

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies of the County of Orange:

A. Reporting Entity

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors, which, as the governing body, is responsible for the legislative and executive control of the County. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, public ways and facilities, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles in the United States of America (GAAP), these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is typically their governing body. Therefore, data from these component units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," and Statement No. 39, "*Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14*," to determine whether the following component units should be reported as blended or discretely presented component units:

Blended Component Units

Orange County Flood Control District The governing body of the District is the County's governing body. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and appoints the management. The District is reported in governmental fund types.

Orange County Development Agency (OCDA) The governing body of the Agency is the County's governing body. Among its duties, it approves the Agency's budget and appoints the management. The Agency is reported in governmental fund types. Separate financial statements are issued for this component unit. Copies of the financial statements can be obtained from Housing & Community Services Accounting Department.

Orange County Housing Authority The governing body of the Authority is the County's governing body. Among its duties, it approves the Authority's budget, determines the rates and charges for the use of facilities and appoints the management. The Authority is reported in governmental fund types.

Orange County Financing Authority The Authority is a joint powers authority of the Orange County Development Agency and the Orange County Housing Authority, formed for the purpose of assisting the Orange County Development Agency in financing and refinancing its redevelopment projects and activities. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

Orange County Special Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to assist in the refinancing of the County's Teeter Plan program, and in the financing of public capital improvements and other projects. The governing body of the Authority is the County's governing body. Separate financial statements are issued for this component unit. Copies of the financial statements can be obtained from the County Executive Office (CEO)/Public Finance Accounting. The Authority is reported in governmental fund types.

Orange County Public Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to provide financial assistance to the County by financing the acquisition, construction, and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

Orange County Public Facilities Corporation The Corporation has its own five member governing body appointed by the County's governing body, and provides services entirely to the primary government (the County) through the purchase, construction or leasing of land and/or facilities which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts ("special districts") is the County's governing body. Among its duties, it approves the special districts' budgets, and approves parcel fees, special assessments and special taxes. The special districts are reported in governmental fund types.

In-Home Supportive Services (IHSS) Public Authority The governing body of the Authority is the County's governing body. The Public Authority was established by the County Board of Supervisors to act as the employer of record for the individual providers for the IHSS program. The duties of the Public Authority include collective bargaining for the individual providers, establishing a registry of providers, investigating the background of providers and providing training to both IHSS providers and consumers. The Authority is reported in governmental fund types.

Discretely Presented Component Unit

Children and Families Commission of Orange County The Commission is administered by a governing board of nine members, who are appointed by the County Board of Supervisors. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County, funded by additional State taxes on tobacco products approved by California voters via Proposition 10 in November 1998. The Commission is presented as a discretely presented component unit of the County because, although the County Board of Supervisors has no control over the revenues, budgets, staff, or funding decisions made by the Commission, the appointed Commission members serve at the will of the Board members who appoint them. A separate stand-alone annual financial report can be obtained by writing to the Children and Families Commission of Orange County, 17320 Redhill Avenue, Suite 200, Irvine, CA 92614.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide and fund financial statements. The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements report long-term liabilities and capital assets. Depreciation expense and accumulated depreciation are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the current financial resources measurement focus. Fund financial statements are shown separately for specific major governmental funds, and in total for all other governmental funds. Fund financial statements for proprietary funds are reported under the accrual basis of accounting and the economic resources measurement focus. Major enterprise funds are shown separately, with internal service funds shown in total. Financial data for the internal service funds is included with the governmental funds for presentation in the government-wide financial statements. Fiduciary funds are displayed by category in the fund financial statements, but are not reported in the government-wide financial statements, because the assets of these funds are not available to the County.

Government-Wide Financial Statements

Governmental Accounting Standards Board (GASB) Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" ("GASB Statement No. 34") mandates the presentation of two basic government-wide financial statements:

- *Statement of Net Assets*
- *Statement of Activities*

The scope of the government-wide financial statements is to report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are normally supported by taxes, intergovernmental revenues, other nonexchange revenues, and business-type activities, which are financed by fees charged to external parties for goods or services, are reported in separate columns, with a combined total column presented for the primary government. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide Statement of Net Assets displays the financial position of the primary government, in this case the County, and its discretely presented component unit. The Statement of Net Assets reports the County's financial and capital resources, including infrastructure, as well as the County's long-term obligations. The difference between the County's assets and liabilities is its net assets. Net assets represent the resources that the County has available for use in providing services after its debts are settled. These resources may not be readily available or spendable and consequently are classified into the following categories of net assets in the government-wide financial statements:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Government-Wide Financial Statements (Continued)

- Net Assets Invested in Capital Assets, Net of Related Debt This amount is derived by subtracting the outstanding debts incurred by the County to buy or construct capital assets shown in the Statement of Net Assets. Capital assets cannot readily be sold and converted to cash.
- Restricted Net Assets This category represents restrictions imposed on the use of the County's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service for governmental activities payments. At June 30, 2004, the County reported restricted net assets of \$992,774 restricted for the following purposes:

Restricted for:	Amount
Capital projects	\$ 207,838
Debt service	155,964
Legally segregated special revenue funds restricted for grants and other purposes	628,881
Regional park endowment	91
Total restricted net assets	<u>\$ 992,774</u>

Restricted Net Assets for business-type activities amounted to \$314,767 and are restricted for the use of Airport and Waste Management activities, including debt service.

- Unrestricted Net Assets These assets are resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a restricted fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net assets.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues and the extent to which the function or segment is supported by general government revenues, such as property taxes, local unrestricted sales taxes, and investment earnings. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the programs where the revenue is earned. Program revenues include:

- *Charges and fees to customers or applicants for goods, services, or privileges provided, including fines, forfeitures, and penalties related to the program*
- *Operating grants and contributions*
- *Capital grants and contributions, including special assessments*

Taxes and other items such as unrestricted investment earnings not properly included among program revenues are reported instead as general revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into a single column and all nonmajor proprietary funds aggregated into a single column. GASB Statement No. 34 sets forth minimum criteria (specified minimum percentages of the assets, liabilities, revenues or expenditures/expenses of a fund category and of the governmental and enterprise funds combined) for the determination of major funds. In addition to funds that meet the minimum criteria, any other governmental or enterprise fund that the government believes is of particular importance to financial statement users may be reported as a major fund.

