

Comprehensive Annual Financial Report

for the Period Ended June 30, 2010



Orange County Sanitation District, California

"We protect public health and the environment by providing effective
wastewater collection, treatment, and recycling."

ORANGE COUNTY SANITATION DISTRICT
Financial Management Division
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6/30/10

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2010

Prepared By:
Administrative Services Department
Financial Management Division

Michael D. White, CPA
Controller

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ORANGE COUNTY SANITATION DISTRICT
 Comprehensive Annual Financial Report
 Table of Contents
 For the Year Ended June 30, 2010

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal.....	i
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	13-36
Supplementary Information:	
Schedule of Net Assets.....	38
Schedule of Revenues, Expenses, and Changes in Net Assets	39
Schedule of Cash Flows	40
STATISTICAL SECTION:	
Net Assets by Component – Last Ten Fiscal Years	42
Revenues and Gross Capital Contributions by Source – Last Ten Fiscal Years.....	43
Expenses by Type – Last Ten Fiscal Years	44
Change in Net Assets – Last Ten Fiscal Years	45
Cash and Investment Reserve Balances – Last Ten Fiscal Years.....	46
Sewer Service Fees – Last Nine Fiscal Years & Next Fiscal Year.....	47
Number of Accounts and Revenues by Customer Class – Last Ten Fiscal Years	48
Principal Sewer Service Customers – Current Fiscal Year and Nine Years Ago	49
Ratio of Annual Debt Service to Total Expenses – Last Ten Fiscal Years	50
Debt Coverage Ratios – Last Ten Fiscal Years.....	51
Computation of Direct and Overlapping Debt – Current Fiscal Year	52
Ratios of Outstanding Debt – Last Ten Fiscal Years.....	53
Comparison of the Volume of Wastewater Treated – Last Ten Fiscal Years	54
Authorized Full-time Equivalents by Function – Last Ten Fiscal Years	55
Biosolids Produced – Last Ten Fiscal Years	56
Capital Asset Statistics – Last Ten Fiscal Years	57
Demographic Statistics – Last Ten Fiscal Years	58
Estimated Populations Served by Orange County Sanitation District – Current Fiscal Year.....	59
Principal Orange County Employers – Current Fiscal Year and Nine Years Ago.....	60
Operating Indicators	61
OTHER DATA & TRENDS:	
Cash and Investment Portfolio – As of June 30, 2010	64
Property Tax Rates – Direct and Overlapping Governments – Last Ten Fiscal Years	65
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	66
Property Tax and User Fee Levies and Collections – Last Ten Fiscal Years.....	67
Property Value and Construction – Last Ten Fiscal Years	68
Insurance in Force – Next Fiscal Year	69

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ORANGE COUNTY SANITATION DISTRICT

We protect public health and the environment by providing effective wastewater collection, treatment, and recycling.

October 20, 2010

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, 2010. This report includes the financial position and activity of individual revenue areas, as described within the Governmental Structure below, as of June 30, 2010 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 Statement Number 14, "The Financial Reporting Entity". 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 Mayer Hoffman McCann P.C. to perform the audit for the year ended June 30, 2010. 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, 2010.

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 480 square miles and serving a population of approximately 2.6 million, or 81 percent of the County's population. The Sanitation District was originally incorporated in 1954 as nine separate public corporations, or districts. In April of 1998, at the Sanitation District's request, the Board of Supervisors of the County of Orange passed Resolution No. 98-140 ordering the consolidation of these nine County Sanitation Districts into a new, single sanitation district, to be known as the Orange County Sanitation District, effective July 1, 1998. This action was recommended to the Board by the Local Agency Formation Commission in order to simplify governance structures, reduce the size of the Board, ease administrative processes, streamline decision-making and consolidate accounting and auditing processes. The boundaries of the nine previous districts had remained intact for the purpose of 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,



- Serving
- Anaheim
- Brea
- Buena Park
- Cypress
- Fountain Valley
- Fullerton
- Garden Grove
- Huntington Beach
- Irvine
- La Habra
- La Palma
- Los Alamitos
- Nawport 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 579 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 2009-10, approximately 77 percent of the advanced primary effluent also received secondary treatment. Both plants are master-planned for a future primary and secondary treatment capacity of 235 mgd for a combined total of 470 mgd by the year 2070.

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

ECONOMIC CONDITIONS AND OUTLOOK

In June 2010, the Anderson Center for Economic Research at Chapman University forecasts that a weak but sustained recovery through 2011 and real gross domestic product (GDP) growth will serve as a positive factor for California and Orange County economies. A low trade-weighted value of the dollar and gradual improvements in the world economy are projected to increase growth in real exports over the remainder of the year, and the gains will gradually accelerate into 2011. The most recent data points to a pickup in California merchandising exports since the first quarter of 2009. The strength in real exports and real GDP will be partially offset by continued weakness in California and Orange County's construction spending. Chapman University reports that residential construction spending hit bottom in 2009 and that their forecast calls for an increase of 18.6 percent and 17.5 percent in the number of single and multiple housing permits in California and Orange County, respectively. However, high vacancy rates, declining lease rates, and prices of commercial real estate, are continuing to push nonresidential construction spending lower. As a result, total construction spending which is generated by projected total residential and nonresidential permit valuation into future quarters is declining through the third quarter of 2011. Although total construction spending is still decreasing, the projected decline in early 2011 compares favorably to a much steeper decline of almost 30 percent over the 2009-10 period.

According to the California Employment Development Department, Orange County experienced a decline in payroll jobs of 110,200 jobs in 2009, and a decline of 173,600, or 11.4 percent in total payroll jobs since the beginning of the national recession in December of 2007. Only the Inland Empire, at 12.9 percent, incurred a larger percentage reduction throughout California. Chapman University forecasts that year-

over-year payroll growth will increase from virtually no growth in the third quarter of 2010 to 1.8 percent by the fourth quarter of 2011. While such growth pales in comparison to historical standards, it points to the creation of 21,000 and 182,000 in net new payroll jobs in Orange County and California, respectively, in 2011.

According to Chapman University, most of the new jobs over the 2010-11 period will be created in the services sector. The most rapid growth is forecasted in the education and health services sector, increasing at 2.6 percent in Orange County and 2.5 percent in California in 2011. Outside of the services sector, the retail and wholesale sectors are forecasted to show recovery in 2011. High unemployment rates, consumer deleveraging and declining nominal income led to a sharp decline in consumer spending. However, with the recession ending, consumers are becoming more secure about their jobs and are spending again. Chapman University's California consumer sentiment index increased to 81.1 in the first quarter of 2010 from a level of 58.2 in the first quarter of 2009. This marked the fourth consecutive quarterly improvement in this index. As a result of improved consumer confidence and spending, Chapman University forecasts that the retail sector should start hiring in mid-2010, and that jobs in this sector will increase by 2.4 percent in Orange County and 1.9 percent in California in 2011. In the goods-producing sector, Chapman forecasts employment growth in the construction sector will remain weak. The weakness in the nonresidential construction activity is more than offset by improvements in the residential sector and pickup in infrastructure spending.

Due to the pickup in job growth, Chapman University is forecasting personal income to increase by 3.7 percent in 2011 that should increase taxable sales spending as taxable sales in Orange County are forecasted to increase from an estimated level of \$50.6 billion in 2010 to 53.7 billion in 2011, an increase of 6.1 percent. This compares to a projected increase of 5.5 percent spending in California. However, the projected increase in the state's general fund revenue will not be sufficient to cover the state's projected spending, as employment in state and local government is projected to remain at current levels with no significant hiring over the 2010-11 period.

With the rapid decline in home prices and low mortgage rates, housing affordability has increased sharply in 2009. According to Chapman University, a homebuyer earning the median family income and buying a median-priced single-family home needed to spend 30.5 percent of income to pay for the interest, principal, and property taxes, substantially lower than the 51.3 percent needed when home prices peaked in 2007. Chapman University projects that the future direction of housing affordability points to lower levels as builders are slowly ramping up construction activity due to the total number of permits for single and multiple housing units forecasted to increase from a low of 2,200 units in 2009, to 2,700 in 2010, and 3,200 units in 2011, placing downward pressure on prices. Also, the supply of unsold housing units declined significantly over the last two years, and further significant declines are not expected over the next two years. With Chapman University's projection of income and job growth and modest increases in the supply of new and resale housing units, median single-family home prices are forecasted to increase annually within a range of 4.0 to 8.0 percent in Orange County over the 2010-11 period.

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 four 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.”

Following are the timeline for the remaining three milestones:

- February 15, 2011 – Complete construction of Plant No. 2 secondary treatment expansion.
- November 15, 2012 – Complete construction of Plant No. 1 secondary treatment expansion.
- December 31, 2012 – Achieve full compliance with the Code of Federal Regulations secondary treatment requirements

Strategic Planning

In November 2007, the Board of Directors adopted a new comprehensive strategic plan to drive OCSD's efforts and engage the organization to envision service and operations for the next five years. In continuing to look at the five-year horizon, the Strategic Plan was updated in November 2008 and in December 2009. Each of these strategic plan updates have followed a similar process that had been established when the original November 2007 had been adopted with the General Manager's Office initiated the planning effort with the Executive Management Team, and then soliciting input and ideas from managers and supervisors. In October 2010, the staff-generated ideas were presented to the Board of Directors during a workshop, where Board Members discussed and deliberated changes and additions to the plan.

Driven by our mission, vision and core values, this Strategic Plan, updated for 2010, continues our aggressive efforts to meet the sanitation, health, and safety needs of the more than 2.6 million people we serve while protecting the environment where we live.

In the past year, nearly 69 percent of the goals were completed. For 2010, this Strategic Plan maintains the high standards set in the past plan.

These goals were discussed at the October 20 Board of Directors workshop and include the following:

- Work in conjunction with the County of Orange and the Federal Government to relocate the Santa Ana River Interceptor outside of the Santa Ana Riverbed.

- Develop a more cost effective disinfection program that does not sacrifice public health and is accepted by various stakeholders.
- Develop compliance with new lower co-generation engine emission limits as established by the South Coast Air Quality Management District.
- Develop a strategy to meet climate change regulations on the mitigation of greenhouse gases.
- Develop a sustainable solution to manage the remaining one-third of the District's current biosolids capacity.

This Strategic Plan continues to chart a focused roadmap of success for the future of the Orange County Sanitation District. It addresses critical operations and construction issues, financial and budgeting challenges, and gives clear and concise direction to staff, ratepayers, regulatory agencies, the public, and our Board of Directors.

SERVICE EFFORTS AND ACCOMPLISHMENTS

In February 2010, the Sanitation District received the Collection System of the Year Award (medium size 250-500 miles) from the Santa Ana River Basin Chapter of the California Water Environment Association for 2009.

In February 2010, the Sanitation District received the Engineering Achievement Award for the design and construction of the Steve Anderson Lift Station from the Santa Ana River Basin Chapter of the California Water Environment Association for 2009.

In February 2010, the Sanitation District received the National Association of Clean Water Agencies Excellence in Management Recognition Program for 2010.

In April 2009, the Sanitation District and CDM received the American Council of Engineering Companies 2009 Grand Award for excellence in engineering design for 2009.

In April 2009, the Sanitation District and partner Orange County Water District received the American Society of Civil Engineers Opal Award for Outstanding Engineering Achievement for the Groundwater Replenishment System for 2009.

In July 2010, the Sanitation District received the National Association of Clean Water Agencies Gold Peak Performance Award for reclamation Plant No. 1 and Treatment Plant No. 2 achieving 100 percent compliance with the National Pollutant Discharge Elimination System (NPES) permits for 2009.

In 2010, the Sanitation District received the Santa Ana Watershed Project Authority Innovative Vision Award in recognition of our commitment to protection of the marine environment for 2010.

In 2010, the Sanitation District's Engineering Capital Improvement along with Parsons and CH2M Hill received the National Safety Council Occupational Excellence Achievement Award for 2010.

ACCOUNTING AND BUDGETARY CONTROLS

The Sanitation District's accounting records are maintained on the accrual basis. In developing and evaluating the Sanitation District's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability.

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

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

ACCUMULATED FUNDS AND RESERVES POLICY

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

Cash Flow Reserve: will be 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: will be 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: will be maintained 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: will be maintained 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 \$6.9 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: will be maintained 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 \$3.46 billion for the collection facilities and \$3.44 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, 2010 is \$128.7 million.

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

As of June 30, 2010, the Sanitation District was in compliance with the Accumulated Funds and Reserves Policy with designated net assets totaled \$473 million, and have been earmarked for the following specific purposes in accordance with the Sanitation District's reserve policy:

Designated For Cash Flow Contingency	\$185 million
Designated For Self-Insurance	57 million
Designated For Capital Improvements	142 million
Designated For Debt Service Requirements	129 million
Overlapping Reserve Adjustment	<u>(40) million</u>
 Total Designated Net Assets	 <u>\$ 473 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, 2009. This was the sixteenth consecutive year that the Sanitation District has received this award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGMENTS

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

Respectfully submitted,



Michael D. White, CPA
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Sanitation District, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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.



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Egan".

Executive Director

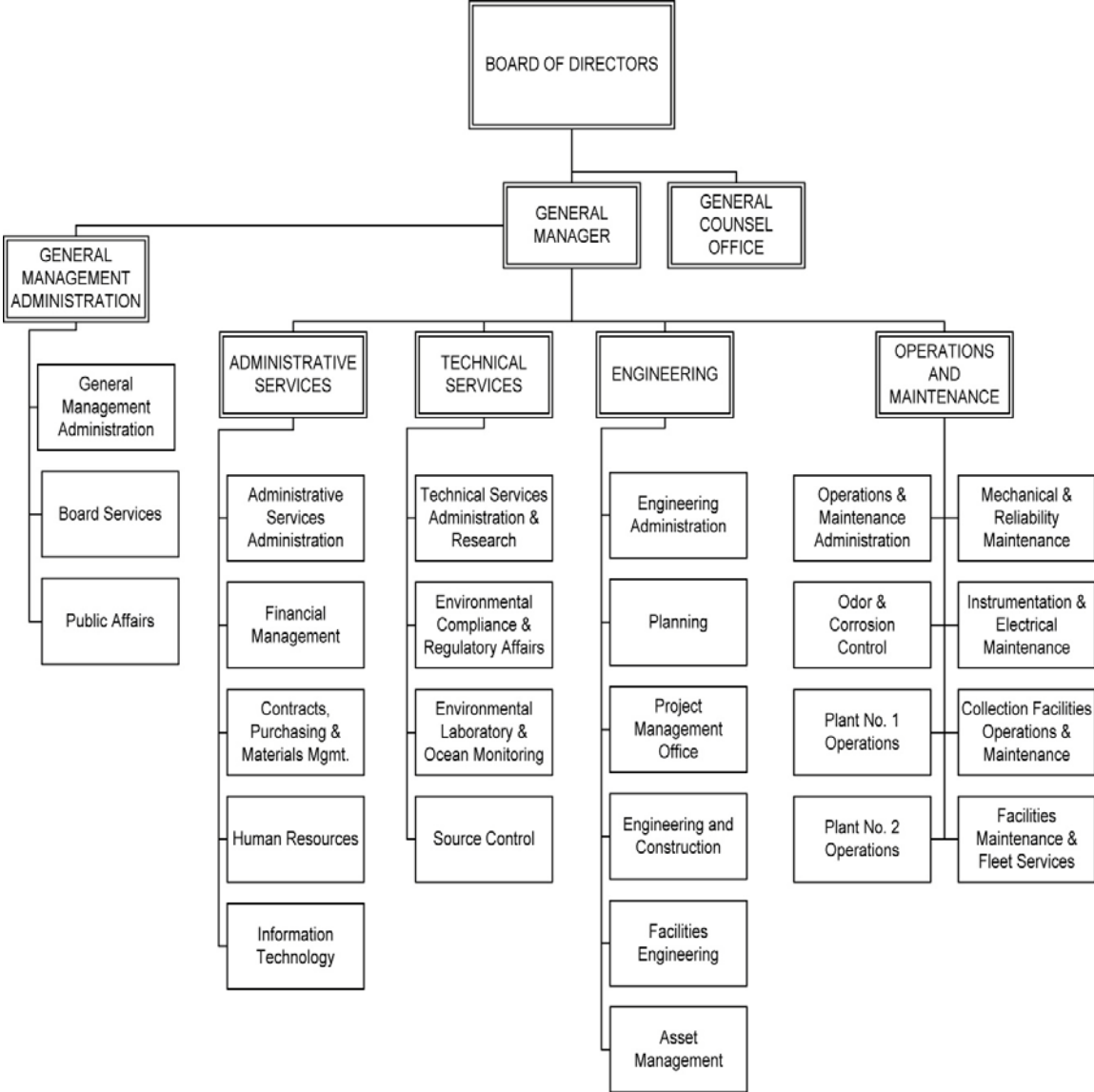
ORANGE COUNTY SANITATION DISTRICT

Board of Directors
As of June 30, 2010

<u>AGENCY</u>	<u>ACTIVE DIRECTOR</u>	<u>ALTERNATE DIRECTOR</u>
Cities:		
Anaheim	Harry Sidhu	Lucille Kring
Brea	Roy Moore	Ron Garcia
Buena Park	Patsy Marshall	Fred Smith
Cypress	Phil Luebben	Prakash Narain
Fountain Valley	Larry Crandall	Steve Nagel
Fullerton	Sharon Quirk-Silva	Pam Keller
Garden Grove	Bill Dalton	Andrew Do
Huntington Beach	Cathy Green	Jill Hardy
Irvine	Christina Shea	Steven Choi
La Habra	Tom Beamish	Rose Espinoza
La Palma	Mark Waldman	Henry Charoen
Los Alamitos	Troy Edgar	Ken Stephens
Newport Beach	Don Webb	Nancy Gardner
Orange	Jon Dumitru	Denis Bilodeau
Placentia	Constance Underhill	Scott Nelson
Santa Ana	Sal Tinajero	David Benavides
Seal Beach	Charles Antos	Gordon Shanks
Stanton	David Shawver	Carol Warren
Tustin	Doug Davert	John Nielson
Villa Park	Brad Reese	Bill MacAloney
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	Vacant

