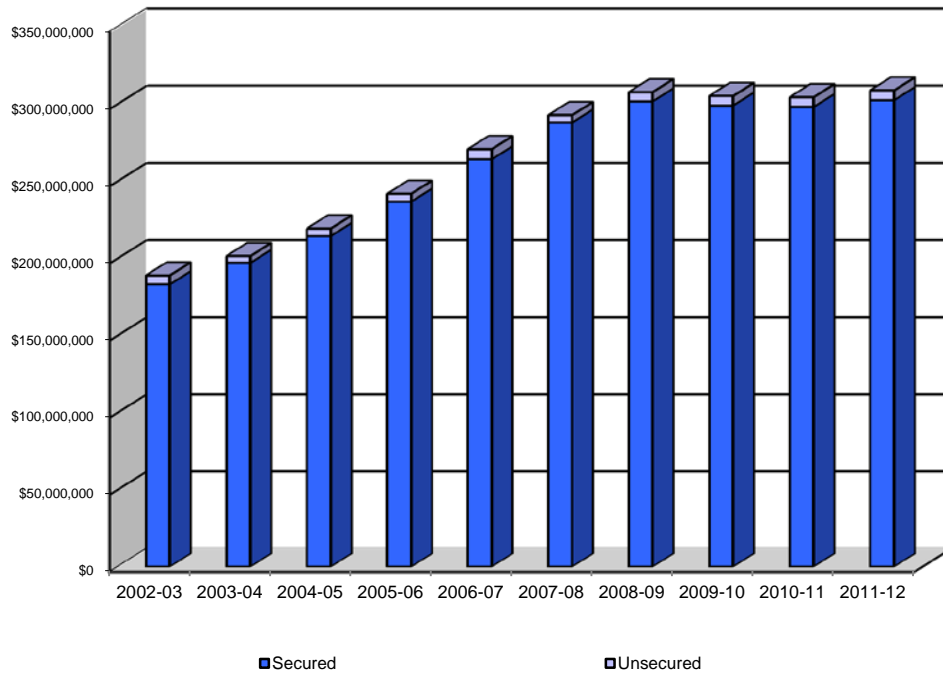
Fiscal Year	Tax Rate			OCSD's Average Share of Basic Levy
	Basic Levy	OCSD 1958 General Obligation Bonds	Total Tax Rate	
2002-03	1.00%	0.00%	1.00%	1.71%
2003-04	1.00%	0.00%	1.00%	1.68%
2004-05	1.00%	0.00%	1.00%	1.67%
2005-06	1.00%	0.00%	1.00%	1.65%
2006-07	1.00%	0.00%	1.00%	1.65%
2007-08	1.00%	0.00%	1.00%	1.63%
2008-09	1.00%	0.00%	1.00%	1.64%
2009-10	1.00%	0.00%	1.00%	1.63%
2010-11	1.00%	0.00%	1.00%	1.64%
2011-12	1.00%	0.00%	1.00%	1.64%

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

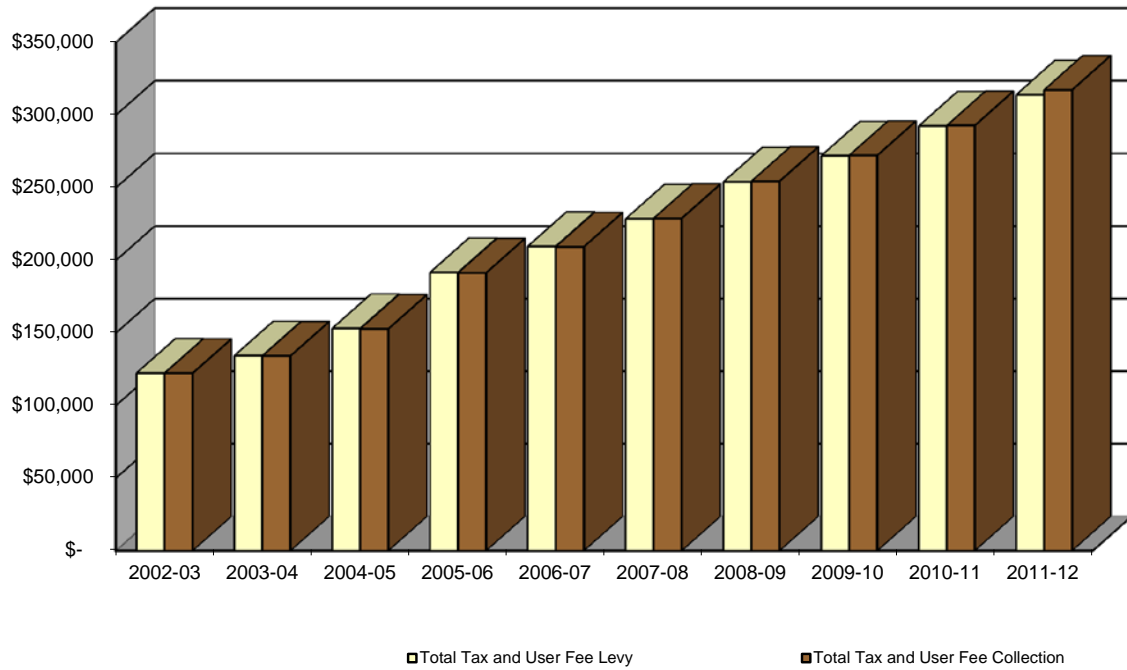


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2002-03	183,223,000	5,657,000	188,880,000	8.91%
2003-04	197,143,000	4,309,000	201,452,000	6.66%
2004-05	214,529,000	4,743,000	219,272,000	8.85%
2005-06	236,826,573	5,023,423	241,849,996	10.30%
2006-07	264,241,033	6,452,111	270,693,144	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%
2011-12	302,526,970	6,163,979	308,690,949	1.43%

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

Source: Orange County Auditor - Controller's Office.

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



Fiscal Year	Total Tax and User Fee Levy	ERAF III Deduction	Current Tax and User Fee Collection	Percent of Levy Collected	Delinquent Collection	Total Tax and User Fee Collection	% of Total Collection to Levy	O/S Delinquencies	% of Delinquencies to Tax Levy
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)
2011-12	314,077	-	317,249	101.01	121	317,370	101.05	(3,172)	(1.01)

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

<u>Assessed Property Value (2)</u>		<u>Calendar Year</u>	<u>Non- Residential Constr. (3)</u>	<u>Residential Construction (3)</u>		<u>Total Construction Value (3)</u>
<u>Fiscal Year</u>	<u>Value</u>		<u>Value</u>	<u>No. of Units</u>	<u>Value</u>	
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	3,091	1,029,407	2,181,336
2010-11	420,751,575	2011	1,300,019	4,807	1,236,973	2,536,992
2011-12	424,769,642	2012 (4)	1,381,116	6,118	1,574,992	2,956,108

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, 2012

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

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

(THIS PAGE INTENTIONALLY LEFT BLANK)

**ORANGE COUNTY SANITATION DISTRICT
FINANCIAL MANAGEMENT DIVISION**

10844 Ellis Avenue

Fountain Valley, California 92708-7018

714.962.2411

www.ocsewers.com

06/30/12