The County reports the following major governmental funds:

General Fund This fund accounts for resources traditionally associated with government and all other resources, which are not required legally, or by sound financial management, to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are primarily expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, capital outlay, and debt service.

Roads This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. Revenues consist primarily of the County's share of state highway users' taxes, federal funds and charges for engineering services provided.

Public Library This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. Property taxes provide most of the fund's revenue; licenses, permits, federal and state aid and charges for services provide the remaining revenue.

Tobacco Settlement This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. On November 7, 2000, Orange County voters passed Measure H. This measure requires the County to utilize its share of the national tobacco litigation settlement revenues in the following percentages:

- *80% for specified health care services*
- *20% for public safety*

Refunding Bonds and Recovery Certificates of Participation (COPs) and Debt Prepayment This fund accounts for the debt service transactions handled by the trustee bank for the Orange County Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation and the prepayment of the County's outstanding bonds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Financial Statements (Continued)

Flood Control District This fund accounts for the planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins and other flood control infrastructure.

Harbors, Beaches, and Parks This fund accounts for the development and maintenance of County harbors, tidelands and related aquatic recreational facilities, as well as the acquisition, operation and maintenance of County beaches, inland regional park recreation facilities and community park sites in the unincorporated areas. Revenues consist primarily of property taxes, state aid, lease and concession revenues, and park and recreation fees.

The County reports the following major proprietary enterprise funds:

Airport This fund accounts for major construction and for self-supporting aviation-related activities rendered at John Wayne Airport, Orange County. The Airport's staff coordinates and administers general business activities related to the Airport, including concessions, fixed base operations, leased property, and aircraft tie down facilities.

Waste Management This fund accounts for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage.

Additionally, the County reports the following fund types:

Internal Service Funds The County of Orange reports eight Internal Service Funds. These proprietary funds are used to account for the financing of services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis. The services provided by these funds are Insurance, Transportation, Publishing, and Information and Technology. Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the County's governmental activities, financial statements of Internal Service Funds are consolidated into the governmental activities column when presented at the government-wide level.

Fiduciary Fund Types The County of Orange has a total of 326 trust and agency funds. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, investment trust or educational investment trust fund is used. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets or on the Statement of Fiduciary Net Assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide Statement of Activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned.

Additionally, only the interfund transfers between governmental and business-type activities are reported in the Statement of Activities.

Proprietary Funds

Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Under GASB Statement No. 20, the County has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 when preparing the government-wide and enterprise fund financial statements.

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

The County has two enterprise funds: John Wayne Airport Enterprise Fund and Integrated Waste Management Enterprise Fund. The principal operating revenues of the John Wayne Airport and Waste Management enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tie down fees and (2) disposal fees charged to users of the waste disposal sites, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Funds (Continued)

Internal Service Funds are used to report activities that provide goods or services to other funds of the County. The Internal Service Funds receive revenues through cost-reimbursements of the goods and services provided to other County departments and agencies. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Governmental Funds

Governmental funds are used to report all governmental activities which are not primarily self-funded by fees or charges to external users or other funds, and which are not fiduciary activities. These activities include the County's basic services to its citizenry and to other agencies, including general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. There are five types of governmental funds:

- *General Fund*
- *Special Revenue Funds*
- *Capital Projects Funds*
- *Debt Service Funds*
- *Permanent Fund*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources increments (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after the end of the current fiscal period.

Revenues that are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are received later than 60 days, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, while the receivable and deferred revenue are eliminated. For the year ended June 30, 2004, the County reported deferred revenue of \$245,874 in the governmental funds' Balance Sheet, of which \$163,023 represents the amount of intergovernmental revenues unavailable for revenue recognition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Funds (Continued)

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt are recorded in the year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures at fiscal year end if they are due and payable. The related long-term obligation is recorded in the government-wide financial statements. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding at year-end.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

Because the fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented to explain the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

D. Budget Adoption and Revision

No later than October 2nd of each year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors adopts a budget in accordance with Government Code Sections 29000-29144 and 30200. The County publishes the results of this initial budgeting process in a separate report, the "Final Budget," which specifies all accounts established within each fund-agency unit (a collection of account numbers necessary to fund a certain division or set of goal-related activities).

Throughout the year the original budget is adjusted to reflect increases or decreases in revenues and changes in fund balance, offset by an equal amount of increased appropriations for new reimbursement contracts. Department heads are authorized to approve appropriation transfers within a fund-agency unit. However, appropriation transfers between fund-agency units require approval of the Board of Supervisors. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund-agency unit level.

Annual budgets are adopted on a basis consistent with GAAP. Budgeted governmental funds consist of the General Fund, major funds, and other nonmajor governmental funds. Budgetary comparison statements are prepared only for the General Fund and major special revenue funds (listed below) for which the County legally adopts annual budgets, and are presented as part of the basic financial statements. The budgetary comparison statements provide three separate types of information: (1) the original budget, which is the first complete appropriated budget; (2) the final amended budget which includes all legally authorized changes regardless of when they occurred; and (3) the actual amounts of inflows and outflows during the year for budget-to-actual comparisons.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

As described in more detail under Note 1.B, the major special revenue funds reported by the County are:

- *Roads*
- *Public Library*
- *Tobacco Settlement*
- *Flood Control District*
- *Harbors, Beaches, and Parks*

Budgetary comparison information for the Refunding Bonds & Recovery COPs and Debt Prepayment major debt service fund and the nonmajor governmental funds are presented in the "Budgetary Comparison Schedules" in the supplemental information section.