ORANGE COUNTY SANITATION DISTRICT

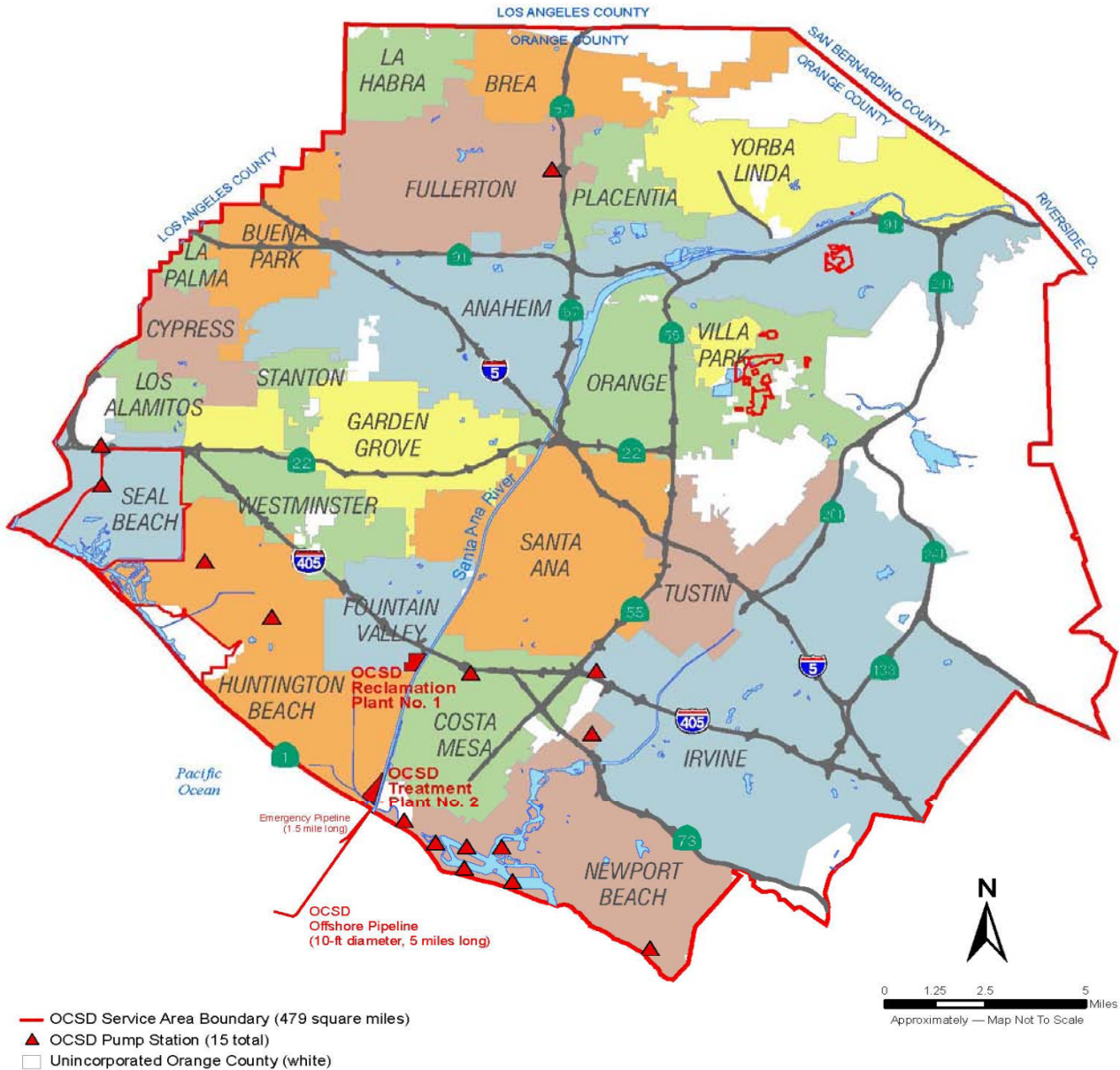
Organizational Chart
As of June 30, 2010



ORANGE COUNTY SANITATION DISTRICT

Map of Service Area

As of June 30, 2010



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 2008
 REVISED: 07/2009

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Board of Directors
Orange County Sanitation District
Fountain Valley, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Orange County Sanitation District ("District"), as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year partial comparative information has been derived from the basic financial statements of the District for the year ended June 30, 2009 and, in our report dated October 22, 2009, we expressed an unqualified opinion on those basic financial statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2010, and the changes in financial position and cash flows of the District for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplementary information, statistical tables and other data and trends are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical tables and other data and trends have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Board of Directors
Orange County Sanitation District

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2010 on our consideration of the Orange County Sanitation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor Hoffman McLean P.C.

Irvine, California
October 20, 2010

Management Discussion and Analysis June 30, 2010

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, 2010. 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, 2010, the assets of the Sanitation District exceeded its liabilities by \$1,431.1 million (net assets). Of this amount, \$310.0 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 \$82.8 million, or 6.1 percent over the prior year.
- Net Capital Assets, consisting of non-depreciable capital assets and depreciable capital assets net of accumulated depreciation, increased \$200.1 million, or 9.5 percent over the prior year.
- Net Assets invested in capital assets, net of related debt increased \$172.2 million, or 18.1 percent.
- Unrestricted Net Assets decreased \$89.4 million, or 22.4 percent from the prior year.

Overview of the Basic Financial Statements

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

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, 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 \$82.8 million, or 6.1 percent to \$1,431.1 million in FY 2009-10 over the prior year. In comparison, net assets increased \$72.3 million, or 5.7 percent, to \$1,348.3 million in FY 2008-09 over FY 2007-08.

(Dollars in thousands)

	June 30, 2010	June 30, 2009	Increase (Decrease)	Percentage Increase (Decrease)
Assets				
Current and other assets	\$ 533,107	\$ 599,489	\$ (66,382)	-11.1%
Capital assets, net	2,300,819	2,100,697	200,122	9.5%
Total assets	2,833,926	2,700,186	133,740	5.0%
Liabilities				
Current liabilities	290,810	294,397	(3,587)	-1.2%
Noncurrent liabilities	1,112,044	1,057,468	54,576	5.2%
Total liabilities	1,402,854	1,351,865	50,989	3.8%
Net assets:				
Investment in capital assets, net of related debt	1,121,057	948,869	172,188	18.1%
Unrestricted	310,015	399,452	(89,437)	-22.4%
Total net assets	\$ 1,431,072	\$ 1,348,321	\$ 82,751	6.1%

Current and other assets decreased \$66.4 million, or 11.1 percent, due primarily to the funding of \$251.1 million in capital improvements and the return of \$12.7 million in capital contributions to the Irvine Ranch Water District offset by net cash provided by operations of \$91.4 million, net non-operating revenues of \$49.6 million, receipt of net certificate of participation (COP) debt proceeds of \$47.6 million, and receipt of capital facilities capacity charges of \$10.3 million.

Capital assets, net increased \$200.1 million, or 9.5 percent, due mostly to the ongoing capital improvement program capital additions of \$252.9 million in FY 2009-10 less depreciation of \$52.0 million. Included in total capital outlays was the "New Secondary Treatment System at Plant No. 1. This project is one of several capital improvements that are necessary to achieve secondary treatment standards by December 31, 2012 in accordance with a consent decree signed by EPA and filed with the U.S. District Court. This project includes construction of aeration basins, clarifiers, a blower building, and waste sludge pumping stations, that will provide additional secondary treatment capacity of 60 million gallons per day (MGD) at Plant No. 1. Capital outlays of \$65.5 million were incurred in FY 2009-10 with total project outlays to date of \$220.7 million. The total projected cost is \$260.3 million with completion expected in FY 2011-12.

Another secondary treatment project underway is the construction of Trickle Filters at Plant No. 2. This project includes the construction of three trickle filters, a solids contact basin, and six clarifiers for additional secondary treatment capacity of 60 MGD at Plant No. 2. Capital outlays of \$68.3 million were incurred in FY 2009-10 with total project outlays to date of \$201.0 million. The total projected cost is \$223.2 million with completion expected in FY 2012-13.

The completion of the Headworks Improvements at Plant No. 2 was another project with significant outlays in FY 2009-10. This project is replacing the existing headworks due to failing gates and the ineffectiveness of the bar screens and grit chambers that are allowing grit screenings to pass through into the downstream processes causing increased operating costs. This project includes an influent diversion and metering structure, bar screens, influent pump station, vortex grit chambers, primary influent splitter and metering structure, ferric chloride feed facilities, headworks and trunk line odor control facilities, screenings handling building including a washer/compactor, grit handling building, and an electrical building that includes standby power. In FY 2009-10, \$8.7 million of the estimated \$257.7 million was incurred bringing the total outlay to \$229.3 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 2009-10.

Net assets invested in capital assets, net of related debt increased \$172.2 million, or 18.1 percent over the prior year primarily as a result of the \$200.1 million increase in net capital assets offset by an increase of \$27.9 million in net related debt.

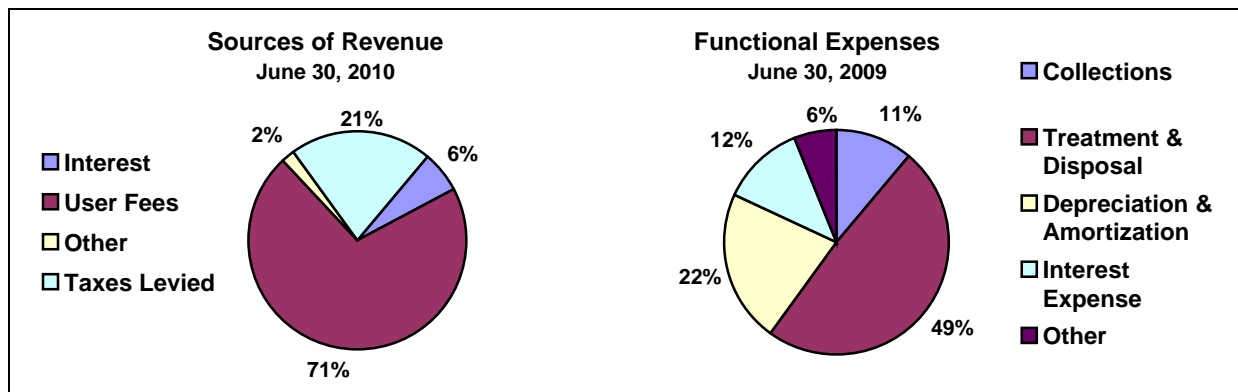
Unrestricted net assets decreased \$89.4 million, or 22.4 percent over the prior year, and is primarily due to the overall increase in net assets of \$82.8 offset by the increase in investment in capital assets net of related debt of \$172.2 million.

Changes in Net Assets

Net assets increased \$82.8 million in FY 2009-10, a 6.1 percent increase over the prior year.

(Dollars in thousands)

	June 30, 2010	June 30, 2009	Increase (Decrease)	Percentage Increase (Decrease)
Revenues:				
Operating revenues				
Service Charges	\$ 225,059	\$ 206,422	\$ 18,637	9.0%
Permit and inspection fees	629	895	(266)	-29.7%
Total operating revenues	<u>225,688</u>	<u>207,317</u>	<u>18,371</u>	<u>8.9%</u>
Non-operating revenues				
Property taxes	64,759	66,427	(1,668)	-2.5%
Investment and interest income	19,166	14,835	4,331	29.2%
Emission Reduction Credit Sales	4,530	531	3,999	753.1%
Other	2,409	1,103	1,306	118.4%
Total non-operating revenues	<u>90,864</u>	<u>82,896</u>	<u>7,968</u>	<u>9.6%</u>
Total revenues	<u>316,552</u>	<u>290,213</u>	<u>26,339</u>	<u>9.1%</u>
Expenses:				
Operating expense other than depreciation and amortization	138,085	164,556	(26,471)	-16.1%
Depreciation and amortization	52,036	32,520	19,516	60.0%
Non-operating expense	41,272	38,741	2,531	6.5%
Total expenses	<u>231,393</u>	<u>235,817</u>	<u>(4,424)</u>	<u>-1.9%</u>
Income before capital contributions	85,159	54,396	30,763	56.6%
Capital facilities capacity charges	10,332	9,834	498	5.1%
Capital contributions (distributions), net	<u>(12,739)</u>	<u>8,104</u>	<u>(20,843)</u>	<u>-257.2%</u>
Increase in net assets	82,752	72,334	10,418	14.4%
Beginning net assets	1,348,321	1,275,987	72,334	5.7%
Ending net assets	<u>\$ 1,431,073</u>	<u>\$ 1,348,321</u>	<u>\$ 82,752</u>	<u>6.1%</u>



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 2009-10, operating revenues increased \$18.4 million, or 8.9 percent over the prior year that is predominately reflective of the \$18.6 million, or 9.0 percent increase in service charges. The increase in service charges is primarily due to the 9.9 percent increase in the average sewer user fee rate over the prior year.

The \$8.0 million, or 9.6 percent increase in non-operating revenues consists of a \$4.3 million, or 29.2 percent increase in investment and interest income, a 4.0 million, or 753.1 percent increase in the one-time sale of excess emission reduction credits, and a \$1.3 million, or 118.4 percent increase in other non-operating revenues. These increases are partially offset by a \$1.7 million, or 2.5 percent decrease in property tax revenues. The increase in investment and interest income is attributable to the higher yields earned on investments somewhat offset by the lower cash and investment balances. Yields earned on investments increased from 2.9 percent in FY 2008-09 to 3.9 percent in FY 2009-10 and cash balances decreased during this same time period from \$534 million to \$473 million. The increase in other non-operating revenues is mostly reflective of the \$1.4 million awarded from federal grants. The decline in property tax revenue is primarily the result of the decrease in total assessed valuation of 0.8 percent over the prior year.

Operating expense before depreciation and amortization decreased \$26.5 million, or 16.1 percent over the prior year. Of this decrease, a one-time other operating expense of \$29.0 million was charged to the Consolidated Revenue Area in the prior year as a result of the independent agreed-upon procedures conducted on Revenue Area 14 to substantiate Irvine Ranch Water District's (IRWD) owner equity interest in OCSD and to determine the cash reserve contribution required from IRWD in accordance with the November 15, 1995 agreement.

Operating salaries and benefits totaling \$69.7 million increased \$2.2 million, or 3.2 percent over the prior year. The operating salaries and benefits costs are part of the overall increase of \$3.4 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 \$91.8 million, a 3.9 percent increase over the prior year total of \$84.6 million. This increase is mostly attributable to the \$2.1 million increase in regular salaries, or 3.4 percent, that was primarily driven by existing bargaining agreements as total

authorized staffing levels have remained at the FY 2008-09 levels of 641 full time equivalents. There was also an increase in retirement premiums of \$0.9 million.

Ferric chloride, a chemical coagulant used in the treatment process, increased \$1.3 million, or 24.5 percent due to the unit price increase experienced over the prior year.

Somewhat offsetting the increased cost in personnel services and chemical supplies was the decrease of \$3.5 million, or 12.0 percent in contractual services over the prior year. This reduction was primarily due to the \$1.1 million decrease in other waste disposal. As a result of the Nitrification Study conducted at the Plant No. 1 activated sludge facility, there was no waste sludge generated that required removal. There were also reductions in one-time environmental scientific consulting services, environmental monitoring, temporary services, solids removal, and other professional services of \$691,000, \$387,000, \$253,000, \$206,000, and \$222,000, respectively.

Capital facilities capacity charges increased to \$10.3 million, a \$0.5 million or 5.1 percent. This increase is reflective of the increase in total construction values in FY 2009-10 of 5.9 percent over the prior year.

A capital distribution back to IRWD is being recognized in FY 2009-10 totaling \$12.7 million due to IRWD's decreased equity share of OCSD treatment facilities in the amount of \$23.6 million as the result of decreased sewage flows from IRWD. This capital distribution back to IRWD is reduced by the \$10.8 million of certain capital improvements made by OCSD in FY 2009-10 benefiting IRWD.

Capital Assets

At June 30, 2010, the Sanitation District had a net investment of \$2.301 billion in capital assets. This amount represents a net increase (including additions and deletions) of \$200.1 million, or 9.5 percent over the prior year.

(Dollars in thousands)

	June 30, 2010	June 30, 2009	Increase (Decrease)	Percentage Increase (Decrease)
Land	\$ 13,021	\$ 13,021	\$ -	0.0%
Construction in Progress	1,448,353	1,478,567	(30,214)	-2.0%
Sewage collection facilities	348,024	279,457	68,567	24.5%
Sewage treatment facilities	361,446	237,900	123,546	51.9%
Effluent disposal facilities	45,795	47,689	(1,894)	-4.0%
Solids disposal facilities	365	375	(10)	-2.7%
General and administrative facilities	79,621	38,835	40,786	105.0%
Assets acquired in excess of book value	4,193	4,852	(659)	-13.6%
Capital assets, net	\$ 2,300,818	\$ 2,100,696	\$ 200,122	9.5%

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

- \$68.3 million – New Trickling Filters at Plant No. 2
- \$65.5 million – New Secondary Treatment Systems at Plant No. 1
- \$10.3 million – Bitter Point Force Main Rehabilitation
- \$10.0 million – Central Generation Automation
- \$ 8.7 million – Headworks Replacement at Plant No. 2
- \$ 8.3 million – Bitter Point Pump Station
- \$ 8.2 million – Primary Treatment Rehabilitation at Plant No. 2
- \$ 6.4 million – Westside Pump Station Rehabilitation

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

Debt Administration

At June 30, 2010, the Sanitation District had \$1.3 billion outstanding in COP debt, a net increase of \$45.7 million, or 3.7 percent over the prior year. This increase is primarily due to the \$80.0 million of new fixed rate debt, Series 2010A Wastewater Revenue Obligations, issued in May 2010 to assist in the \$252.9 million in capital outlays that had taken place during the year and to assist in the \$180.1 million scheduled to be spent in the FY 2010-11. In addition, Revenue Refunding Certificate Anticipation Notes, Series 2009B Certificates of Anticipation Notes fixed rate debt was issued in the amount of \$176.1 million in December 2009 to refund the \$196.6 million outstanding principal balance of the COP Series 2006 variable rate debt.

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

In the winter of 2010, the Sanitation District is scheduled to issue \$157 million of new COP fixed rate debt. A total of \$447 million in COP debt issuance is being proposed over the next five years. These financings are needed early in the 10-year capital improvement program because the bulk of the construction is scheduled during the same time period.

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate within the County of Orange is currently 9.5 percent, which is an increase from a rate of 9.3 percent a year ago.
- Inflation for Orange County in 2009 increased 0.8 percent based on the 2009 actual percentage change in the consumer price index according to the June 2010 Economic and Business Review report prepared by Chapman University.
- The actual rate of return on investments increased from the 2.9 percent earnings rate in FY 2008-09 to 3.9 percent for FY 2009-10.

All of these factors were considered in preparing the Sanitation District's two-year budget for FY 2010-11 and FY 2011-12.

The Sanitation District's user fee schedule was increased by 10.4 percent for FY 2010-11 over the prior year. The annual fee applicable to the Sanitation District's largest customer base and the underlying basis for all other user rates: the single-family residential fee, increased by \$23.00, from \$221.00 to \$244.00. This rate increase was necessary to finance the Sanitation District's cash flow needs as capital improvement outlays alone are projected to be \$180.1 million in FY 2010-11 and are projected to total \$1.9 billion over the next 10 years in order to rehabilitate and upgrade existing facilities and provide for full secondary treatment standards.

Requests for Information

The financial report is designed to provide a general overview of the Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Financial Management Division, Orange County Sanitation District, P.O. Box 8127, Fountain Valley, CA 92728-8127.

**ORANGE COUNTY SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS**

ORANGE COUNTY SANITATION DISTRICT

Statement of Net Assets

June 30, 2010

(With Comparative Data for June 30, 2009)

	2010	2009
Current assets:		
Cash and cash equivalents	\$ 49,537,559	\$ 39,199,955
Investments	310,335,760	399,761,799
Accounts receivable, net of allowance for uncollectibles	13,069,682	11,864,637
Accrued interest receivable	1,108,027	2,157,015
Connection fees receivable	996,430	388,031
Property tax receivable	2,040,072	3,221,629
Inventories	5,402,069	5,196,457
Prepaid expenses	1,134,886	589,228
Prepaid retirement	14,578,000	12,605,000
Total current assets	<u>398,202,485</u>	<u>474,983,751</u>
Noncurrent assets:		
Restricted:		
Cash and cash equivalents	86,629,639	68,551,793
Investments	26,829,427	26,829,427
Accrued interest receivable	210,730	215,140
Unrestricted:		
Non-depreciable capital assets	1,461,374,037	1,213,152,503
Depreciable capital assets, net of accumulated depreciation	839,444,526	887,544,338
Deferred charges	9,733,908	9,433,482
Other noncurrent assets, net	11,501,640	19,475,424
Total noncurrent assets	<u>2,435,723,907</u>	<u>2,225,202,107</u>
Total assets	<u>2,833,926,392</u>	<u>2,700,185,858</u>
Current liabilities:		
Accounts payable	20,091,995	30,456,796
Accrued expenses	7,259,202	8,350,733
Retentions payable	1,587,986	1,065,892
Interest payable	19,643,344	16,646,631
Due to other governmental agency	42,053,445	30,999,633
Current portion of long-term obligations	200,173,675	206,877,712
Total current liabilities	<u>290,809,647</u>	<u>294,397,397</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations	1,112,044,076	1,057,467,549
Total liabilities	<u>1,402,853,723</u>	<u>1,351,864,946</u>
Net assets:		
Invested in capital assets, net of related debt		
Collection system	459,503,200	423,243,200
Treatment and disposal -Land	4,475,751	4,475,751
Treatment and disposal system	1,836,839,612	1,672,977,890
Capital assets related debt	(1,179,761,456)	(1,151,827,717)
Unrestricted	310,015,562	399,451,788
Total net assets	<u>\$ 1,431,072,669</u>	<u>\$ 1,348,320,912</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, 2010
(With Comparative Data for the Year Ended June 30, 2009)

	2010	2009
Operating revenues:		
Service charges	\$ 225,058,521	\$ 206,422,467
Permit and inspection fees	629,082	894,578
Total operating revenues	225,687,603	207,317,045
Operating expenses other than depreciation and amortization:		
Salaries and benefits	69,651,904	67,497,961
Utilities	6,934,045	7,242,049
Supplies, repairs and maintenance	26,549,945	26,723,524
Contractual services	25,476,063	28,951,469
Directors' fees	141,313	154,870
Meetings and training	894,865	1,034,548
Other	8,436,969	32,952,065
Total operating expenses other than depreciation and amortization	138,085,104	164,556,486
Operating income before depreciation and amortization	87,602,499	42,760,559
Depreciation and amortization	52,035,796	32,520,010
Operating income	35,566,703	10,240,549
Non-operating revenues:		
Property taxes	64,759,095	66,426,931
Investment and interest income	19,165,691	14,835,561
Emission Reduction Credit Sales	4,530,000	530,750
Other	2,409,455	1,103,485
Total non-operating revenues	90,864,241	82,896,727
Non-operating expenses:		
Interest	27,536,714	24,899,193
Feasibility studies	10,349,999	13,652,434
Capital grants to member agencies	1,481,590	189,830
Other	1,904,239	-
Total non-operating expenses	41,272,542	38,741,457
Income before capital contributions	85,158,402	54,395,819
Capital Contributions:		
Capital facilities capacity charges	10,332,569	9,834,369
Capital contributions received from (returned to) other agency	(12,739,214)	8,103,438
Change in net assets	82,751,757	72,333,626
Total net assets - beginning	1,348,320,912	1,275,987,286
Total net assets - ending	\$ 1,431,072,669	\$ 1,348,320,912

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2010
(With Comparative Data for the Year Ended June 30, 2009)

	2010	2009
Cash flows from operating activities:		
Receipts from customers and users	\$ 242,671,806	\$ 244,803,212
Payments to employees	(70,296,045)	(65,495,757)
Payments to suppliers	(80,970,787)	(115,054,877)
Net cash provided by operations	91,404,974	64,252,578
Cash flows from noncapital financing activities:		
Proceeds from property taxes	65,940,652	66,501,391
Capital grants to member agencies	(1,481,590)	(189,830)
Net cash provided by noncapital financing activities	64,459,062	66,311,561
Cash flows from capital and related financing activities:		
Capital facilities capacity charges	9,724,170	10,733,265
Additions to property, plant and equipment	(251,119,750)	(290,787,719)
Interest paid	(43,055,105)	(36,301,490)
Principal payments on certificates of participation	(200,145,000)	(244,805,000)
Proceeds from certificates of participation issuance	247,740,402	408,636,386
Certificates of participation issuance costs	(554,219)	(775,121)
Proceeds from capital contributions	-	8,103,438
Net cash provided (used) by capital and related financing activities	(237,409,502)	(145,196,241)
Cash flows from investing activities:		
Proceeds from the sale of investments	3,572,349,413	4,298,378,906
Purchases of investments	(3,476,745,940)	(4,347,133,227)
Interest received	14,357,443	16,388,243
Net cash provided (used) by investing activities	109,960,916	(32,366,078)
Net increase (decrease) in cash and cash equivalents	28,415,450	(46,998,180)
Cash and cash equivalents, beginning of year	107,751,748	154,749,928
Cash and cash equivalents, end of year	\$ 136,167,198	\$ 107,751,748
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 35,566,703	\$ 10,240,549
Adjustments to reconcile operating income to net cash provided by operations:		
Depreciation and amortization	52,035,796	32,520,010
Bad debt expense	(195,981)	26,606
Other non-operating revenues and expenses	6,895,719	1,225,332
(Increase)/decrease in operating assets:		
Accounts receivable	(1,009,064)	25,993
Due from other governmental agencies	-	4,913,701
Inventories	(1,354,431)	(191,636)
Prepaid and other assets	(2,518,658)	(12,379,924)
Increase/(decrease) in operating liabilities:		
Accounts payable	(10,364,801)	2,879,030
Accrued expenses	(1,091,531)	(543,575)
Retentions payable	522,094	(6,720,864)
Due to other governmental agency	11,053,812	30,999,633
Pension/OPEB payable	755,295	771,789
Compensated absences	846,045	650,971
Other payable	308,546	323,801
Claims and judgments	(44,570)	(488,838)
Net cash provided by operations	\$ 91,404,974	\$ 64,252,578
<u>Noncash Activities:</u>		
Unrealized gain (loss) on the fair value of investments	\$ 6,177,434	\$ (153,923)
Capital contributions from other agency	(12,739,214)	2,456,540

See Accompanying Notes to Basic Financial Statements.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

(1) Summary of Significant Accounting Policies

Reporting Entity

The Orange County Sanitation District (OCSD) is a public agency which owns and operates certain wastewater facilities in order to provide regional wastewater collection, treatment, and disposal services to approximately 2.6 million people in the northern and central portion of the County of Orange, California. OCSD is managed by an administrative organization comprised of directors appointed by the agencies and cities which are serviced by OCSD.

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

Effective July 1, 1998, the organization became known as the Orange County Sanitation District. The boundaries of one of the previous districts, now known as Revenue Area No. 14, have been maintained separately because their use of OCSD's collection, treatment, and disposal system is funded by the Irvine Ranch Water District. 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, 2010, 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 provisions of Governmental Accounting Standards Board (GASB) Statement 14.

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

to the general public on a continuing basis be financed or recovered primarily through user charges.

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

Operating Plans

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

Cash Equivalents

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

Investments

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

Accounts Receivable

Accounts receivable is shown net of the allowance for uncollectible receivables which was \$20,016 at June 30, 2010. Any unbilled sewer service receivables are recorded at year-end.

Inventory

Inventory is stated at cost, which approximates market, on a weighted-average basis.

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; allocated indirect charges such as engineering, purchasing, supervision and other fringe benefits; and certain administrative and general expenses. Net interest costs are capitalized on projects. During the fiscal year ended June 30, 2010, net interest costs of \$16.86 million were capitalized.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

Depreciation of plant and equipment is provided for over the estimated useful lives of the assets using the straight-line method. OCSD generally follows 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 their effective interest rates (note 4).

Restricted Assets

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

Compensated Absences

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

Vacation and sick leave benefits and personal days are recorded as an expense and liability when earned by eligible employees. In determining the estimated sick leave liability at June 30 of each year, OCSD assumes that all employees' accumulated sick leave balances will ultimately be paid out at 35 percent of the ending balance. The distribution between current and long-term portions of the liability is based on historical trends.

Claims and Judgments

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

Property Taxes

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

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments which become delinquent after December 10 and April 10.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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 to the extent that they are available to finance current operations. 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.

Capital Contributions Received from (Returned to) other Agencies

Capital contributions consist of charges to certain special districts and agencies for their agreed-upon share of additions to capital assets and equity share in OCSD's Joint Works Treatment Facilities as prescribed in the agreements.

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, 2010, the outstanding commitments with contractors totaled \$117 million.

Self-Insurance Plans

For the year ended June 30, 2010, 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 \$500,000 deductible per occurrence below the outside excess insurance coverage to statutory levels. The self-insurance portion of the property damage exposure covering fire and other perils is the \$250,000 per occurrence deductible (for most perils) under the outside excess property insurance coverage to \$1 billion. The self-insurance portion of the property damage exposure covering flood is the \$100,000 per occurrence deductible with outside excess property insurance coverage to \$300 million. OCSD is self-insured for virtually all property damage from the peril of earthquake. The self-insurance portion of the boiler & machinery exposure is the deductible ranging from \$25,000 to \$350,000 under the outside excess boiler & machinery insurance coverage to \$100 million per occurrence combined limit. The self-insurance portion of the general liability exposure is the \$250,000 per occurrence deductible (\$500,000 for employment practices liability) under the outside excess liability coverage to \$30 million per occurrence and aggregate. The self-insurance portion of the pollution liability exposure is the \$100,000 per loss deductible under the outside pollution liability insurance coverage to \$10 million. The significant changes in insurance coverage during the fiscal year ended June 30, 2010 are as follows:

- The deductible for property damage exposure covering fire and most other perils increased from \$25,000 to \$250,000.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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, 2010 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.

Subsequent Events

Management has evaluated subsequent events through October 20, 2010. Management believes no events have occurred subsequent to the statement of financial position date and through October 20, 2010 that would require adjustments to or disclosure in the District's financial statements.

(2) Cash and Investments

Cash and investments as of June 30, 2010 are classified within the accompanying Statement of Net Assets as follows:

Statement of Net Assets:	
Current, Unrestricted:	
Cash and cash equivalents	\$ 49,537,559
Investments	310,335,760
Subtotal - current, unrestricted	<u>359,873,319</u>
Restricted:	
Cash and cash equivalents	86,629,639
Investments	26,829,427
Subtotal - restricted	<u>113,459,066</u>
Total cash and cash equivalents and investments	<u>\$ 473,332,385</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Cash and investments consist of the following as of June 30, 2010:

Cash on hand		\$	2,000
Deposits with financial institutions			1,797,573
Managed portfolio - cash and investments			358,073,746
Subtotal - unrestricted cash and investments		\$	359,873,319
Monies held by trustees:			
Cash and cash equivalents	\$	86,629,639	
Investment contracts		26,829,427	
Subtotal - monies held by trustees			113,459,066
Grand total cash and investments			\$ 473,332,385

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

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

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
California State Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days / 31 days	15% / 25%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	Yes	90 days ⁽²⁾	5% ⁽²⁾	None
Corporate Medium-Term Notes	Yes	5 years	30%	None
Mutual Funds	Yes	N/A	15% ⁽²⁾	10%
Money Market Mutual Funds	Yes	N/A	15% ⁽²⁾	None
Mortgage Pass-Through Securities/CMO	Yes	5 years	20%	None
County Investment Pools	Yes	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None

Notes

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

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

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

Investments Authorized by Debt Agreements

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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

Disclosures Relating to Interest Rate Risk

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

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

Following is a table which summarizes OCSD's investments by purpose with the modified duration.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

Investment Type	Fair Value	Modified Duration (in years)	Modified Duration (in months)
Short-Term Portfolio:			
U.S. Treasury Bills	\$ 25,988,306	0.079	0.96
U.S. Agency Securities	20,788,377	0.131	1.59
Commercial Paper	1,299,525	0.016	0.19
Corporate Medium-Term Notes	2,350,299	0.094	1.14
Repurchase Agreements	12,500,000	0.003	0.04
Local Agency Investment Fund (LAIF)	4,916,285	N/A	N/A
Money Market Mutual Funds	575,976	0.083	1.01
Short-term portfolio subtotal	<u>\$ 68,418,768</u>	0.080	0.97
Long-Term Portfolio:			
U.S. Treasury Bills	\$ 699,991	0.022	0.27
U.S. Treasury Notes	150,797,703	3.339	40.62
U.S. Treasury Obligations	3,966,776	2.914	35.45
U.S. Agency Securities	18,812,292	1.743	21.21
U.S. Govt. Backed Mortgage Pools	575,953	2.420	29.44
Taxable Municipal Bonds	7,063,751	6.612	80.45
Corporate Medium-Term Notes	102,789,418	2.527	30.75
Money Market Mutual Funds	535,681	0.078	0.95
Mortgage Pass-Through Securities/CMO	4,413,413	2.546	30.98
Long-term portfolio subtotal	<u>\$ 289,654,978</u>	2.871	34.93
Total Portfolio	<u><u>\$ 358,073,746</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 as of fiscal year end.

	Fair Value	Maturities
Investments held by fiscal agents:		
Money Market Mutual Funds:		
First American Treasury Obligations Fund	\$ 384,457	N/A
Blackrock Institutional Funds	19,150,785	N/A
Blackrock Institutional Funds	19,816,813	N/A
First American Government Obligations Fund	7,724,602	N/A
First American Government Obligations Fund	2,782,922	N/A
First American Prime Obligations Fund	13,077,862	N/A
Blackrock Institutional Funds	28,963	N/A
Local Agency Investment Fund (LAIF)	23,663,235	N/A
Guaranteed Investment Agreements:		
Bayerische Landesbank Girozentrale - 2000 COP	17,311,427	August 1, 2016
FSA Capital Management Services LLC - 2007A COP	9,518,000	January 30, 2030
Fair Value of Investments Held by Fiscal Agents	<u><u>\$ 113,459,066</u></u>	

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

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 \$5,487,060 including \$4,413,413 of mortgage pass-through securities, \$575,953 of U.S. government backed mortgage pools, and \$497,694 of U.S. agency securities.