E. Excess of Expenditures over Appropriations

For FY 2003-04, expenditures exceeded appropriations in the Child Support Services Agency (CSS) (the legal level of budgetary control) of the General Fund by \$13,563, caused by the County entering into a capital lease for a building with a net present value of \$18,000. The Board of Supervisors approved the execution of this capital lease on December 16, 2003, without increasing appropriations. This excess expenditure was funded by an other financing source of \$18,000. The County will annually budget the required lease payments, but does not budget for the GAAP requirement to report both an other financing source and an expenditure equal to the net present value of the minimum lease payments at the inception of the lease. GAAP requires reporting the initial other financing source and expenditure for the net present value, as well as reporting the annual lease payment expenditure.

F. Cash and Investments

The County maintains two cash and investment pools: the Orange County Investment Pool ("the County Pool") and the Orange County Educational Investment Pool ("the Educational Pool"), the latter of which is utilized exclusively by the County's public school and community college districts. These pools are maintained for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities.

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with an outside service to provide pricing for the fair value of investments in the portfolio. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing.

Other than proceeds held by the County, proceeds from County-issued bonds are held by trustees and are invested in instruments authorized by the respective trust agreements including medium-term notes, mutual funds, investment agreements, repurchase agreements, and U.S. Government securities. Short-term investments are reported at cost, while long-term investments, such as U.S. Government securities, are stated at fair value. The trustee uses an independent service to value those securities, which are stated at fair value.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving weighted average basis. Applicable fund balances are reserved for amounts equal to the inventories on hand at the end of the fiscal year, as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures/expenses when issued to user departments/agencies.

H. Prepaid Costs

The County pays for certain types of services in advance such as insurance premiums and rents and recognizes these costs in the period during which services are provided. Applicable fund balances are reserved for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds. At June 30, 2004, the County has prepaid costs of \$150,360 in the Statement of Net Assets, which primarily consist of the County's Investment Account with the Orange County Employees Retirement System (OCERS) for future pension costs of \$146,753. See Note 18 for additional information regarding this pension investment asset for the County's Retirement Plans.

I. Land and Improvements Held for Resale

These assets, held by the OCDA, are valued at the lower of cost or estimated net realizable value.

J. Capital Assets

Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, structures and improvements, equipment, and infrastructure. Infrastructure assets are grouped by networks consisting of flood channels, roads, bridges, trails, traffic signals, and harbors.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Asset Type	Capitalization Threshold
Land	\$ 0
Structures and Improvements	\$ 150
Equipment	\$ 5
Infrastructure	\$ 0

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements, equipment, and infrastructure are as follows:

Structures and Improvements	10 to 50 years
Equipment	3 to 20 years
Infrastructure	
Flood Channels	50 to 99 years
Roads	10 to 20 years
Bridges	50 years
Trails	20 years
Traffic Signals	15 years
Harbors	20 to 50 years

Maintenance and repair costs are expensed in the period incurred. Expenditures that materially increase the capacity or efficiency or extend the useful life of an asset are capitalized and depreciated. Upon the sale or retirement of the capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the Statement of Activities and proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Assets.

K. Self-Insurance

The County is self-insured for general and automobile liability and workers' compensation claims, and for claims arising under the group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits program. Liabilities are accrued based upon case reserves, development of known and incurred but not reported claims, including allocated loss adjustment expenses (See Note 15).

L. Property Taxes

The provisions of the California Constitution and Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are computed by applying approved property tax rates to the assessed value of properties as determined by the County Assessor, in the case of locally assessed property, and as determined by the State Board of Equalization, in the case of State-assessed public utility unitary and operating non-unitary property. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The County collects property taxes on behalf of all property tax-receiving agencies in Orange County. Property tax-receiving agencies include the school districts, cities, community redevelopment agencies, independently governed special districts (not governed by the County Board of Supervisors), special districts governed by the County Board of Supervisors, and the County General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

Property taxes receivables are recorded as of the date levied in property tax unapportioned funds, which are classified as agency funds. When collected, the property taxes are deposited into the County Treasury in the property tax unapportioned funds, where they are held in the unapportioned taxes liability accounts pending periodic apportionment to the taxing agencies. The property tax unapportioned funds are included in the agency funds category of the County's fund financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

Property tax collections are apportioned (disbursed) to the tax-receiving agencies periodically from the tax unapportioned funds based on various factors including statutory requirements; materiality of collections received; tax delinquency dates; the type of property tax roll unapportioned fund (secured, unsecured, supplemental, delinquent secured, delinquent unsecured, delinquent supplemental, homeowners' property tax subvention, or public utility); and cash flow needs of the tax-receiving agencies.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2004 is allocated to the corresponding funds for reporting purposes.

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end are recorded as deferred revenue. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County maintains records of disputed property taxes, such as those properties for which the values have been appealed to the local Assessment Appeals Boards. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or the tax bills are corrected. As of June 30, 2004, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.29 percent of the combined beginning secured and unsecured property tax roll charge.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Unsecured taxes on the roll as of July 31 are delinquent August 31.	2922
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September).	2601
Secured tax payment due dates are:	
1st Installment - November 1, and	2605
2nd Installment - February 1.	2606
Secured tax delinquent dates (last day to pay without a penalty) are:	
1st Installment - December 10, and	2617
2nd Installment - April 10.	2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

M. Compensated Employee Absences

Compensated employee absences (vacation, compensatory time off, performance incentive plan time off, annual leave and sick leave) are accrued as an expense and liability in the proprietary funds when incurred. In the governmental funds, only those amounts that are due and payable at year-end are accrued. Compensated employee absences that exceed this amount represent a reconciling item between the fund and government-wide presentations.

N. Statement of Cash Flows

Statements of Cash Flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the County's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

O. Indirect Costs

County indirect costs are allocated to benefiting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2003-04 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Federal Office of Management and Budget Circular A-87. The County has elected to allocate indirect costs to agencies within the General Fund that were not billed in FY 2003-04 in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the financial statements:

In March 2003, GASB issued Statement No. 40, "*Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*" This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk and is effective for fiscal periods beginning after June 15, 2004. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. The County Treasurer has implemented the new reporting requirements for the fiscal year 2003-04 financial statements.