Disclosures Relating to Credit Risk

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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	\$ 181,452,776	
U.S. Agency Securities - GNMA	575,953	
Subtotal		\$ 182,028,729
Investments with no legal minimum rating:		
U.S. Agency Securities (other than GNMA):		
Rating of AGY (Standard & Poor's)	39,600,669	
Municipal Bonds:		
Rating of A1 (Moody)	(2,314)	
Rating of AA2 (Moody)	900,189	
Rating of AA- (Standard & Poor's)	2,667,701	
Rating of AA3 (Moody)	3,498,175	
Repurchase Agreements:		
Not rated at fiscal year end	12,500,000	
Local Agency Investment Fund (LAIF):		
Not rated at fiscal year end	28,579,520	
Investments with fiscal agents - Guaranteed Investment Contracts:		
Not rated at fiscal year end	26,829,427	
Subtotal		114,573,367
Investments with a legal minimum rating (or its equivalent) of A:		
Commercial Paper:		
Rating of A-1 (Standard & Poor's)	1,299,525	
Corporate Medium-Term Notes:		
Rating of A (Standard & Poor's)	5,796,020	
Rating of A+ (Fitch)	2,223,078	
Rating of A (Fitch)	2,006,529	
Rating of A- (Fitch)	1,644,885	
Rating of A1 (Moody)	6,991,529	
Rating of A2 (Moody)	17,239,306	
Rating of A3 (Moody)	14,611,176	
Rating of AA- (Fitch)	103,197	
Rating of AA2 (Moody)	682,017	
Rating of AAA (Standard & Poor's)	45,533,707	
Rating of B3 (Moody)*	390,000	
Rating of BBB+ (Standard & Poor's)*	4,490,193	
Rating of BBB (Standard & Poor's)*	498,430	
Rating of BBB (Fitch)*	2,808,150	
Rating of WR (Moody)*	121,500	
Money Market Mutual Funds:		
Rating of AAA (Standard & Poor's)	1,111,657	
Invested with fiscal agents:		
Rating of Aaa (Moody)	62,966,404	
Subtotal		170,517,303
Investments with a legal minimum rating (or its equivalent) of AA:		
Mortgage Pass-Through Securities/CMO:		
Rating of AAA (Standard & Poor's)	2,089,379	
Rating of AGY (Standard & Poor's)	2,324,034	
Not rated at fiscal year end	-	
Subtotal		4,413,413
Total		<u>\$ 471,532,812</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, 2010

Concentration of Credit Risk

Limitations on the amount that OCSD is allowed to invest in any one issuer have been identified previously in the section, "Investments Authorized by the California Government Code and OCSD's Investment Policy" and in the section, "Investments Authorized by Debt Agreements." OCSD follows whichever guideline is the most restrictive. As of fiscal year end, OCSD had no investments of any of the types subject to limitation representing more than 5 percent of OCSD's investments.

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, 2010, OCSD's investments in the following investment types were held by the fiscal agent's safekeeping department of the broker-dealer (counterparty) used to buy the securities.

Money market mutual funds	\$ 62,966,404
Local Agency Investment Fund (LAIF)	23,663,235
Guaranteed investment contracts	<u>26,829,427</u>
Total	<u>\$113,459,066</u>

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.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

(3) Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets not depreciated:				
Cost:				
Land	\$ 13,021,480	\$ -	\$ -	\$ 13,021,480
Construction in progress*	1,478,567,309	252,869,203	(283,083,955)	1,448,352,557
Total nondepreciable assets	<u>1,491,588,789</u>	<u>252,869,203</u>	<u>(283,083,955)</u>	<u>1,461,374,037</u>
Depreciable capital assets:				
Cost:				
Sewage collection facilities*	507,791,926	84,155,111	-	591,947,037
Sewage treatment facilities*	693,085,006	147,815,752	(66,137)	840,834,621
Effluent disposal facilities	97,014,820	-	-	97,014,820
Solids disposal facilities	3,463,236	-	-	3,463,236
General and administrative facilities*	144,519,735	50,401,407	(376,715)	194,544,427
Excess purchase price over book value on acquired assets	19,979,000	-	-	19,979,000
Subtotal	<u>1,465,853,723</u>	<u>282,372,270</u>	<u>(442,852)</u>	<u>1,747,783,141</u>
Accumulated depreciation:				
Sewage collection facilities*	(228,334,554)	(15,588,528)	-	(243,923,082)
Sewage treatment facilities	(455,184,904)	(24,270,099)	66,137	(479,388,866)
Effluent disposal facilities	(49,325,539)	(1,894,777)	-	(51,220,316)
Solids disposal facilities	(3,088,222)	(9,719)	-	(3,097,941)
General and administrative facilities*	(105,685,145)	(9,614,964)	376,715	(114,923,394)
Excess purchase price over book value on acquired assets	(15,127,307)	(657,709)	-	(15,785,016)
Subtotal	<u>(856,745,671)</u>	<u>(52,035,796)</u>	<u>442,852</u>	<u>(908,338,615)</u>
Net depreciable assets	<u>609,108,052</u>	<u>230,336,474</u>	<u>-</u>	<u>839,444,526</u>
Net capital assets	<u>\$ 2,100,696,841</u>	<u>\$ 483,205,677</u>	<u>\$ (283,083,955)</u>	<u>\$ 2,300,818,563</u>

*Beginning balances have been reclassified to reflect additional information not available as of June 30, 2009.

(4) Long-Term Liabilities

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2010:

	Arbitrage Payable	Compensated Absences	Claims and Judgments	Certificates of Participation/Notes and Revenue Obligation	Net Pension Obligation	Net OPEB Obligation	Totals
Balance, July 1	\$ 1,019,300	\$ 7,082,067	\$ 1,786,551	\$ 1,241,530,000	\$ 6,377,436	\$ 655,831	\$ 1,258,451,185
Additions	308,546	7,578,588	599,305	245,865,000	851,009	809,821	256,012,269
Deletions	-	(6,732,543)	(643,875)	(200,145,000)	(271,470)	(634,067)	(208,426,955)
Balance, June 30	<u>1,327,846</u>	<u>7,928,112</u>	<u>1,741,981</u>	<u>1,287,250,000</u>	<u>6,956,975</u>	<u>831,585</u>	<u>1,306,036,499</u>
Due within one year	(1,120,713)	(6,845,132)	(447,830)	(191,760,000)			(200,173,675)
Unamortized (discount) premium	-	-	-	19,005,753	-	-	19,005,753
Unamortized deferred amount on refundings	-	-	-	(12,824,501)	-	-	(12,824,501)
Long-term amount	<u>\$ 207,133</u>	<u>\$ 1,082,980</u>	<u>\$ 1,294,151</u>	<u>\$ 1,101,671,252</u>	<u>\$ 6,956,975</u>	<u>\$ 831,585</u>	<u>\$ 1,112,044,076</u>

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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, 2010 is \$1,327,846.

Compensated Absences

OCSD's policies related to compensated absences are described in Note 1. OCSD's liability at June 30, 2010 is \$7,928,112 with an estimated \$6,845,132 to be paid or used within the next fiscal year.

Claims and Judgments Payable

OCSD is self-insured in a number of areas as described in Note 1. The following is a summary of the claims and judgments payable as of June 30, 2010 and 2009:

	2009-10	2008-09
Claims and judgments payable at July 1	\$ 1,786,551	\$ 2,275,389
Claims incurred during the fiscal year	90,432	163,264
Adjustments to the prior year	508,873	(184,602)
Payments on claims during the fiscal year	<u>(643,875)</u>	<u>(467,500)</u>
Claims and judgments payable at June 30	1,741,981	1,786,551
Less: current portion	<u>(447,830)</u>	<u>(339,730)</u>
Total long-term claims and judgments payable	<u><u>\$ 1,294,151</u></u>	<u><u>\$ 1,446,821</u></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, 2010 are summarized as follows:

	Amount
2000 refunding certificates of participation	\$ 194,900,000
2003 certificates of participation	191,500,000
2007A refunding certificates of participation	93,265,000
2007B certificates of participation	290,130,000
2008A refunding certificates of participation	46,430,000
2008B refunding certificates of participation	27,390,000
2009A certificates of participation	197,770,000
2009B refunding certificates of anticipation notes	165,865,000
2010A wastewater revenue obligations	<u>80,000,000</u>
Total certificates of participation payable	<u><u>\$ 1,287,250,000</u></u>

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

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

revenues available for debt service requirements to total annual debt service requirements. As of June 30, 2010, the coverage ratio for senior lien debt was 2.31.

August 2000 Refunding Certificates of Participation

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

The interest rate on the refunding certificates is adjusted by the remarketing agent daily based on market interest rates. The weighted average interest rate for the fiscal year ended June 30, 2010 was 0.24 percent. Annual principal payments are due on August 1, beginning August 1, 2001.

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$17,445,298 is held by US Bank, the trustee, and meets the reserve requirement.

August 2003 Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$19,150,785 is held by Union Bank, the trustee, and meets the reserve requirement.

May 2007 Refunding Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$9,518,000 is held by Union Bank, the trustee, and meets the reserve requirement.

December 2007 Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$19,816,812 is held by Union Bank, the trustee, and meets the reserve requirement.

ORANGE COUNTY SANITATION DISTRICT
Notes to Basic Financial Statements
For the Year Ended June 30, 2010

May 2008 Refunding Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$7,716,500 is held by US Bank, the trustee, and meets the reserve requirement.

September 2008 Refunding Certificates of Participation

On September 11, 2008, OCSD completed the sale of \$27,800,000 of refunding certificates of participation. The certificates were issued to refund the \$26,900,000 outstanding principal balance of the 1993 Series certificates of participation. The interest rate on the refunding 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, 2010 reserve of \$2,782,912 is held by US Bank, the trustee, and meets the reserve requirement.

May 2009 Certificates of Participation

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

The trust agreement for the certificates requires the establishment of a reserve which was funded from certificate proceeds. The June 30, 2010 reserve of \$13,077,683 is held by US Bank, the trustee, and meets the reserve requirement.

December 2009 Revenue Refunding Certificate Anticipation Notes

On December 1, 2009, OCSD completed the sale of \$165,865,000 of revenue refunding certificate anticipation notes. The notes were issued to refund the \$176,115,000 outstanding principal balance of the 2008 Series C refunding certificates of participation. The interest rate on the notes is fixed at 2.0 percent. The notes will mature on December 1, 2010. OCSD expects the principal of and interest on the notes to be paid from proceeds of the sale, prior to the maturity date, of a future series of certificates of participation, notes or other obligations.

The aggregate difference in debt service between the refunding debt and the refunded debt is a negative amount of approximately \$23,000. The total future payments for the new debt provides a net present value loss of approximately \$333,000 to refund the old debt in payments. The trust agreement for the certificates does not require the establishment of a reserve.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

May 2010 Wastewater Revenue Obligations

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

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

Annual Amortization Requirements

The annual requirements to amortize all debt related to certificates of participation as of June 30, 2010, are as follows:

Year Ending June 30,	Principal	Estimated Interest	Total
2011	\$ 191,760,000	\$ 44,209,602	\$ 235,969,602
2012	26,670,000	41,956,043	68,626,043
2013	27,865,000	41,323,786	69,188,786
2014	43,040,000	40,506,977	83,546,977
2015	30,920,000	39,598,881	70,518,881
2016-2020	180,600,000	186,892,642	367,492,642
2021-2025	179,245,000	162,171,330	341,416,330
2026-2030	209,485,000	118,950,738	328,435,738
2031-2035	254,245,000	61,665,456	315,910,456
2036-2040	143,420,000	13,785,736	157,205,736
Total	\$ 1,287,250,000	\$ 751,061,191	\$ 2,038,311,191

(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, 2010 consisted of the following:

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

	June 30, 2010
Invested in capital assets, net of related debt:	
Capital assets, net of accumulated depreciation	\$ 2,300,818,563
Outstanding debt issued to acquire capital assets, net of: unamortized bond discount, deferred amount on refundings, and unspent proceeds	(1,179,761,456)
Subtotal	1,121,057,107
Unrestricted:	
Preliminary Survey	11,491,296
All other unrestricted	298,524,266
Total Net Assets	<u>\$ 1,431,072,669</u>

(6) Pension Benefits

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

Pension Plan

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

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

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. Tier I and Tier II covered employees are required to contribute 8.20% - 14.39% and 7.86% - 14.39%, 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, 2010, 2009, and 2008, the required contribution equaled the contribution 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, 2010

	For the Fiscal Year Ending		
	June 30, 2008	June 30, 2009	June 30, 2010
Total Payroll Costs	\$ 56,671,683	\$ 61,110,535	\$ 62,934,336
Payroll Costs of Employees Covered by OCERS	53,576,940	57,681,058	60,593,735
Contributions Requirements:			
Contributed by Employees	3,753,147	4,031,980	4,317,182
Contributed by the District on Behalf of Employees	1,851,089	1,986,386	2,071,340
Total Employee Required Contribution	5,604,236	6,018,366	6,388,522
District Required Contribution	11,011,693	12,193,601	13,029,795
Total Contribution	\$ 16,615,929	\$ 18,211,967	\$ 19,418,317
Total Actual Contribution as a Percent of Required Contribution	100.00%	100.00%	100.00%
Employee Required Contribution as a Percent of Covered Payroll	10.46%	10.43%	10.54%
District Required Contribution as a Percent of Covered Payroll	20.55%	21.14%	21.50%
Total Contribution as a Percent of all Participating Entities' Contributions	6.21%	4.97%	7.02%

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

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

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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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

Fiscal Year	Annual Pension Cost		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/08	657,552	35.0%	5,920,600
6/30/09	705,246	35.2%	6,377,436
6/30/10	851,009	31.9%	6,956,975

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
6/30/2005 *	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2007	7,395,472	-	7,395,472	-	49,788,835	14.9%
6/30/2009	8,904,499	-	8,904,499	-	57,681,058	15.4%

*Actuarial valuation not performed for this year.

The annual pension cost and net pension obligation for the year ended June 30, 2008, 2009 and 2010 were as follows.

	For the Fiscal Year Ending		
	June 30, 2008	June 30, 2009	June 30, 2010
Annual required contribution	\$ 727,037	\$ 780,135	\$ 946,999
Interest on net pension obligation	329,603	355,236	318,871
Adjustment to annual required contribution	(399,088)	(430,125)	(414,861)
Annual pension cost	657,552	705,246	851,009
Contributions made	(230,330)	(248,410)	(271,470)
Increase in net pension obligation	427,222	456,836	579,539
Net pension obligation, beginning of year	5,493,378	5,920,600	6,377,436
Net pension obligation, end of year	<u>\$ 5,920,600</u>	<u>\$ 6,377,436</u>	<u>\$ 6,956,975</u>

(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

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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

Funding Policy: There are no employee contributions to this plan; OCSD covers 100% of the cost. Retirees opting to remain with the plan after employment pay 100% of the premium cost, except for those for whom the District pays for a period (see above). An actuarial evaluation was performed as of July 1, 2009, using the Projected Unit Credit Cost method. This method represents the present value of benefits earned to date, assuming that an employee earns benefits ratably over his/her career. An investment rate of return of 5.0% per year was used. The rate of increase for healthcare premium was set as 7.0% for the 2009-10 fiscal year, 6.0% for FY 2010-11, and 5.0% for years thereafter. The unfunded actuarial liability was amortized on a level dollar basis over an open period of 30 years. OCSD utilizes a pay-as-you-go method for funding the plan. For fiscal year 2009-10, OCSD contributed \$634,067 and retirees contributed \$268,646 to cover current year expenditures.

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

The following OPEB cost and net OPEB obligation was determined for the year ended June 30, 2010:

Annual required contribution	\$ 819,692
Interest on net OPEB obligation	32,792
Adjustment to annual required contribution	(42,663)
Annual OPEB cost	<u>809,821</u>
Contributions made	<u>(634,067)</u>
Increase in net OPEB obligation	175,754
Net OPEB obligation, beginning of year	655,831
Net OPEB obligation, end of year	<u><u>\$ 831,585</u></u>

The District's annual OPEB cost contributed and the net OPEB obligation for 2010, 2009, and 2008 are shown in the following table.

Fiscal Year	Annual OPEB Cost			Net OPEB Obligation
	Annual OPEB Cost	Actual Contributions	Percentage of OPEB Cost Contributed	
6/30/08	941,961	601,084	63.8%	340,877
6/30/09	937,649	622,696	66.4%	655,831
6/30/10	809,821	634,067	78.3%	831,585

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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

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

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

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

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

The ARC for the current year was determined as part of the 7/1/09 actuarial valuation using the Projected Unit Credit cost method. The actuarial assumptions include a 5% investment rate of return (changed from 6% for the 7/1/07 valuation) and an annual healthcare cost trend rate of 7% reduced by decrements of 1% per year to an ultimate rate of 5%. The UAAL is being amortized ratably over 30 years. Inflation assumptions are included as part of the healthcare cost trend.

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

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

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

In accordance with the negotiated agreement between OCSD and IRWD, IRWD paid OCSD \$34,532,000 for an initial 15,000,000 gallons per day capacity in OCSD's joint treatment facilities

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements
For the Year Ended June 30, 2010

(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, 2010, after recognizing current year amortization of \$657,709, the unamortized amount of the excess of purchase price over the assets' book value was \$4,193,984.

Annual Transactions

IRWD entered into a separate agreement with Revenue Area 14 whereby IRWD agreed to fund quarterly payment 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 \$10,831,840 recorded in 2010. 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, an equity adjustment of \$23,571,054 to Revenue Area 14 was recognized in 2010. The net amount \$12,739,214 of these transactions is reflected as a reduction of capital contribution and an increase of due to other governmental agency in 2010.

During the fiscal year ended June 30, 2010, independent agreed-upon procedures were conducted on Revenue Area 14 to substantiate IRWD's cash balance of fiscal year 2008-09. As a result, a \$778,189 cash and other operating expense adjustments were made in 2010.

Annual Cash Reserve Requirement

The cash reserve contribution requirement from IRWD at June 30, 2010; in accordance with Amendment No. 2 to the Agreement between IRWD and OCSD Acquiring Ownership Interests, Assigning Rights, and Establishing Obligations; is \$12 million. This cash reserve requirement is recognized as a liability to IRWD.

(9) Commitments

Groundwater Replenishment System: In March 2001, OCSD entered into an agreement with the Orange County Water District, California, to design and construct Phase 1 of the "Groundwater Replenishment System" (GWRS). OCSD has no explicit, measurable equity interest in GWRS. No separate financial statements are prepared for GWRS.

The cost of this project is to be paid equally (50 percent shares) by each agency. The GWRS is a joint effort by the two agencies to provide reclaimed water for replenishment of the Orange County Groundwater Basin and to augment the seawater intrusion barrier. The first phase of the GWRS became operational in January 2008 with an annual production goal of approximately 72,000 acre-feet per year of recycled water. Future phases of the GWRS will be built in increments over the next 20-25 years based on availability of wastewater flows to a planned built-out capacity of 145,600 acre-feet per year. With the completion of Phase 1, the GWRS has the capacity to divert up to 100 million gallons per day of flow from OCSD's ocean discharge for peak flow storm relief.

As of June 30, 2010, the total cost of GWRS Phase 1 was approximately \$496.80 million. Of this amount, up to \$92.50 million may be reimbursed through grants from the U.S. Environmental Protection Agency, the U.S. Bureau of Reclamation, the State Water Resources Control Board, and others. OCSD's estimated gross and net share is \$248.40 million and \$202.15 million, respectively, assuming all grant funds are received. Costs incurred by OCSD through June 30, 2010 total \$201.5 million.

ORANGE COUNTY SANITATION DISTRICT

Notes to Basic Financial Statements

For the Year Ended June 30, 2010

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

OCSD estimates that it will take a total of approximately eleven years and additional capital improvement costs of \$627 million to reach secondary treatment discharge standards. Secondary treatment discharge standards are scheduled to be reached at the end of 2012. In the interim, OCSD will operate the plants to meet the requirements of the consent decree and the NPDES permit and will complete planning, design, construction, and operation of facilities per the schedule and the details of the consent decree.

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

**ORANGE COUNTY SANITATION DISTRICT
SUPPLEMENTARY INFORMATION**

ORANGE COUNTY SANITATION DISTRICT
Schedule of Net Assets
June 30, 2010
With Comparative Totals for June 30, 2009

	Revenue Area No. 14	Consolidated Revenue Area	Eliminations	Totals	
				2010	2009
Current assets:					
Cash and cash equivalents	\$ 5,788,773	\$ 43,748,786	\$ -	\$ 49,537,559	\$ 39,199,955
Investments	36,264,672	274,071,088	-	310,335,760	399,761,799
Accounts receivable, net of allowance for uncollectibles	-	13,069,682	-	13,069,682	11,864,637
Accrued interest receivable	-	1,108,027	-	1,108,027	2,157,015
Connection fees receivable	-	996,430	-	996,430	388,031
Property tax receivable	-	2,040,072	-	2,040,072	3,221,629
Inventories	-	5,402,069	-	5,402,069	5,196,457
Prepaid expenses	-	1,134,886	-	1,134,886	589,228
Prepaid retirement	-	14,578,000	-	14,578,000	12,605,000
Total current assets	42,053,445	356,149,040	-	398,202,485	474,983,751
Noncurrent assets:					
Restricted:					
Cash and cash equivalents	-	86,629,639	-	86,629,639	68,551,793
Investments	-	26,829,427	-	26,829,427	26,829,427
Accrued interest receivable	-	210,730	-	210,730	215,140
Unrestricted:					
Non-depreciable capital assets	54,373,804	1,407,000,233	-	1,461,374,037	1,213,152,503
Depreciable capital assets, net of accumulated depreciation	45,682,121	793,762,405	-	839,444,526	887,544,338
Deferred charges	-	9,733,908	-	9,733,908	9,433,482
Other noncurrent assets, net	420,939	11,080,701	-	11,501,640	19,475,424
Total noncurrent assets	100,476,864	2,335,247,043	-	2,435,723,907	2,225,202,107
Total assets	142,530,309	2,691,396,083	-	2,833,926,392	2,700,185,858
Current liabilities:					
Accounts payable	-	20,091,995	-	20,091,995	30,456,796
Accrued expenses	-	7,259,202	-	7,259,202	8,350,733
Retentions payable	-	1,587,986	-	1,587,986	1,065,892
Interest payable	-	19,643,344	-	19,643,344	16,646,631
Due to other governmental agency	42,053,445	-	-	42,053,445	30,999,633
Current portion of long-term obligations	-	200,173,675	-	200,173,675	206,877,712
Total current liabilities	42,053,445	248,756,202	-	290,809,647	294,397,397
Noncurrent liabilities:					
Noncurrent portion of long-term obligations	-	1,112,044,076	-	1,112,044,076	1,057,467,549
Total liabilities	42,053,445	1,360,800,278	-	1,402,853,723	1,351,864,946
Net assets:					
Invested in capital assets, net of related debt:					
Collection system	21,767,399	437,735,801	-	459,503,200	423,243,200
Treatment and disposal -Land	406,846	4,068,905	-	4,475,751	4,475,751
Treatment and disposal system	77,881,680	1,758,957,932	-	1,836,839,612	1,672,977,890
Capital assets related debt	-	(1,179,761,456)	-	(1,179,761,456)	(1,151,827,717)
Unrestricted	420,939	309,594,623	-	310,015,562	399,451,788
Total net assets	\$ 100,476,864	\$ 1,330,595,805	\$ -	\$1,431,072,669	\$ 1,348,320,912

ORANGE COUNTY SANITATION DISTRICT
Schedule of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010
With Comparative Totals for June 30, 2009

	Revenue Area No. 14	Consolidated Revenue Area	Totals	
			2010	2009
Operating revenues:				
Service charges	\$ 6,577,521	\$ 218,481,000	\$ 225,058,521	\$ 206,422,467
Permit and inspection fees	5,604	623,478	629,082	894,578
Total operating revenues	6,583,125	219,104,478	225,687,603	207,317,045
Operating expenses other than depreciation and amortization:				
Salaries and benefits	1,501,867	68,150,037	69,651,904	67,497,961
Utilities	191,645	6,742,400	6,934,045	7,242,049
Supplies, repairs and maintenance	1,107,109	25,442,836	26,549,945	26,723,524
Contractual services	7,187,864	18,288,199	25,476,063	28,951,469
Directors' fees	31,981	109,332	141,313	154,870
Meetings and training	19,674	875,191	894,865	1,034,548
Other	73,128	8,363,841	8,436,969	32,952,065
Total operating expenses other than depreciation and amortization	10,113,268	127,971,836	138,085,104	164,556,486
Operating income (loss) before depreciation and amortization	(3,530,143)	91,132,642	87,602,499	42,760,559
Depreciation and amortization	6,210,036	45,825,760	52,035,796	32,520,010
Operating income (loss)	(9,740,179)	45,306,882	35,566,703	10,240,549
Non-operating revenues:				
Property taxes	2,208,904	62,550,191	64,759,095	66,426,931
Investment and interest income (loss)	1,348,811	17,816,880	19,165,691	14,835,561
Emmission Reduction Credit Sales	90,600	4,439,400	4,530,000	530,750
Other	16,780	2,392,675	2,409,455	1,103,485
Total non-operating revenues	3,665,095	87,199,146	90,864,241	82,896,727
Non-operating expenses:				
Interest	-	27,536,714	27,536,714	24,899,193
Feasibility studies	581,558	9,768,441	10,349,999	13,652,434
Capital grants to member agencies	-	1,481,590	1,481,590	189,830
Other	20,418	1,883,821	1,904,239	-
Total non-operating expenses	601,976	40,670,566	41,272,542	38,741,457
Income (loss) before transfer and capital contributions	(6,677,060)	91,835,462	85,158,402	54,395,819
Capital Contributions:				
Capital facilities capacity charges	-	10,332,569	10,332,569	9,834,369
Capital contributions received from (returned to) other agency	(12,739,214)	-	(12,739,214)	8,103,438
Change in net assets	(19,416,274)	102,168,031	82,751,757	72,333,626
Total net assets - beginning	119,893,138	1,228,427,774	1,348,320,912	1,275,987,286
Total net assets - ending	\$ 100,476,864	\$ 1,330,595,805	\$ 1,431,072,669	\$ 1,348,320,912

ORANGE COUNTY SANITATION DISTRICT

Schedule of Cash Flows

For the Year Ended June 30, 2010

With Comparative Totals for June 30, 2009

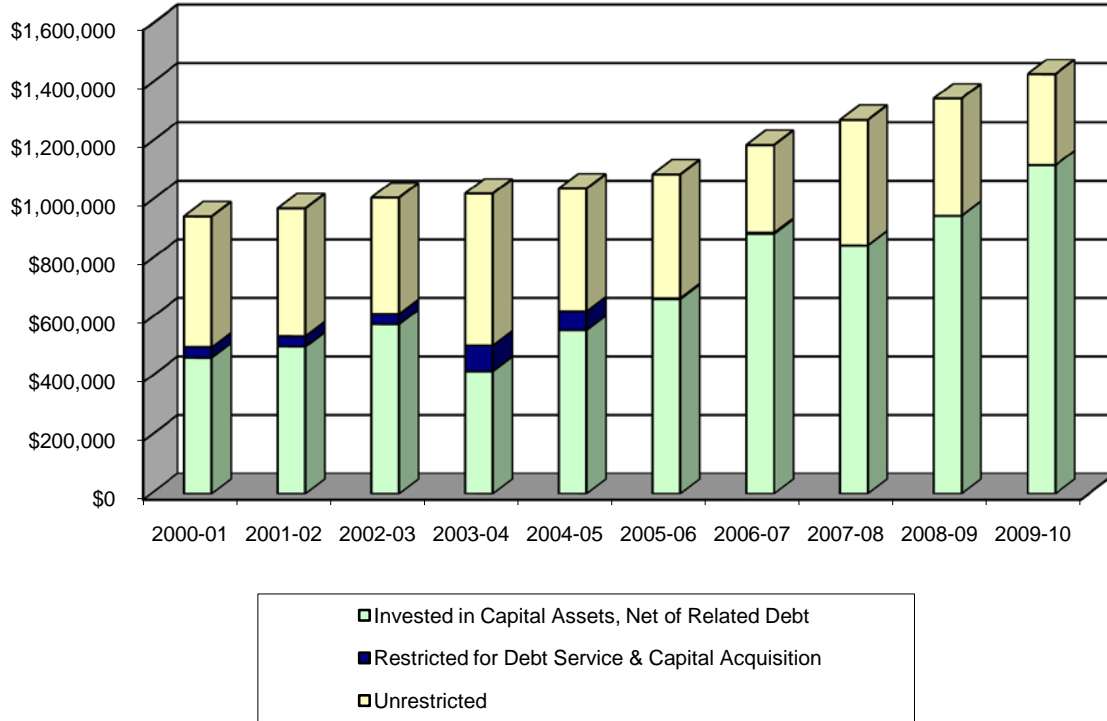
	Revenue	Consolidated	Eliminations	Totals	
	Area No. 14	Revenue Area		2010	2009
Cash flows from operating activities:					
Receipts from customers and users	\$ 17,745,545	\$ 224,926,261	\$ -	\$ 242,671,806	\$ 244,803,212
Payments to employees	(1,533,848)	(68,762,197)	-	(70,296,045)	(65,495,757)
Payments to suppliers	(8,572,846)	(72,397,941)	-	(80,970,787)	(115,054,877)
Net cash provided by operations	7,638,851	83,766,123	-	91,404,974	64,252,578
Cash flows from noncapital financing activities:					
Proceeds from property taxes	2,208,904	63,731,748	-	65,940,652	66,501,391
Grants to member agencies	-	(1,481,590)	-	(1,481,590)	(189,830)
Net cash provided by noncapital financing activities	2,208,904	62,250,158	-	64,459,062	66,311,561
Cash flows from capital and related financing activities:					
Capital facilities capacity charges	-	9,724,170	-	9,724,170	10,733,265
Additions to property, plant and equipment	12,452,304	(227,548,659)	(36,023,395)	(251,119,750)	(290,787,719)
Disposal of property, plant, and equipment	-	(23,284,181)	23,284,181	-	-
Additions to other assets	144,155	-	(144,155)	-	-
Disposal of other assets	-	(144,155)	144,155	-	-
Interest paid	-	(43,055,105)	-	(43,055,105)	(36,301,490)
Principal payments on certificates of participation	-	(200,145,000)	-	(200,145,000)	(244,805,000)
Proceeds from certificates of participation issuance	-	247,740,402	-	247,740,402	408,636,386
Certificates of participation issuance costs	-	(554,219)	-	(554,219)	(775,121)
Proceeds from capital contributions	(12,739,214)	-	12,739,214	-	8,103,438
Net cash provided (used) by capital and related financing activities	(142,755)	(237,266,747)	-	(237,409,502)	(145,196,241)
Cash flows from investing activities:					
Proceeds from the sale of investments	409,801,896	3,162,547,517	-	3,572,349,413	4,298,378,906
Purchases of investments	(417,209,513)	(3,059,536,427)	-	(3,476,745,940)	(4,347,133,227)
Interest received	626,940	13,730,503	-	14,357,443	16,388,243
Net cash provided (used) by investing activities	(6,780,677)	116,741,593	-	109,960,916	(32,366,078)
Net increase (decrease) in cash and cash equivalents	2,924,323	25,491,127	-	28,415,450	(46,998,180)
Cash and cash equivalents, beginning of year	2,864,450	104,887,298	-	107,751,748	154,749,928
Cash and cash equivalents, end of year	\$ 5,788,773	\$ 130,378,425	\$ -	\$ 136,167,198	\$ 107,751,748
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ (9,740,179)	\$ 45,306,882	\$ -	\$ 35,566,703	\$ 10,240,549
Adjustments to reconcile operating income (loss) to net cash provided by operations:					
Depreciation and amortization	6,210,036	45,825,760	-	52,035,796	32,520,010
Bad debt expense	(1,228)	(194,753)	-	(195,981)	26,606
Other non-operating revenues and expenses	106,567	6,789,152	-	6,895,719	1,225,332
(Increase)/decrease in operating assets:					
Accounts receivable	1,228	(1,010,292)	-	(1,009,064)	25,993
Due from other governmental agencies	-	-	-	-	4,913,701
Inventories	8,615	(1,363,046)	-	(1,354,431)	(191,636)
Prepaid and other assets	-	(2,518,658)	-	(2,518,658)	(12,379,924)
Increase/(decrease) in operating liabilities:					
Accounts payable	-	(10,364,801)	-	(10,364,801)	2,879,030
Accrued expenses	-	(1,091,531)	-	(1,091,531)	(543,575)
Retentions payable	-	522,094	-	522,094	(6,720,864)
Due to other governmental agency	11,053,812	-	-	11,053,812	30,999,633
Pension/OPEB payable	-	755,295	-	755,295	771,789
Compensated absences	-	846,045	-	846,045	650,971
Other payable	-	308,546	-	308,546	323,801
Claims and judgments	-	(44,570)	-	(44,570)	(488,838)
Net cash provided by operations	\$ 7,638,851	\$ 83,766,123	\$ -	\$ 91,404,974	\$ 64,252,578
Noncash Activities:					
Unrealized gain (loss) on the fair value of investments	\$ 721,872	\$ 5,455,562	\$ -	\$ 6,177,434	\$ (153,923)
Capital contributions from other agency	(12,739,214)	-	-	(12,739,214)	2,456,540

**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.	42 - 46
Revenue Capacity These schedules contain information to help the reader assess OCSD's most significant revenue source of sewer service fees.	47 - 49
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.	50 - 53
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.	54 - 57
Demographic and Economic Factors These schedules offer demographic information to help the reader understand the environment within which OCSD's financial activities take place.	58 - 61

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

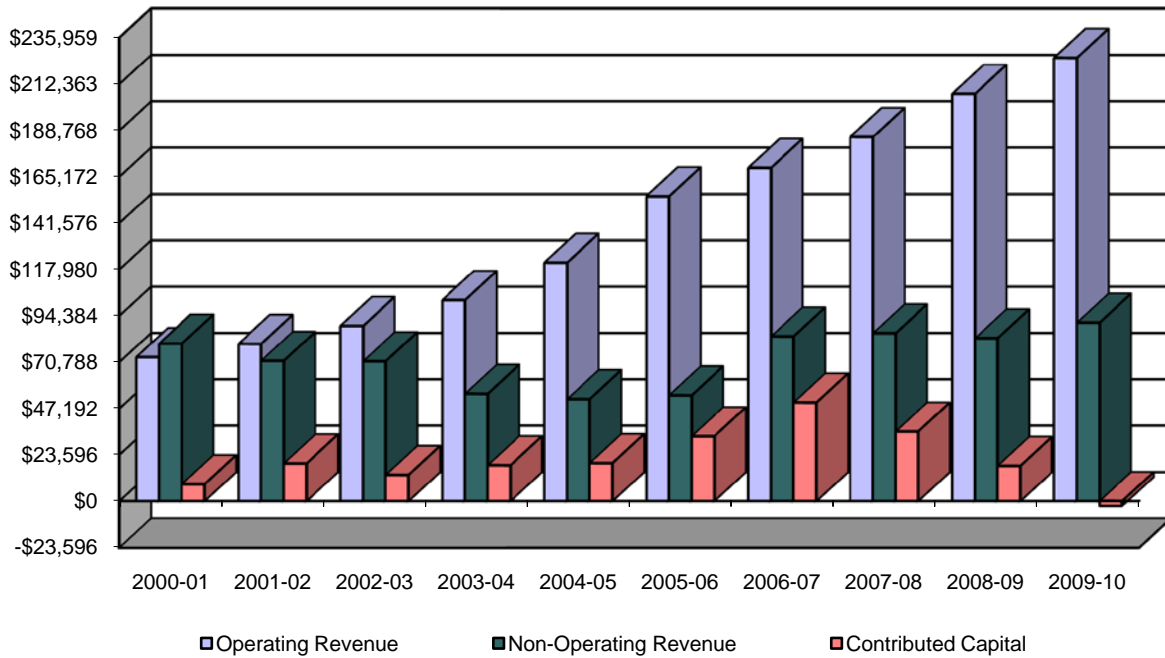


<u>Fiscal Year</u>	<u>Invested in Capital Assets, Net of Related Debt</u>	<u>Restricted for Debt Service & Capital Acquisition</u>	<u>Unrestricted</u>	<u>Total Net Assets</u>
2000-01	\$ 463,935	\$ 36,468	\$ 446,558	\$ 946,961
2001-02	501,997	36,070	435,906	973,973
2002-03	578,647	35,182	396,518	1,010,347
2003-04	418,267	88,519	517,346	1,024,132
2004-05	558,391	64,514	418,342	1,041,247
2005-06	664,060	3,003	422,036	1,089,099
2006-07	886,463	3,904	299,370	1,189,737
2007-08	847,426	-	428,561	1,275,987
2008-09	948,869	-	399,452	1,348,321
2009-10	1,121,057	-	310,016	1,431,073