In November 2003, GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*" This statement establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal periods beginning after June 30, 2005. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The County of Orange intends to implement the new reporting requirements for the fiscal year 2005-06 financial statements.

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and is effective for fiscal periods beginning after June 30, 2006. The approach followed in this statement reflects differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, stand-alone financial reports of OPEB plans, the public employee retirement systems, or third parties that administer them. This statement also provides requirements for reporting OPEB funds by administrators of multiple-employer OPEB plans that are not a trust fund. The County of Orange intends to implement the new reporting requirements for the fiscal year 2006-07 financial statements.

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1.*" This statement amends the portions of NCGA (National Council on Governmental Accounting) Statement 1, *Governmental Accounting and Financial Reporting Principles*, which guide the preparation of the statistical section and is effective for fiscal periods beginning after June 30, 2005. These amendments add new information that financial statement users have identified as important and eliminates certain previous requirements. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, to assess the economic condition of a government. The County of Orange plans to implement the new reporting requirements for fiscal year 2005-06 financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements (Continued)

In June 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits and is effective for fiscal periods beginning after December 15, 2006. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The County of Orange plans to implement the new reporting requirements for fiscal year 2007-08 financial statements.

In May 2004, GASB issued Technical Bulletin No. 2004-1, "*Tobacco Settlement Recognition and Financial Reporting Entity Issues.*" This Technical Bulletin addresses accounting by state and local governments in connection with settlements made by U.S. tobacco companies. The Technical Bulletin clarifies accounting guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, the Technical Bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement. Orange County currently does not have a Tobacco Settlement Authority.

Q. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Consolidation of Governmental Funds' Balance Sheet and Proprietary Funds' Statement of Net Assets Line Items in Statement of Net Assets

Several asset or liability line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Assets are combined into one line item in the Statement of Net Assets for presentation purposes. In order to avoid any confusion, the following table lists the line items shown in the Governmental and Proprietary Fund financial statements that are condensed together in the Statement of Net Assets.

<i>Statement of Net Assets Line Item</i>	<i>Corresponding Governmental and Proprietary Funds' Balance Sheet or Statement of Net Assets Line Item</i>
Cash and Cash Equivalents	Pooled Cash/Investments; Cash Equivalents/Specific Investments; Imprest Cash funds; and Cash/Cash Equivalents
Restricted Cash and Cash Equivalents	Restricted Cash and Investments with Trustee; Restricted Pooled Cash/Investments – Closure and Postclosure Costs
Prepaid Costs	Prepaid Costs and Bond Issuance Costs
Capital Assets – Not Depreciated	Land and Construction in Progress
Capital Assets – Depreciable, Net of Accumulated Depreciation	Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; and Infrastructure and Accumulated Depreciation

2. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following fund has deficit net assets:

<u>Internal Service Fund</u>	Deficit
Workers' Compensation	<u>\$ 59,914</u>

The deficit in the Workers' Compensation Fund results from accrual of known losses and actuarially-projected Incurred But Not Reported claims (IBNR). Charges to County departments have not provided a sufficient cash flow to entirely fund the IBNR. The deficit has increased from the previous fiscal year due to mandated indemnity benefits, the impact of legislative and regulatory changes, and a trend in rising medical costs. The County will continue to review charges to departments in relationship to the IBNR and adjust them as deemed appropriate.

3. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled \$5,479,034 as of June 30, 2004. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Restricted Pooled Cash/Investments – Closure & Postclosure Costs, Restricted Pooled Cash/Investments, Cash/Cash Equivalents, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."

The Treasurer maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The Investment Policy Statement (IPS) establishes a Money Market Fund and an Extended Fund as components of the County Pool and Educational Pool. The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

The primary investment objectives of the Treasurer's investment activities in order of priority, are: protecting the safety of the principal invested, meeting participants' liquidity needs, attaining a money market rate of return, and attempting to stabilize at a \$1 net asset value for the County Money Market Fund and the Educational Money Market Fund. These external investment pools contain deposits, repurchase agreements, and investments. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

A. Deposits

Monies must be deposited in state or national banks, or state or federal savings and loan associations located within the State. The County is authorized to use demand accounts and certificates of deposit. Additionally, monies deposited at national banks are used for compensating balances. The Treasurer has established separate bank and investment custody accounts for the County's school participants.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks. Collateral is required for demand deposits at 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

Total County deposits and investments at fair value as of June 30, 2004 are reported as follows:

Deposits:	
Imprest Cash	\$ 1,620
Deposit Overdraft	(78,485)
Total Cash Overdrafts	<u>(76,865)</u>
Investments:	
With Treasurer	4,989,027
With Trustee	566,872
Total Investments	<u>5,555,899</u>
Total Deposits and Investments	<u>\$ 5,479,034</u>

Total County deposits and investments are reported in the following funds:

Governmental Funds	\$ 1,942,590
Component Unit	148,843
Fiduciary Funds	2,715,974
Proprietary Funds	671,627
Total Deposits and Investments	<u>\$ 5,479,034</u>

B. Investments

State statutes, Board of Supervisors' ordinances and resolutions, the respective bond documents, trust agreements, and other contractual agreements govern the County's investment policies.

External Investment Pools

The County Treasurer sponsors two external investment pools: the County Pool, and the Educational Pool. Both pools consist of a Money Market Fund and an Extended Fund.

The County Treasurer has a written IPS specifically for the separately managed County and Educational Investment Pools. The IPS is more restrictive than required by California Government Code. The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/ P1/F1) as provided by at least two of the following nationally recognized rating agencies: Standard & Poor's Corporation ("S & P"), Moody's Investors Service, Inc. ("Moody's"), or Fitch Ratings ("Fitch"), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank with at least one billion dollars in assets, or the Money Market Fund may invest in U.S. dollar denominated certificates of deposit issued in London, England (Euro CD) (30%); bankers' acceptances (40%); money market funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%); the Money Market Fund may invest in funding agreements (10%);

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

the Money Market Funds may also invest in securities lending agreements and other “eligible securities” as defined under Securities and Exchange Commission (SEC) Rule 2a-7 of the Investment Company Act of 1940 (10%). In addition, no investment may be purchased from an issuer that has been placed on credit watch-negative by any of the three nationally recognized rating agencies, or whose credit rating by any of the three nationally recognized rating agencies is less than the minimum rating required by the IPS for that class of security. All permitted investments are required to comply in every respect with California Government Code Sections 53601, 53601.7, and 53635, as applicable, (governing the investment of public funds) and other relevant California Government Code provisions.

Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Section 53601. The securities underlying the agreements must be delivered to the County’s custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers, and also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County’s procedures for monitoring the securities are similar to those for collateral on deposits.

The IPS expressly prohibits leverage, reverse repurchase agreements, and volatile structured notes or derivatives. Investments are marked to market on a daily basis. If the net asset value of the Money Market Fund for either the County Pool or the Educational Pool is less than \$.995 or greater than \$1.005 (in absolute dollar amount), portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005. Under the IPS, no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund. All investments will be United States dollar denominated.

The County Treasury Oversight Committee established in December 1995, which consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools and two public members, conducts treasury oversight. On January 7, 2004, Fitch reaffirmed the Pools’ ratings of “AAA/V1+.” In April 2004, Moody’s Investor Service reaffirmed credit ratings of Aaa and MR1 market risk ratings for the County and Educational Investment Pools. The Pools are not registered with the SEC.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100 percent involuntary participants. At June 30, 2004, the County Pool includes approximately 7.64 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

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3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures

As of June 30, 2004, the major classes of the County's deposits and investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
<u>With Treasurer:</u>					
<u>County Pool</u>					
U.S. Government Agencies	\$ 613,479	\$ 617,006	Discount, 1.03-6.25%	07/15/04-03/08/07	1.06
Bankers' Acceptances	29,837	29,905	Discount	08/02/04-10/01/04	0.16
Commercial Paper	966,968	967,878	Discount	07/01/04-10/08/04	0.07
Negotiable Certificates of Deposit	427,797	428,000	1.05-1.49%	07/06/04-05/04/05	0.33
Medium-Term Corporate Notes	391,470	389,939	1.30-6.875%	07/15/04-02/16/05	0.19
Other Corporate Notes	52,331	50,700	4.48%	02/22/05	0.65
Repurchase Agreements	140,000	140,000	1.61%	07/01/04	0.00
Money Market Mutual Funds	12,832	12,832	Variable	07/01/04	0.00
	<u>\$ 2,634,714</u>	<u>\$ 2,636,260</u>			<u>0.37</u> *
<u>Educational Pool</u>					
U.S. Government Agencies	\$ 835,105	\$ 837,770	Discount, 1.03-6.25%	07/01/04-03/08/07	0.66
Bankers' Acceptances	29,862	30,000	Discount	08/18/04-11/01/04	0.29
Commercial Paper	723,796	724,743	Discount	07/06/04-10/08/04	0.09
Negotiable Certificates of Deposit	244,932	245,000	1.05-1.40%	07/06/04-10/25/04	0.13
Medium-Term Corporate Notes	295,357	294,204	1.10-7.125%	07/15/04-11/08/04	0.14
Other Corporate Notes	51,608	50,000	4.48%	02/22/05	0.65
Repurchase Agreements	80,000	80,000	1.61%	07/01/04	0.00
Money Market Mutual Funds	32,344	32,344	Variable	07/01/04	0.00
	<u>\$ 2,293,004</u>	<u>\$ 2,294,061</u>			<u>0.32</u> *
<u>Specific Investments</u>					
U.S. Government Agencies	\$ 20,288	\$ 20,322	Discount, 1.31%	09/10/03-03/31/05	0.12
U.S. Treasury Notes	1,997	2,000	1.63%	03/31/05	0.75
Commercial Paper	16,728	16,750	Discount	03/02/04-09/07/04	0.09
Negotiable Certificates of Deposit	3,500	3,500	1.08-1.26%	05/14/04-07/30/04	0.06
Repurchase Agreements	1,082	1,082	6.18%	07/01/04	15.13
Money Market Mutual Funds	17,714	17,714	Variable	07/01/04	0.00
	<u>\$ 61,309</u>	<u>\$ 61,368</u>			<u>0.36</u> *

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
<u>With Trustee:</u>					
<u>Restricted Investments with Trustee</u>					
U.S. Government Agencies	\$ 219,083	\$ 164,984	4.39-6.15%	08/20/04-09/01/16	13.60
U.S. Treasury Bonds	3,139	2,558	9%	11/15/18	14.38
U.S. Treasury Strips	8,821	6,281	0%	8/15/04-11/15/18	0.39
Guaranteed Investment Contracts	246,395	246,395	1.15-6.77%	11/1/05-07/02/26	8.49
Repurchase Agreements	218	218	0.86%	07/01/04	0.08
Money Market Mutual Funds	89,216	89,216	Variable	07/01/04	0.00
	<u>\$ 566,872</u>	<u>\$ 509,652</u>			<u>9.03</u> *

* Portfolio weighted average maturity

Interest Rate Risk

The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity of its Money Market Funds to less than 90 days and the Extended Fund to less than 18 months in accordance with the IPS. Of the \$2,634,714 County Pool and \$2,293,004 Educational Pool portfolio at June 30, 2004, over 77.28% and 84.41%, respectively of the investments have a maturity of six months or less. Of the remainder, only 11.40% and 9.5%, respectively, have a maturity of more than 1 year.

As of June 30, 2004, variable-rate notes comprised 14.38% and 9.74% of the County Pool and Educational Pool, respectively. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

At June 30, 2004, the weighted average maturity in years of the County Pool was 0.37 and the Educational Pool was 0.32. At the same date, the Net Asset Value (NAV) of the Money Market Funds for both pools was \$1.00 (in absolute dollar amount). The average daily investment balance of the County Pool and the Educational Pool amounted to \$2,640,000 and \$2,330,000, with an average effective yield of 1.27% and 1.20%, respectively, for the year ended June 30, 2004.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investments Disclosures (Continued)

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations (NRSROs). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term debt shall be rated no less than an "A." As of June 30, 2004, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's or F-1 by Fitch.