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

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

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

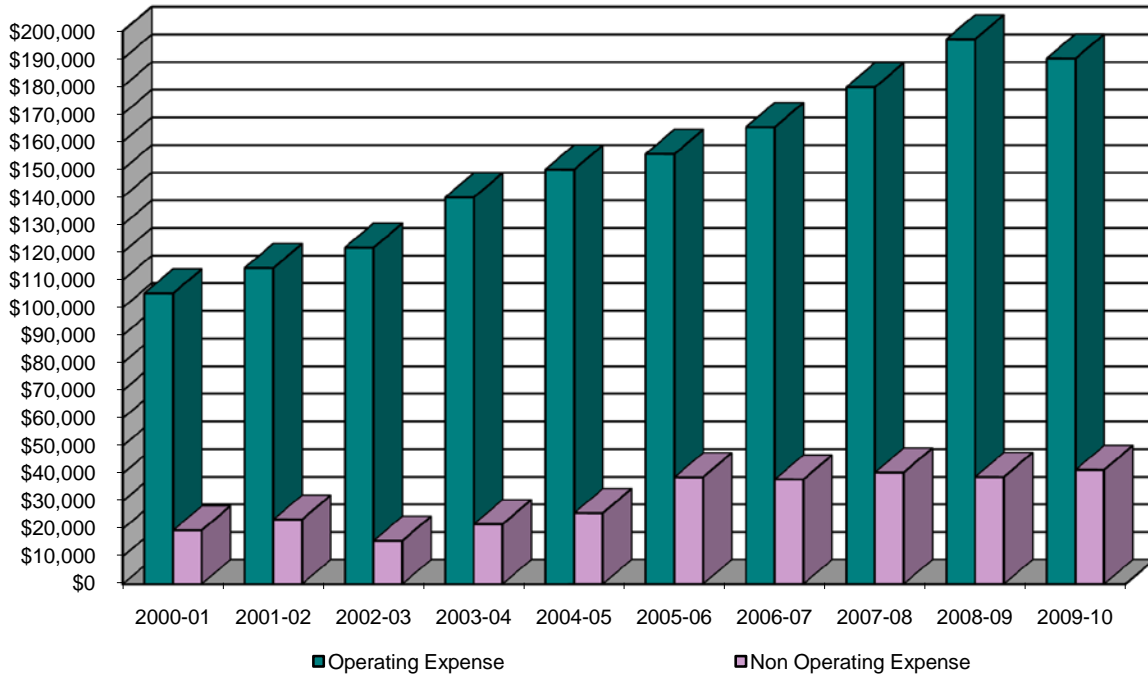


Fiscal Year	Operating Revenue			Non-Operating Revenue			Total Non-Operating	Capital Contributions
	Service Charges	Permit & Inspection Fees	Total Operating	Property Taxes	Interest	Other		
2000-01	\$ 72,566	\$ 688	\$ 73,254	\$ 38,411	\$ 39,868	\$ 1,835	\$ 80,114	\$8,603
2001-02	79,609	396	80,005	41,140	28,073	2,202	71,415	19,163
2002-03	88,640	524	89,164	44,591	25,889	706	71,186	13,312
2003-04	101,995	332	102,327	46,943	6,786	928	54,657	18,243
2004-05	120,917	498	121,415	35,764	15,118	1,051	51,933	19,350
2005-06	154,291	874	155,165	39,958	10,426	3,477	53,861	32,990
2006-07	167,790	1,866	169,656	60,565	22,243	1,068	83,876	50,207
2007-08	184,180	1,196	185,376	65,210	20,235	13	85,458	35,408
2008-09	206,422	895	207,317	66,427	14,836	1,634	82,897	17,937
2009-10	225,059	629	225,688	64,759	19,166	6,939	90,864	(2,406)

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

ORANGE COUNTY SANITATION DISTRICT

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

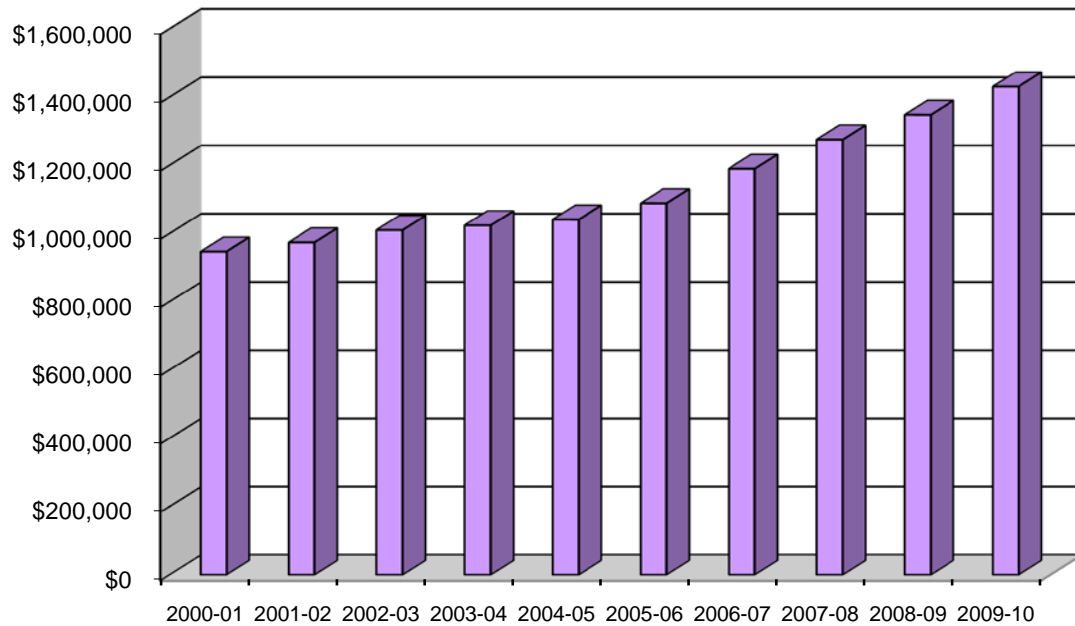


Fiscal Year	Operating				Total Operating	Non - Operating		Total Non-Operating
	Salaries & Benefits	Utilities	Maint & Other	Depr & Amort		Interest Expense	Other	
2000-01	\$ 33,734	\$ 5,524	\$ 23,062	\$ 42,797	\$ 105,117	\$ 17,923	\$ 1,479	\$ 19,402
2001-02	35,629	4,967	27,967	45,703	114,266	14,406	8,896	23,302
2002-03	38,733	4,622	36,314	41,966	121,635	12,731	2,922	15,653
2003-04	48,711	5,408	41,284	44,412	139,815	15,524	6,102	21,626
2004-05	53,048	6,473	42,325	48,095	149,941	17,470	8,172	25,642
2005-06	53,246	7,563	44,823	49,887	155,519	20,078	18,567	38,645
2006-07	57,802	8,072	46,281	53,111	165,266	21,747	16,089	37,836
2007-08	67,629	8,092	56,169	47,767	179,657	22,517	17,818	40,335
2008-09	67,498	7,242	89,816	32,520	197,076	24,899	13,842	38,741
2009-10	69,652	6,934	61,499	52,036	190,121	27,537	13,736	41,273

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

ORANGE COUNTY SANITATION DISTRICT

Change in Net Assets
(Dollars in Thousands)
Last Ten Fiscal Years (Note 1)



Ending Net Assets by Fiscal Year

Fiscal Year	Total Revenues	Total Expenses	Change in Net Assets	Beginning Net Assets	Ending Net Assets
2000-01	\$ 161,971	\$ 133,543	\$ 28,428	\$ 918,533	\$ 946,961
2001-02	164,580	137,568	27,012	946,961	973,973
2002-03	173,662	137,288	36,374	973,973	1,010,347
2003-04	175,227	161,441	13,786	1,010,347	1,024,133
2004-05	192,698	175,583	17,115	1,024,133	1,041,248
2005-06	242,016	194,164	47,852	1,041,248	1,089,100
2006-07	303,739	203,102	100,637	1,089,100	1,189,737
2007-08	306,242	219,992	86,250	1,189,737	1,275,987
2008-09	308,151	235,817	72,334	1,275,987	1,348,321
2009-10	314,146	231,394	82,752	1,348,321	1,431,073

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

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

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

Fiscal Year	Cash Flow Contingency	Self- Insurance	Capital Improvement Program	Debt Service Requirements	Total
2000-01	\$ 77	\$ 56	\$ 311	\$ 33	\$ 477
2001-02	70	57	303	35	465
2002-03	100	57	237	33	427
2003-04	71	57	390	88	606
2004-05	71	57	242	65	472
2005-06	132	57	196	105	490
2006-07	132	57	104	79	372
2007-08	149	57	219	108	533
2008-09	172	57	172	133	534
2009-10	185	57	102	129	473

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.

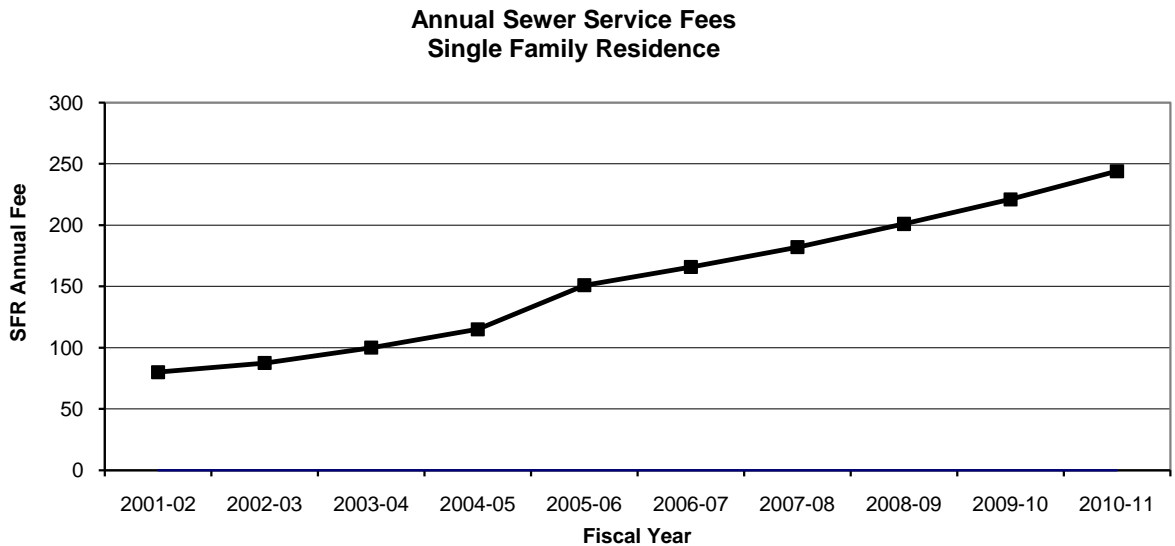
The Debt Service Required Reserves are monies held and controlled by a trustee pursuant to the provisions of certificates of participation issues, and the monies are not available for the general needs of the District.

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.

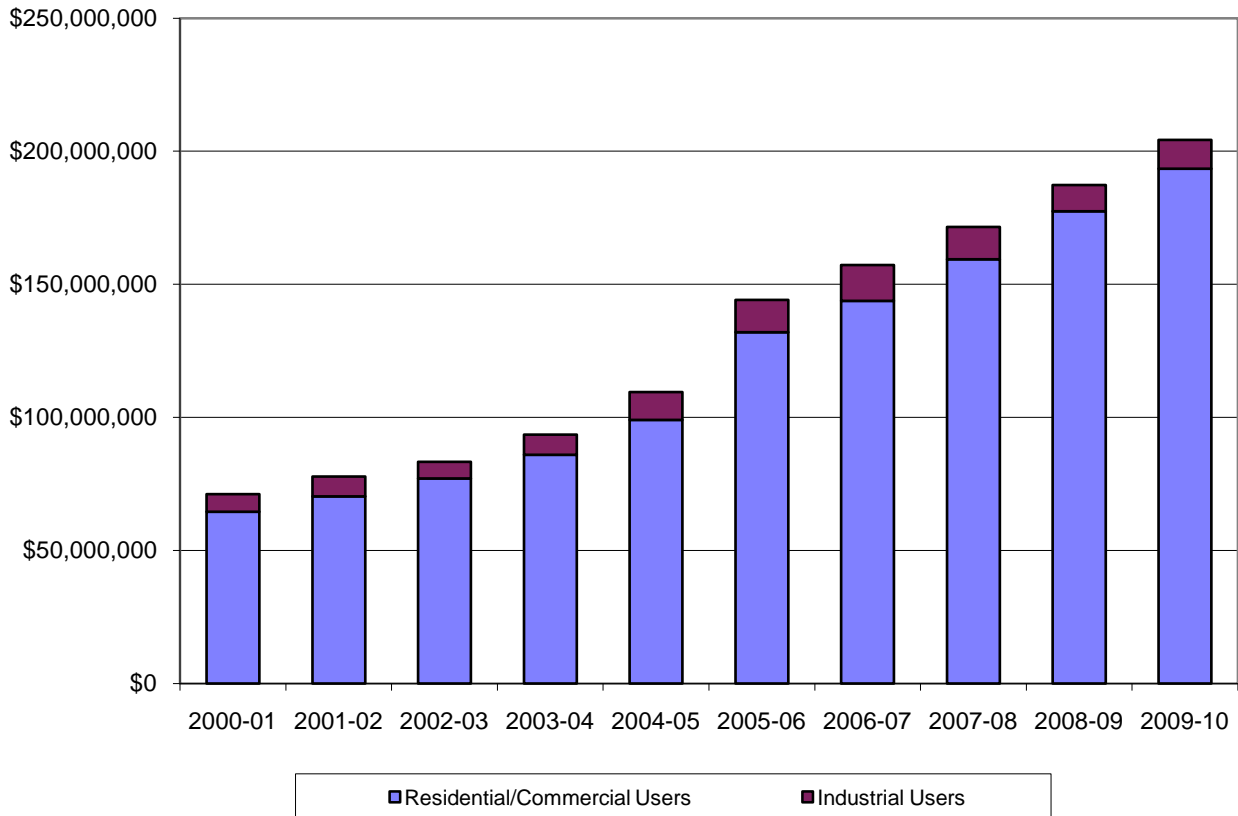
<u>Fiscal Year</u>	<u>Sewer Service Charge</u>
2001-02	\$ 80.00
2002-03	87.50
2003-04	100.00
2004-05	115.00
2005-06	151.00
2006-07	165.80
2007-08	182.00
2008-09	201.00
2009-10	221.00
2010-11	244.00



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
2000-01	883,603	64.5	91%	596	6.6	9%
2001-02	898,031	70.3	90%	573	7.5	10%
2002-03	897,757	77.0	92%	603	6.3	8%
2003-04	860,156	86.0	92%	530	7.5	8%
2004-05	860,634	99.0	90%	568	10.5	10%
2005-06	872,859	132.0	92%	557	12.2	8%
2006-07	867,035	143.8	91%	531	13.4	9%
2007-08	875,739	159.4	93%	520	12.1	7%
2008-09	882,747	177.4	95%	515	9.9	5%
2009-10	875,442	193.5	95%	487	10.8	5%



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

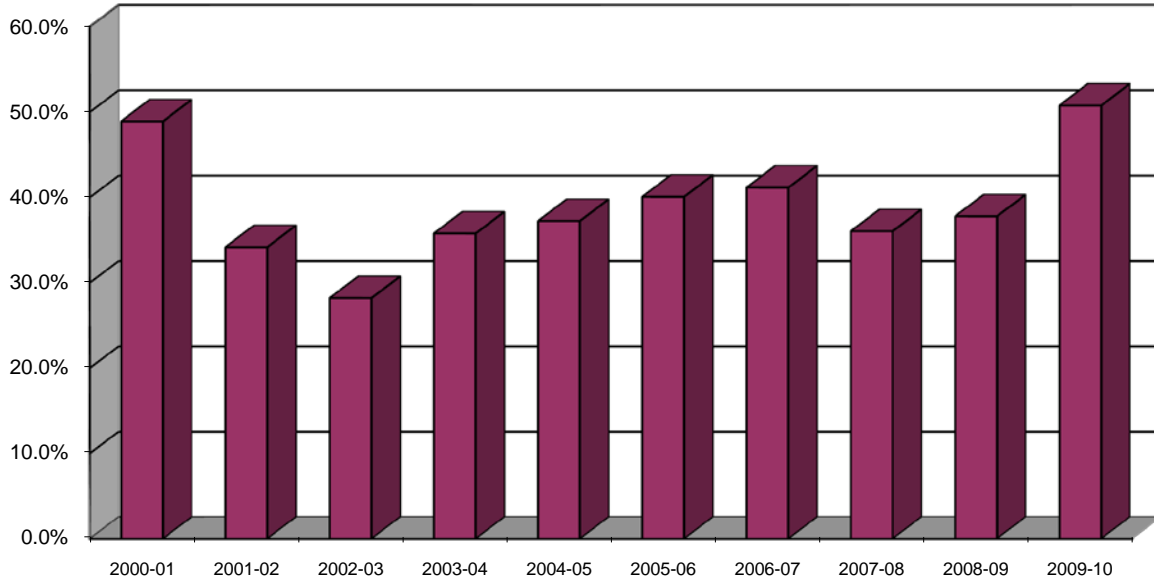
ORANGE COUNTY SANITATION DISTRICT
Principal Sewer Service Customers
For the Current Fiscal Year and Nine Years Ago