Concentration of Credit Risk

At June 30, 2004, the County did not exceed the IPS limitations that states that no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2004 (NR means Not Rated):

<u>Investments</u>	<u>S & P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<u>County Pool</u>				
U.S. Government Agencies	AAA	Aaa	AAA	23.28%
Bankers' Acceptances	A-1	P-1	F1	1.13%
Commercial Paper	A-1	P-1	F1	36.71%
Negotiable Certificates of Deposit	A-1	P-1	F1	16.24%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	5.16%
Corporate Notes	NR	Aa	AA	4.17%
Corporate Notes	AAA	Aaa	AAA	5.52%
Other Corporate Notes	AAA	Aaa	AAA	1.99%
Money Market Mutual Funds	AAA	Aaa	AAA	0.49%
Repurchase Agreements	NR	NR	NR	5.31%
Total County Pool				100.00%
<u>Educational Pool</u>				
U.S. Government Agencies	AAA	Aaa	AAA	36.42%
Bankers' Acceptances	A-1	P-1	F1	1.30%
Commercial Paper	A-1	P-1	F1	31.57%
Negotiable Certificates of Deposit	A-1	P-1	F1	10.68%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	5.23%
Corporate Notes	NR	Aa	AA	3.05%

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

<u>Investments</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
Corporate Notes	AAA	Aaa	AAA	4.60%
Other Corporate Notes	AAA	Aaa	AAA	2.25%
Money Market Mutual Funds	AAA	Aaa	AAA	1.41%
Repurchase Agreements	NR	NR	NR	3.49%
Total Educational Pool				100.00%
 <u>Specific Investments</u>				
U.S. Government Agencies	AAA	Aaa	AAA	33.09%
US Treasury Notes	AAA	Aaa	AAA	3.26%
Commercial Paper	A-1	P-1	F1	27.29%
Negotiable Certificates of Deposit	A-1	P-1	F1	5.71%
Repurchase Agreements	AAA	Aaa	AAA	1.76%
Money Market Mutual Funds	AAA	Aaa	AAA	28.89%
Total Specific Investments				100.00%
 <u>Restricted Investments with Trustees</u>				
U.S. Government Agencies	NR	Aaa	AAA	38.65%
U.S. Treasury Bonds	NR	Aaa	AAA	0.55%
U.S. Treasury Strips	NR	NR	NR	1.56%
Guaranteed Investment Contracts				
Investment Contracts	AAA	Aaa	AAA	27.21%
Investment Contracts	AAA	A	AAA	0.18%
Investment Contracts	AAA	A	AA	10.93%
Investment Contracts	NR	NR	NR	5.14%
Repurchase Agreement	AAA	Aaa	AAA	0.04%
Money Market Mutual Funds	AAA	Aaa	AAA	15.74%
Total Restricted Investments with Trustees				100.00%

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2004:

	<u>County Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<u>Statement of Net Assets</u>			
Net assets held for pool participants	\$ 3,236,689	\$ 2,258,978	\$ 5,495,667
Equity of internal pool participants	\$ 2,992,830	\$ --	\$ 2,992,830
Equity of external pool participants	243,859	2,258,978	2,502,837
Total Net Assets	<u>\$ 3,236,689</u>	<u>\$ 2,258,978</u>	<u>\$ 5,495,667</u>
<u>Statement of Changes in Net Assets</u>			
Net assets at July 1, 2003	\$ 3,112,298	\$ 2,013,487	\$ 5,125,785
Net change in investments by pool participants	124,391	245,491	369,882
Net Assets at June 30, 2004	<u>\$ 3,236,689</u>	<u>\$ 2,258,978</u>	<u>\$ 5,495,667</u>

4. CHANGES IN CAPITAL ASSETS

Increases and decreases in the County's capital assets for governmental and business-type activities during the fiscal year were as follows:

	Primary Government				Balance June 30, 2004
	Balance July 1, 2003	Increases	Decreases	Adjustment	
Governmental activities :					
Capital assets not depreciated:					
Land	\$ 475,695	\$ 5,372	\$ (19)	\$ --	\$ 481,048
Construction in progress	389,746	67,613	(39,012)	--	418,347
Total capital assets not being depreciated	<u>865,441</u>	<u>72,985</u>	<u>(39,031)</u>	<u>--</u>	<u>899,395</u>
Capital assets, depreciable					
Structures and Improvements	752,403	50,233	(7,625)	36,363	831,374
Equipment	302,584	16,273	(15,395)	31	303,493
Infrastructure:					
Flood Channels	877,440	--	--	--	877,440
Roads	87,313	--	--	--	87,313
Bridges	62,464	--	--	--	62,464
Trails	32,428	--	--	--	32,428
Traffic signals	9,933	--	--	--	9,933
Harbors and Beaches	34,520	--	--	--	34,520
Capital assets, depreciable	<u>2,159,085</u>	<u>66,506</u>	<u>(23,020)</u>	<u>36,394</u>	<u>2,238,965</u>
Less accumulated depreciation for:					
Structures and Improvements	(288,846)	(23,898)	3,607	(20,459)	(329,596)
Equipment	(193,894)	(22,375)	17,142	(1,948)	(201,075)
Infrastructure:					
Flood Channels	(164,566)	(8,907)	--	--	(173,473)
Roads	(48,303)	(3,576)	--	--	(51,879)
Bridges	(15,523)	(1,248)	--	--	(16,771)
Trails	(18,408)	(958)	--	--	(19,366)
Traffic signals	(5,658)	(608)	--	--	(6,266)
Harbors and Beaches	(18,178)	(871)	--	--	(19,049)
Total accumulated depreciation	<u>(753,376)</u>	<u>(62,441)</u>	<u>20,749</u>	<u>(22,407)</u>	<u>(817,475)</u>
Capital assets, depreciable (net)	<u>1,405,709</u>	<u>4,065</u>	<u>(2,271)</u>	<u>13,987</u>	<u>1,421,490</u>
Governmental activities total capital assets, net	<u>\$ 2,271,150</u>	<u>\$ 77,050</u>	<u>\$ (41,302)</u>	<u>\$ 13,987</u>	<u>\$ 2,320,885</u>