User	Fiscal Year Ended 6/30/10			Fiscal Year Ended 6/30/01		
	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue	Industrial Permittee Service Charges	Rank	% to Total Service Charge Revenue
Kimberly-Clark Worldwide, Inc.	\$1,325,796	1	0.59%	\$193,460	7	0.27%
MCP Foods, Inc.	1,313,284	2	0.58%	245,731	5	0.34%
Alstyle Apparel-A&G Inc.	1,019,603	3	0.45%	329,272	3	0.45%
Stremicks Heritage Foods, LLC	629,473	4	0.28%	359,881	2	0.50%
House Foods America Corp.	534,052	5	0.24%	211,771	6	0.29%
Pepsi-Cola Bottling Group	419,539	6	0.19%			
Ameripecc Inc.	410,545	7	0.18%			
Pulmuone Wildwood, Inc.	409,974	8	0.18%			
Morningstar Foods, LLC	360,198	9	0.16%			
Angelica Textile Services	321,568	10	0.14%			
Disneyland, Inc.				430,386	1	0.59%
Sundor Brands, Inc.				301,700	4	0.42%
Nor-Cal Beverage Co. (Tetra)				181,050	8	0.25%
Knotts Berry Farm Foods				180,548	9	0.25%
Nor-Cal Beverage Co. (Main)				176,972	10	0.24%
	<u>\$6,744,031</u>		<u>2.99%</u>	<u>\$2,610,771</u>		<u>3.60%</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>
2000-01	\$ 13,790	\$ 16,690	\$ 30,480	\$ 62,320	48.91%
2001-02	10,370	13,051	23,421	68,563	34.16
2002-03	11,025	11,433	22,458	79,669	28.19
2003-04	11,610	22,508	34,118	95,403	35.76
2004-05	12,040	25,871	37,911	101,846	37.22
2005-06	12,755	29,563	42,318	105,632	40.06
2006-07	13,465	32,673	46,138	112,155	41.14
2007-08	11,025	36,484	47,509	131,890	36.02
2008-09	21,305	40,840	62,145	164,556	37.77
2009-10	24,030	46,052	70,082	138,085	50.75

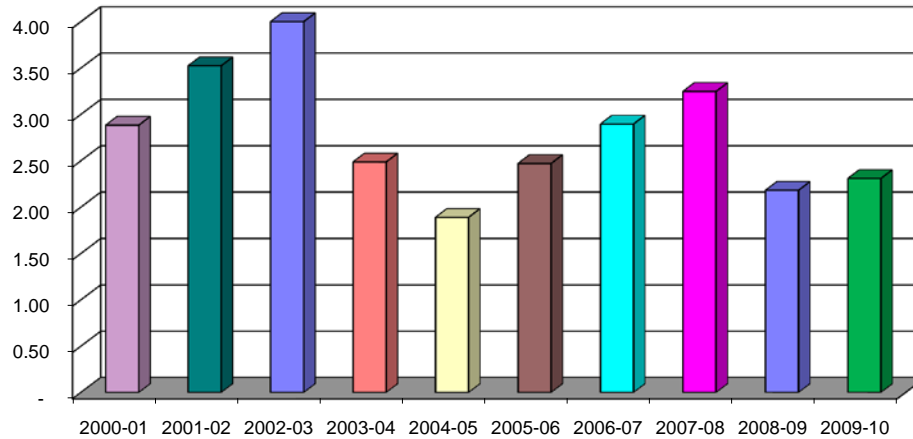
Notes

- (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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Operating & Non-operating Revenues:										
Service Charges, Net of Refunds-Regional	\$ 64.5	\$ 70.3	\$ 77.0	\$ 86.0	\$ 99.0	\$ 132.0	\$ 143.8	\$ 159.4	\$ 177.4	\$ 193.5
Service Charges, Net of Refunds-Local	-	-	-	-	-	-	-	-	5.6	5.6
Industrial Sewer Service Charges	6.6	7.5	6.3	7.5	10.5	12.2	13.4	12.1	9.9	10.8
Revenue Area No. 14 Fees	2.0	2.2	3.2	5.8	6.9	5.3	5.2	7.1	10.3	10.2
Ad Valorem Taxes	38.4	41.1	44.6	46.9	35.8	40.0	60.6	65.2	66.4	64.8
Interest Earnings	39.4	27.8	25.9	6.8	15.1	10.4	22.2	20.2	14.8	19.2
Other Revenues	2.5	2.5	13.5	13.0	6.1	9.2	8.3	6.9	5.8	12.5
Total Revenues	153.4	151.4	170.5	166.0	173.4	209.1	253.5	270.9	290.2	316.6
Operating Expenses (1)	62.3	68.6	79.7	95.4	101.8	105.6	112.2	131.9	164.6	138.1
Net Revenues	\$ 91.1	\$ 82.8	\$ 90.8	\$ 70.6	\$ 71.6	\$ 103.5	\$ 141.3	\$ 139.0	\$ 125.6	\$ 178.5
Debt Service Requirements										
Principal Payments	13.8	10.4	11.0	11.6	12.0	12.8	13.5	11.0	21.3	34.2
Interest Payments	17.8	13.1	11.7	16.8	25.9	29.1	35.3	31.8	36.3	43.1
Total Debt Service Requirements	\$ 31.6	\$ 23.5	\$ 22.7	\$ 28.4	\$ 37.9	\$ 41.9	\$ 48.8	\$ 42.8	\$ 57.6	\$ 77.3
Coverage Ratios	2.88	3.52	4.00	2.49	1.89	2.47	2.90	3.25	2.18	2.31
Ending Reserves (2)	\$ 444.0	\$ 430.0	\$ 394.0	\$ 518.0	\$ 407.0	\$ 385.0	\$ 293.0	\$ 425.0	\$ 401.0	\$ 344.0

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, 2010

2009-10 Assessed Valuation (Land & Improvements Only):

\$266,178,033,058 (after deducting \$38,977,151,141 Redevelopment Incremental Valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT (Based on redevelopment adjusted all property assessed valuation of \$271,322,083,143):

	Total Debt 6/30/10	% Applicable (1)	District's Share of Debt 6/30/10
Metropolitan Water District of Southern California	\$264,220,000	14.976%	\$ 39,569,587
Coast Community College District	334,718,867	99.478	332,971,635
North Orange County Joint Community College District	221,604,001	96.877	214,683,308
Rancho Santiago Community College District	313,655,747	98.989	310,484,687
Brea-Olinda and Laguna Beach Unified School Districts	56,929,029	99.942 & 15.247	28,438,490
Los Alamitos Unified School District School Facilities Improvement District No. 1	27,000,000	98.933	26,711,910
Newport Mesa Unified School District	163,568,480	100.	163,568,480
Placentia-Yorba Linda Unified School District	239,731,621	98.601	236,377,776
Saddleback Valley Unified School District	137,690,000	12.391	17,061,168
Santa Ana Unified School District	272,698,366	100.	272,698,366
Tustin Unified School District School Facilities Improvement District No. 2002-1	62,705,295	99.947	62,672,061
Tustin Unified School District School Facilities Improvement District No. 2008-1	25,000,000	99.947	24,986,750
Anaheim Union High School District	117,363,955	100.	117,363,955
Fullerton Joint Union High School District	59,262,910	90.043	53,362,102
Huntington Beach Union High School District	229,759,998	98.850	227,117,758
School Districts	302,072,027	97.131-100.	301,234,529
City of Anaheim	4,255,000	99.073	4,215,556
Irvine Ranch Water District Improvement Districts	388,298,721	Various	388,173,418
Rossmore Community Services District Special Tax Obligations	525,000	100.	525,000
Bonita Canyon Community Facilities District No. 98-1	41,275,000	100.	41,275,000
Irvine Unified School District Community Facilities Districts	434,405,619	99.998-100.	434,403,688
Tustin Unified School District Community Facilities Districts	241,890,345	100.	241,890,345
Orange County Community Facilities District No. 87-4	51,544,406	99.959	51,523,273
Other Community Facilities Districts	386,804,000	99.051-100.	386,725,660
Orange County Assessment Districts	108,827,296	100.	108,827,296
City of Irvine 1915 Act Bonds	866,534,968	100.	866,534,968
City of Tustin 1915 Act Bonds	44,779,000	100.	44,779,000
Other 1915 Act bonds	23,874,652	100.	23,874,652
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$5,022,050,418
 DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
Orange County General Fund Obligations	\$391,027,000	72.453%	\$ 283,310,792
Orange County Pension Obligations	59,333,382	72.453	42,988,815
Orange County Board of Education Certificates of Participation	19,230,000	72.453	13,932,712
South Orange County Community College District Certificates of Participation	18,845,000	36.854	6,945,136
Brea-Olinda Unified School District Certificates of Participation	27,795,000	99.942	27,778,879
Orange Unified School District Certificates of Participation and Benefit Obligations	142,660,000	97.915	139,685,539
Placentia-Yorba Linda Unified School District Certificates of Participation	86,810,315	98.601	85,595,839
Santa Ana Unified School District Certificates of Participation	53,953,747	100.	53,953,747
Other Unified School District Certificates of Participation	37,179,885	Various	36,939,496
Union High School District Certificates of Participation	122,501,090	Various	119,596,930
School District Certificates of Participation	61,485,000	Various	61,166,748
City of Anaheim General Fund Obligations	643,902,465	99.073	637,933,489
City of Costa Mesa General Fund Obligations	40,440,000	100.	40,440,000
City of Garden Grove General Fund Obligations	30,490,000	100.	30,490,000
City of Huntington Beach General Fund and Judgment Obligations	67,415,000	99.974	67,397,472
City of La Habra General Fund Obligations	20,405,000	100.	20,405,000
City of Santa Ana General Fund Obligations	106,220,000	100.	106,220,000
Other City General Fund Obligations	146,568,843	Various	122,374,895
Orange County Sanitation District	0	100.	0 (2)
Irvine Ranch Water District Certificates of Participation	85,145,000	89.916	76,558,978
Municipal Water District of Orange County Water Facilities Corporation	15,965,000	67.529	10,781,005
Yorba Linda County Water District Certificates of Participation	9,425,000	97.595	9,198,329
Orange County Fire Authority	3,590,000	51.765	1,858,364
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT			\$1,995,552,165
Less: City of Anaheim self-supporting obligations			625,063,906
Other City self-supporting obligations			33,024,268
MWDOC Water Facilities Corporation (100% self-supporting)			10,781,005
TOTAL NET OVERLAPPING GENERAL FUND DEBT			\$1,326,682,986
 GROSS COMBINED TOTAL DEBT			\$7,017,602,583 (3)
NET COMBINED TOTAL DEBT			\$6,348,733,404

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

Ratios to:	Total Overlapping Tax and Assessment Debt	Gross Combined Total Debt	Net Combined Total Debt
Adjusted Land and Improvement Assessed Valuation	1.65%	2.64%	2.39%
Adjusted All Property Assessed Valuation	N/A	2.59%	2.34%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: \$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
2000-01	\$ 386,370,000	\$ 73,700	0.019%	2,400,425	\$ 160.96
2001-02	376,000,000	75,600	0.020%	2,336,400	160.93
2002-03	364,975,000	70,000	0.019%	2,408,050	151.56
2003-04	633,365,000	74,200	0.012%	2,441,350	259.43
2004-05	621,325,000	75,700	0.012%	2,467,850	251.77
2005-06	808,570,000	78,300	0.010%	2,481,540	325.83
2006-07	801,785,000	78,700	0.010%	2,505,180	320.05
2007-08	1,082,420,000	84,100	0.008%	2,522,820	429.05
2008-09	1,241,530,000	86,100	0.007%	2,539,990	488.79
2009-10	1,287,250,000	87,200	0.007%	2,563,170	502.21

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)
2000-01	246	647.46	\$ 105,117	\$ 19,402	\$ 73,254	\$ 80,114
2001-02	234	794.05	114,266	23,302	80,005	71,415
2002-03	239	880.25	121,635	15,653	89,164	71,186
2003-04	238	1,068.43	139,815	21,626	102,327	54,657
2004-05	243	1,095.79	149,941	25,642	121,415	51,933
2005-06	235	1,216.77	155,519	38,645	155,165	53,861
2006-07	229	1,268.38	165,266	37,836	169,656	83,876
2007-08	221	1,541.18	179,657	40,335	185,376	85,458
2008-09	211	1,576.67	197,076	38,741	207,317	82,897
2009-10	196	1,588.72	190,121	41,273	225,688	90,864

A Facilities Master Plan to the year 2030 was completed in December 2009 that projects wastewater treatment flows to increase to 279 millions of gallons per day (mgd) in 2020, to 286 mgd in 2025, and to 294 mgd in the year 2030. The anticipated need to meet the projected flows is included in the overall CIP program of \$1.9 billion out to 2019-20.

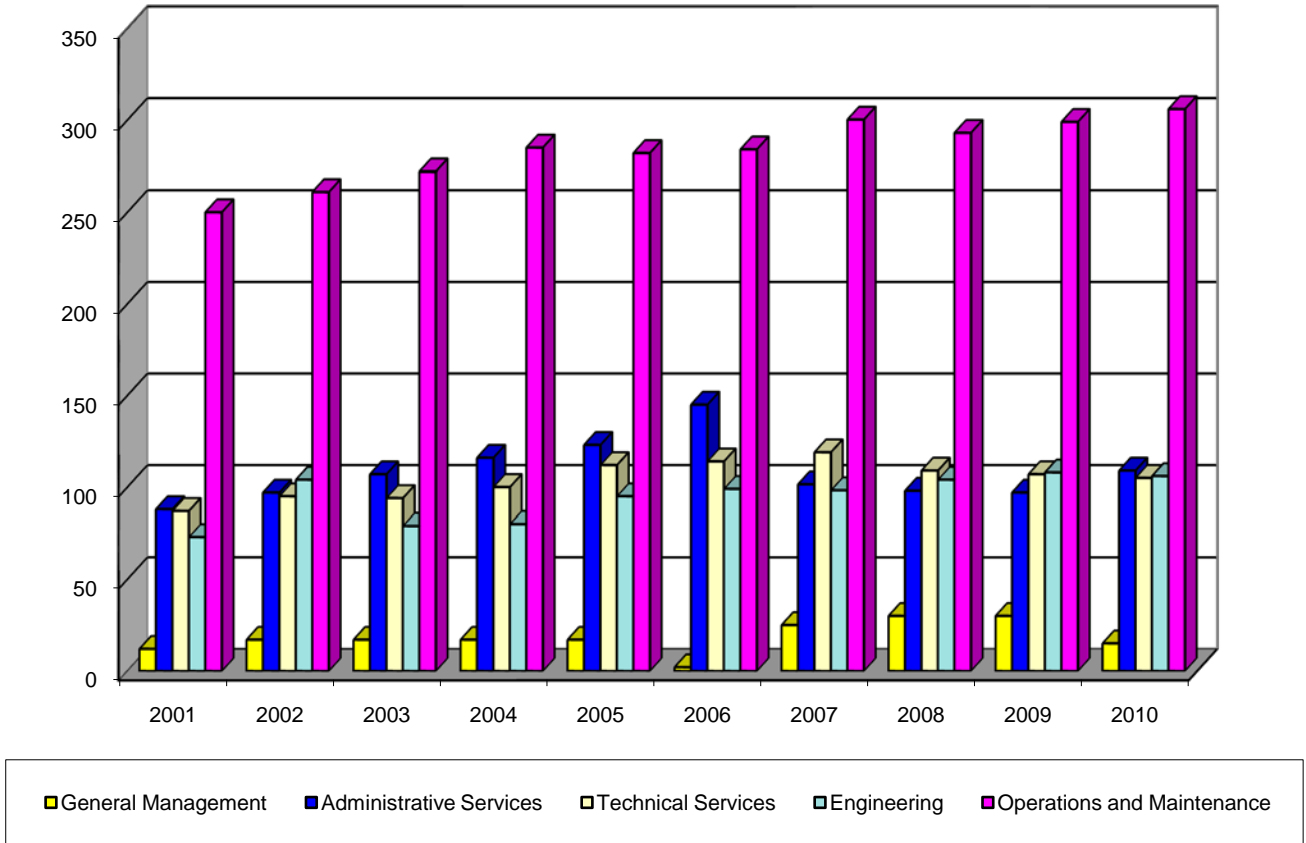
Total expenses in FY 2009-10 increased \$106.9 million, or 85.8 percent since FY 2000-01, primarily as a result of (1) OCSD's decision beginning in FY 2002-03 to maximize existing secondary treatment facilities as OCSD moves from a 50/50 mix of primary and secondary effluent treatment to meeting secondary 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 37 percent of the increase, primarily due to the increase in the levels of treatment referred to above. Depreciation expense represents another 9 percent of the increase as a result of the previous expansion in capital facilities and the financing associated with the expansion. In FY 2009-10, personnel expenses rose 3.2 percent over the prior year. This increase is mainly due to increases in health insurance and retirement premiums. The full-time equivalent positions authorized remained constant in FY 2009-10.

As depicted from the chart above, actual wastewater treatment flows have generally remained between 234 mgd and 244 mgd in the past, other than in FY 2000-01 which reached 246 mgd. Due to unusually dry weather conditions during the last four years, FY 2006-07, FY 2007-08, FY 2008-09 and FY 2009-10 had flows of only 229 mgd , 221 mgd, 211 mgd and 196 mgd respectively.

Source: Orange County Sanitation District.

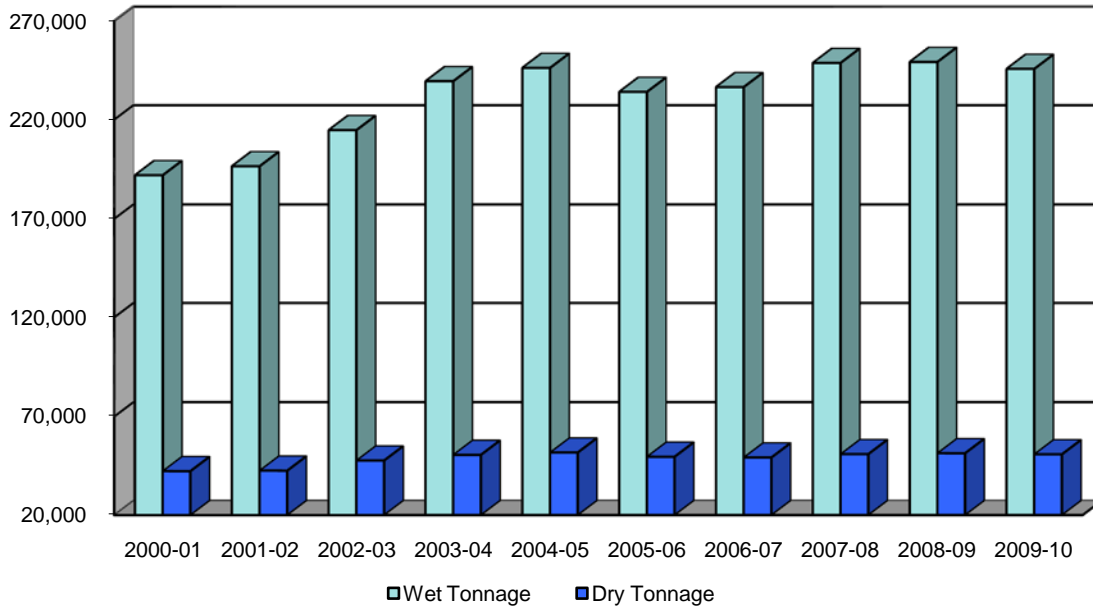
ORANGE COUNTY SANITATION DISTRICT
 Authorized Full-time Equivalents by Function
 Last Ten Fiscal Years



	Fiscal Year Ending June 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Management	12	17	17	17	17	2	25	30	30	15
Administrative Services	88	97	107	116	123	145	102	98	97	109
Technical Services	87	95	94	100	112	114	119	109	107	105
Engineering	73	104	79	80	95	99	98	104	108	106
Operations and Maintenance	250	261	272	285	282	284	300	293	299	306
Total FTE's	510	574	569	598	629	644	644	634	641	641

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>
2000-01	192,063	42,254
2001-02	196,600	42,505
2002-03	214,600	47,631
2003-04	239,426	50,519
2004-05	246,194	51,700
2005-06	233,996	49,554
2006-07	236,460	49,184
2007-08	248,717	50,884
2008-09	249,202	51,342
2009-10	245,668	50,799

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)
2000-01	650	20	266	200
2001-02	650	20	276	200
2002-03	650	20	276	200
2003-04	650	20	276	170
2004-05	620	18	306	170
2005-06	584	16	366	200
2006-07	581	16	372	200
2007-08	568	17	372	200
2008-09	582	17	372	212
2009-10	579	17	372	212

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
2000-01	2,880,000	\$ 112,244,731 (3)	\$ 38,974	\$ 73,700	494,000	3.0%
2001-02	2,940,000	116,003,461 (3)	39,457	75,600	503,000	4.1%
2002-03	2,979,000	122,425,833 (3)	41,096	70,000	512,000	4.0%
2003-04	3,017,000	130,320,295 (3)	43,195	74,200	517,000	3.6%
2004-05	3,047,000	139,408,041 (3)	45,753	75,700	514,000	3.9%
2005-06	3,072,000	150,597,800 (4)	49,023	78,300	510,114	3.7%
2006-07	3,090,000	153,838,700 (4)	49,786	78,700	503,955	3.9%
2007-08	3,108,000	155,118,400 (4)	49,909	84,100	503,492	5.3%
2008-09	3,135,000	152,417,500 (4)	48,618	86,100	504,136	9.3%
2009-10	3,166,000	155,181,900 (4),(8)	49,015	87,200	504,136 (9)	9.5%

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

(9) - 2009-10 figure is unavailable at this time

ORANGE COUNTY SANITATION DISTRICT

Estimated Populations Served by the
Orange County Sanitation District
June 30, 2010

	Population as of <u>January 1, 2010</u>
Anaheim	353,640
Brea	40,380
Buena Park	84,140
Costa Mesa	117,180
Cypress	49,980
Fountain Valley	58,740
Fullerton	138,610
Garden Grove	175,620
Huntington Beach	203,480
Irvine	217,690
La Habra	63,180
La Palma	16,300
Los Alamitos	12,270
Newport Beach	86,740
Orange	142,710
Placentia	52,310
Santa Ana	357,750
Seal Beach	26,010
Stanton	39,800
Tustin	75,770
Villa Park	6,310
Westminister	94,290
Yorba Linda	<u>69,270</u>
Subtotal City (1)	2,482,170
Estimated Population Served in Unincorporated Areas (2)	<u>81,000</u>
	<u><u>2,563,170</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 6/30/10</u>			<u>Fiscal Year Ended 6/30/01</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.	19,800	1	1.36%	8,500	5	0.59%
University of California, Irvine	19,279	2	1.33%	10,000	3	0.69%
County of Orange	17,895	3	1.23%	16,408	1	1.13%
St. Joseph Health System	10,929	4	0.75%			
Boeing Co.	8,477	5	0.58%	10,300	2	0.71%
YUM! Brands Inc.	7,000	6	0.48%			
Target Corp.	6,226	7	0.43%			
SuperValu, Inc.	5,923	8	0.41%			
Kaiser Permanente	5,598	9	0.38%			
Memorial Health Services, Inc.	5,533	10	0.38%			
Verizon Wireless				9,000	4	0.62%
Pinkerton Security				3,800	6	0.26%
Knott's Berry Farm				3,500	7	0.24%
Pacificare of California				3,500	8	0.24%
Hoag Memorial Hospital				3,200	9	0.22%
Ingram Micro, Inc.				3,000	10	0.21%
Total	106,660		7.33%	71,208		4.91%

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 1,454,700 as of June 2010.
- (4) - Data Source: State of California, Employment Development Department.
- Percentage is calculated by dividing employees by total employment of 1,451,200 as of June 2001.

ORANGE COUNTY SANITATION DISTRICT

Operating Indicators
June 30, 2010

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:	641
Operational Date:	July 1, 1954
Authority:	California Health & Safety Code Section 4700 et. seq.
Services:	Wastewater collection, treatment, and disposal
Service Area:	480 square miles
Population Served:	2.6 million
Total Miles of Sewers (including force mains):	579 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	98	204	122	182
Plant 2	<u>109</u>	<u>168</u>	<u>90</u>	<u>150</u>
Total	<u>207</u>	<u>372</u>	<u>212</u>	<u>332</u>

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

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

Information within this section consists of other data and trends including additional annual disclosures as required by the Sanitation District's 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, 2010

	Cost		Market Value	Net Unrealized Gain/Loss	
	Shares Par	Base		Base	% of Total
Investment Portfolio:					
Cash and Cash Equivalents (U.S. Dollar):					
Pending Trades	\$ -	\$ (2,151,115.26)	\$ (2,151,115.26)	-0.61%	\$ -
Cash Equivalents	104,812.50	104,812.50	31,443.75	0.01%	(73,368.75)
Commercial Paper - Discount	1,300,000.00	1,299,524.78	1,299,524.78	0.37%	-
Federal Home Loan Mortgage-Less Than 1 Year	6,400,000.00	6,393,422.22	6,393,422.22	1.81%	-
FNMA Issues - Less Than 1 Year	12,400,000.00	12,394,335.22	12,394,335.22	3.51%	-
Mutual Funds	1,080,212.54	1,080,212.54	1,080,212.54	0.31%	-
Repurchase Agreements	12,500,000.00	12,500,000.00	12,500,000.00	3.54%	-
Treasury Bills - Less Than 1 Year	26,000,000.00	25,988,305.76	25,988,305.76	7.36%	-
Subtotal	59,785,025.04	57,609,497.76	57,536,129.01	16.29%	(73,368.75)
Fixed Income Securities (U.S. Dollar):					
Asset Backed Securities - Credit Cards	2,000,000.00	1,997,421.88	1,998,040.00	0.57%	618.12
Asset Backed Securities - Small Bus Ac	1,164,451.38	1,164,451.38	1,259,444.78	0.36%	94,993.40
Asset Backed Securities - Student Loan	88,359.56	88,001.04	91,339.04	0.03%	3,338.00
Banking & Finance	52,800,000.00	51,145,171.00	51,473,493.00	14.58%	328,322.00
FDIC Guaranteed Bank & Finance	44,250,000.00	44,876,005.15	45,533,707.50	12.89%	657,702.35
FHLMC Multiclass	687,991.19	693,688.58	703,078.68	0.20%	9,390.10
FHLMC Pools	16,771.65	16,362.84	17,414.84	0.00%	1,052.00
FNMA Pools	460,858.46	457,258.00	480,279.04	0.14%	23,021.04
FNMA Remic	200,000.00	190,250.00	199,630.00	0.06%	9,380.00
GNMA Multi Family Pools	556,724.84	556,277.49	573,797.36	0.16%	17,519.87
GNMA Single Family Pools	1,940.82	2,036.94	2,155.59	0.00%	118.65
Industrial	1,000,000.00	1,032,730.00	1,030,370.00	0.29%	(2,360.00)
Insurance	2,910,000.00	1,876,950.00	2,808,150.00	0.80%	931,200.00
Taxable Municipals	9,040,000.00	9,069,683.89	9,263,750.80	2.62%	194,066.91
Technology	1,100,000.00	1,119,998.00	1,115,213.00	0.32%	(4,785.00)
U.S. Agencies	20,256,605.78	20,424,177.78	20,472,194.94	5.80%	48,017.16
U.S. Governments	152,910,000.00	153,464,947.64	155,420,490.30	44.01%	1,955,542.66
Utility - Electric	2,800,000.00	2,888,760.00	3,178,784.00	0.90%	290,024.00
Subtotal	292,243,703.68	291,064,171.61	295,621,332.87	83.71%	4,557,161.26
Total Investment Portfolio	\$ 352,028,728.72	348,673,669.37	353,157,461.88	100.00%	\$ 4,483,792.51
Demand Cash Accounts		1,799,573.00	1,799,573.00		
Monies Held With Fiscal Agents		113,459,066.00	113,459,066.00		
Monies with the Local Agency Investment Fund		4,908,217.32	4,916,285.00		
Total Cash and Investments		\$ 468,840,525.69	\$ 473,332,385.88		

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

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

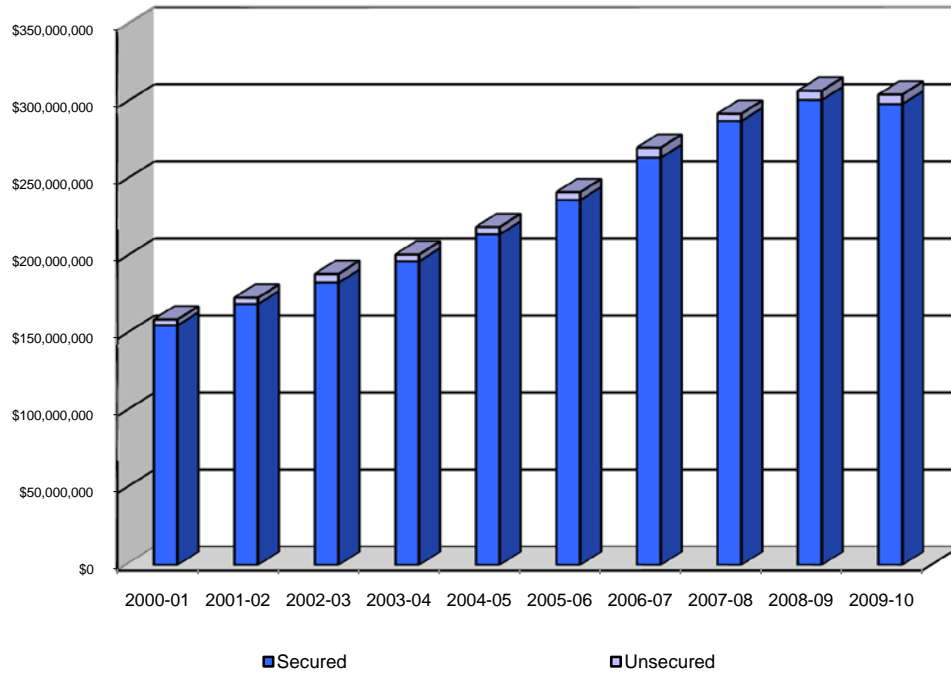
Fiscal Year	Tax Rate			OCSD's Average Share of Basic Levy
	Basic Levy	OCSD 1958 General Obligation Bonds	Total Tax Rate	
2000-01	1.00%	0.00%	1.00%	2.80%
2001-02	1.00%	0.00%	1.00%	2.80%
2002-03	1.00%	0.00%	1.00%	2.80%
2003-04	1.00%	0.00%	1.00%	2.80%
2004-05	1.00%	0.00%	1.00%	1.60%
2005-06	1.00%	0.00%	1.00%	1.60%
2006-07	1.00%	0.00%	1.00%	2.80%
2007-08	1.00%	0.00%	1.00%	2.80%
2008-09	1.00%	0.00%	1.00%	2.80%
2009-10	1.00%	0.00%	1.00%	2.80%

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

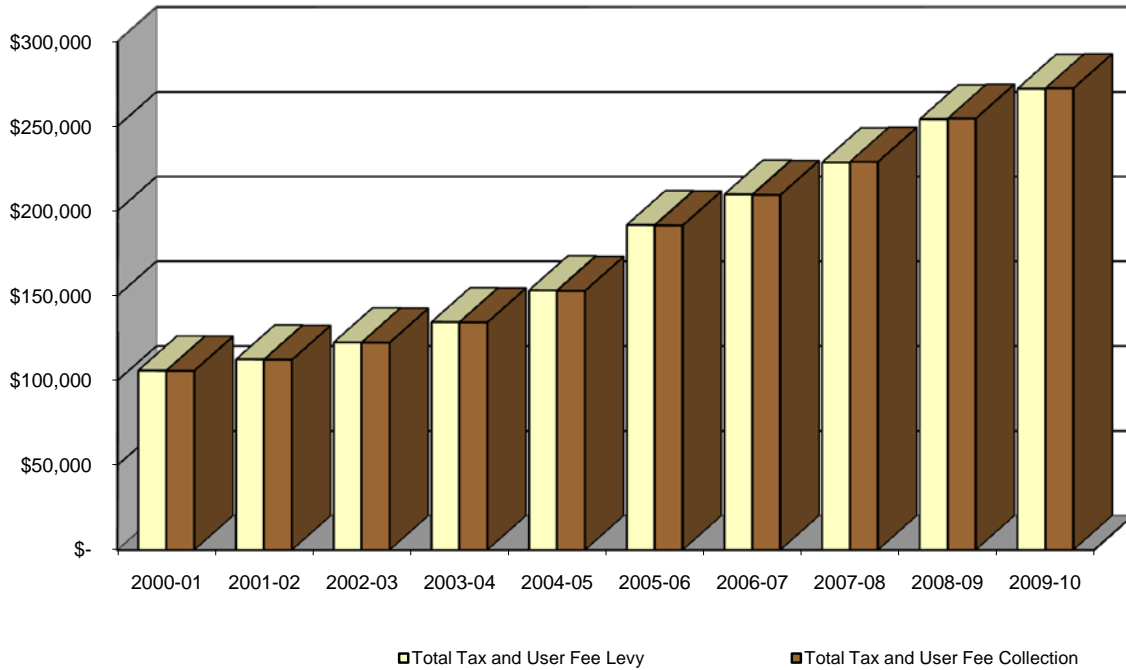


Fiscal Year	Secured	Unsecured	Total	Percent Change in Assessed Value
2000-01	155,544,000	3,778,000	159,322,000	9.40%
2001-02	169,357,000	4,066,000	173,423,000	8.85%
2002-03	183,223,000	5,657,000	188,880,000	8.91%
2003-04	197,143,000	4,309,000	201,452,000	6.66%
2004-05	214,529,000	4,743,000	219,272,000	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%

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
2000-01	\$ 105,890	\$ -	\$ 105,646	99.77	\$ 94	\$ 105,740	99.86	\$ 154	0.15
2001-02	112,419	-	112,087	99.70	83	112,170	99.78	245	0.22
2002-03	122,450	-	122,210	99.80	98	122,308	99.88	332	0.27
2003-04	134,389	-	134,132	99.81	94	134,226	99.88	241	0.18
2004-05	153,187	(16,198)	152,745	99.71	92	152,837	99.77	257	0.17
2005-06	191,711	(16,198)	191,290	99.78	122	191,412	99.84	421	0.22
2006-07	209,766	-	209,206	99.73	215	209,421	99.84	560	0.27
2007-08	228,622	-	228,635	100.01	329	228,964	100.15	(13)	(0.01)
2008-09	254,092	-	254,106	100.01	395	254,501	100.16	(14)	(0.01)
2009-10	272,050	-	272,110	100.02	226	272,336	100.11	(60)	(0.02)

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>	
2000-01	\$ 228,548,301	2001	\$ 1,349,607	8,646	\$ 1,905,321	\$ 3,254,928
2001-02	248,966,581	2002	1,208,626	12,020	2,328,123	3,536,749
2002-03	269,684,864	2003	1,005,547	9,311	2,076,976	3,082,523
2003-04	287,923,828	2004	1,132,848	9,322	2,243,642	3,376,490
2004-05	311,802,395	2005	1,494,759	7,206	2,100,436	3,595,195
2005-06	342,576,859	2006	2,400,569	8,371	2,316,948	4,717,517
2006-07	381,007,391	2007	2,005,198	7,072	1,792,270	3,797,468
2007-08	412,669,779	2008	1,439,120	3,159	1,037,713	2,476,833
2008-09	428,809,224	2009	952,480	2,184	853,003	1,805,483
2009-10	422,965,596	2010 (4)	928,597	2,736	983,709	1,912,306

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, 2010

<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>			
	Everest National Insurance Co. (first \$10 million layer); American Merchants Casualty Ins. Co. (\$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	\$500,000 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.

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