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4. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government				Balance June 30, 2004
	Balance July 1, 2003	Increases	Decreases	Adjustments	
Business-type activities:					
Capital assets not depreciated:					
Land	\$ 34,108	\$ --	\$ --	\$ --	\$ 34,108
Construction in progress	62,034	37,217	(28,689)	(7,725)	62,837
Total capital assets not being depreciated	<u>96,142</u>	<u>37,217</u>	<u>(28,689)</u>	<u>(7,725)</u>	<u>96,945</u>
Capital assets, depreciable					
Structures and Improvements	303,825	29,667	--	(732)	332,760
Equipment	47,026	3,982	(1,308)	--	49,700
Infrastructure	302,107	--	--	6,401	308,508
Capital assets, depreciable	<u>652,958</u>	<u>33,649</u>	<u>(1,308)</u>	<u>5,669</u>	<u>690,968</u>
Less accumulated depreciation for:					
Structures and Improvements	(125,262)	(11,985)	--	597	(136,650)
Equipment	(22,419)	(4,136)	1,277	--	(25,278)
Infrastructure	(112,374)	(13,624)	--	--	(125,998)
Total accumulated depreciation	<u>(260,055)</u>	<u>(29,745)</u>	<u>1,277</u>	<u>597</u>	<u>(287,926)</u>
Capital assets, depreciable (net)	<u>392,903</u>	<u>3,904</u>	<u>(31)</u>	<u>6,266</u>	<u>403,042</u>
Business-type activities total capital assets, net	<u>\$ 489,045</u>	<u>\$ 41,121</u>	<u>\$ (28,720)</u>	<u>\$ (1,459)</u>	<u>\$ 499,987</u>

Depreciation expense was allocated among functions of the primary government as follows:

Governmental activities:	
General Government	\$ 4,120
Public Protection	29,408
Public Ways and Facilities	9,259
Health and Sanitation	2,750
Public Assistance	3,941
Education	827
Recreation and Cultural Services	7,063
Internal Service Funds' depreciation expense allocated to various functions	<u>5,073</u>
Total governmental activities depreciation expense	<u>62,441</u>
Business-type activities:	
Airport	18,512
Waste Management	11,233
Total business-type activities depreciation expense	<u>29,745</u>
Total depreciation expense	<u>\$ 92,186</u>

5. RECEIVABLES

GASB Statement No. 38 requires identification of receivable balances not expected to be collected within one year. The details of the receivables reported in the government-wide Statement of Net Assets that are not expected to be collected within the next fiscal year are identified below:

Accounts Receivable

\$507 of accounts receivable for governmental activities is not expected to be received within the next fiscal year, which consists of \$87 to record underpayment of franchise fees, as well as various invoices and non-sufficient funds checks that remain in the accounts due to statute of limitation constraints.

Deposits Receivable

\$15,679 of deposits receivable for governmental activities is not expected to be received within the next fiscal year, and consists primarily of \$5,033 in deposits with the U.S. Army Corps of Engineers for the Santa Ana River Project and deposits of \$3,012 with John Wayne Airport for the Santa Ana Heights Acoustical Insulation Program. In addition, there is \$3,395 deposited with the California Department of Transportation (CALTRANS) for bridge construction on Laguna Canyon Road and \$3,202 deposited with Southern California Edison for the same project. The remaining \$1,037 represents various cash advances, service contracts, and deposits.

Notes Receivable

\$20,626 of notes receivable for governmental activities is not expected to be received within the next fiscal year. \$17,187 consists of loans to build affordable, low-income housing. Another \$1,812 is for construction of senior citizen housing, and the remaining \$1,627 is for other various sales and loans.

Loans Receivable

\$1,503 of loans receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$1,453 represents advances to the Dana Point Harbor operators. The remaining \$50 provides operating cash for Santa Ana River Prado Dam Property Management.

Due From Other Governmental Agencies

Of the \$264,444 due from other governmental agencies for governmental activities, \$102,314 is not expected to be received within the next fiscal year. This consists primarily of \$67,965 that the State of California owes to the County for various Senate Bill (SB) 90 mandated cost reimbursements for programs and services the State requires the County to provide. The State has deferred reimbursement to future fiscal years. The State Constitution requires reimbursement for these program costs, and interest will accrue on the reimbursement claims until they are paid. Another \$26,506 is due from the State for the motor vehicle license fee gap loan, which is required to be paid in FY 2006-07. In addition, \$1,287 is for property tax increments owed from the City of Yorba Linda arising from a contractual pass-through agreement between the County and the city's Redevelopment Agency. The other \$6,556 is comprised of various invoices to the State for a variety of County-related activities.

Of the \$3,388 due from other governmental agencies for business-type activities, \$21 relates to the SB 90 mandated cost reimbursements, and is not expected to be received within the next fiscal year.

6. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2004 is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General Fund	Roads	\$ 869	
	Public Library	10	
	Tobacco Settlement	5,644	
	Flood Control District	5,809	
	Harbors, Beaches, and Parks	2,791	
	Other Governmental Funds	11,383	
	Internal Service Funds	384	
	Fiduciary Funds	4,101	
	Airport	1,819	
	Waste Management	<u>3,752</u>	\$ 36,562
Roads	General Fund	79	
	Flood Control District	470	
	Harbors, Beaches, and Parks	169	
	Other Governmental Funds	72	
	Fiduciary Funds	285	
	Airport	<u>8</u>	1,083
Public Library	Other Governmental Funds	600	
	Internal Service Funds	29	
	Fiduciary Funds	<u>15</u>	644
Tobacco Settlement	Fiduciary Funds	<u>2</u>	2
Flood Control District	General Fund	128	
	Roads	506	
	Harbors, Beaches, and Parks	283	
	Other Governmental Funds	475	
	Fiduciary Funds	<u>481</u>	1,873
Harbors, Beaches, and Parks	General Fund	146	
	Roads	75	
	Flood Control District	145	
	Other Governmental Funds	4	
	Fiduciary Funds	92	
	Airport	<u>15</u>	477

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>		
Other Governmental Funds	General Fund	\$ 40,793	
	Roads	131	
	Flood Control District	50	
	Other Governmental Funds	3,767	
	Internal Service Funds	3	
	Fiduciary Funds	914	
	Airport	2	
	Waste Management	2	\$ 45,662
Airport	General Fund	113	
	Fiduciary Funds	64	177
Waste Management	General Fund	5	
	Roads	3	
	Flood Control District	5	
	Harbors, Beaches, and Parks	1	
	Fiduciary Funds	747	761
Internal Service Funds	General Fund	1,125	
	Roads	8	
	Public Library	24	
	Flood Control District	6	
	Harbors, Beaches, and Parks	10	
	Other Governmental Funds	12	
	Internal Service Funds	177	
	Fiduciary Funds	289	
	Airport	12	
Waste Management	13	1,676	
Fiduciary Funds	General Fund	71	
	Other Governmental Funds	33	
	Internal Service Funds	153	
	Fiduciary Funds		
	Unapportioned Tax and Interest Funds		
		710	967
	Total		\$ 89,884

Due From/To Primary Government and Component Unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component Unit – Children & Families Commission of Orange County	Fiduciary Funds – Agency Fund	\$ 289
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	\$ 320
Primary Government – Internal Service Funds	Component Unit – Children & Families Commission of Orange County	\$ 1

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

The receivable balance from the Fiduciary Funds of \$7,700 payable to the various Governmental Funds, Proprietary Funds, Fiduciary Funds and Component Unit primarily consists of \$4,556 in accrued interest recorded in the Unapportioned Interest Agency Fund at year-end. The majority of the remaining interfund balances resulted from the time lag between the time that (1) goods and services were provided to fiduciary funds, (2) the recording of those transactions in the accounting system, and (3) payments between the funds were made.

7. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from noncancelable operating leases with synthetic fuel corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2004, approximates \$55,965.

The County's General Fund, Flood Control District Fund, Harbors, Beaches, and Parks Fund, Airport Enterprise Fund and Waste Management Enterprise Fund lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2004 are as follows:

Fiscal Years	General Fund	Flood Control District	Harbors, Beaches, and Parks	Airport	Waste Management
FY 2004-2005	\$ 57	\$ 214	\$ 7,958	\$ 30,925	\$ 368
FY 2005-2006	39	133	6,954	16,532	175
FY 2006-2007	39	131	6,750	971	175
FY 2007-2008	38	131	6,409	878	175
FY 2008-2009	37	131	6,398	878	175
	<u>210</u>	<u>740</u>	<u>34,469</u>	<u>50,184</u>	<u>1,068</u>
FY 2009-2014	61	524	28,740	3,797	875
FY 2014-2019	--	137	24,176	267	875
FY 2019-2024	--	--	23,245	--	350
FY 2024-2029	--	--	21,899	--	--
FY 2029-2034	--	--	20,642	--	--
FY 2034-2039	--	--	18,498	--	--
FY 2039-2044	--	--	--	--	--
FY 2044-2049	--	--	--	--	--
	<u>61</u>	<u>661</u>	<u>137,200</u>	<u>4,064</u>	<u>2,100</u>
Total future minimum rentals	<u>\$ 271</u>	<u>\$ 1,401</u>	<u>\$ 171,669</u>	<u>\$ 54,248</u>	<u>\$ 3,168</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$3 (General Fund), \$60 (Flood Control District), \$155 (Harbors, Beaches, and Parks) \$23,089 (Airport) and \$42 (Waste Management) for the year ended June 30, 2004.

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		
<u>Governmental Funds</u>			
General Fund	Tobacco Settlement	\$ 17	
	Refunding Bonds and Recovery	66,301	
	COPS and Debt Prepayment		
	Other Governmental Funds	56,267	
	Internal Service Funds	<u>4,278</u>	\$ 126,863
Roads	Other Governmental Funds	<u>1</u>	1
Tobacco Settlement	General Fund	29,740	
	Other Governmental Funds	<u>12,100</u>	41,840
Refunding Bonds and Recovery	General Fund	697	
COPs and Debt Prepayment	Other Governmental Funds	<u>7,103</u>	7,800
Flood Control District	General Fund	3,303	
	Other Governmental Funds	<u>1</u>	3,304
Harbors, Beaches, and Parks	Other Governmental Funds	<u>158</u>	158
Other Governmental Funds	Airport	70	
	Waste Management	2	
	Internal Service Funds	8	
	General Fund	92,267	
	Public Library	600	
	Refunding Bonds and Recovery	111	
	COPS and Debt Prepayment		
	Harbors, Beaches, and Parks	14	
	Other Governmental Funds	<u>22,549</u>	<u>115,621</u>
Total Governmental Funds			<u>\$ 295,587</u>
<u>Proprietary Funds</u>			
Waste Management	General Fund	<u>\$ 12,227</u>	
Total Proprietary Funds			<u>\$ 12,227</u>

8. INTERFUND TRANSFERS (Continued)

Interfund transfers reflect a flow of assets between funds and component units of the primary government without equivalent flows of assets in return. Routine transfers were made in the current fiscal year to (1) relay cash/resources from contributing County funds to various debt service funds for the retirement of long-term obligations (2) to transfer Measure H Tobacco Settlement revenues, Available Cash Distribution and Public Safety Sales Tax Excess Revenues in compliance with the specific statutory requirements or Bankruptcy Recovery Plan, and (3) to transfer excess unrestricted revenues to finance various County programs based on budgetary authorizations by the Board of Supervisors. The details of the significant, routine transfers are outlined below:

Routine Transfers

- A total of \$97,495 was transferred out from the General Fund (\$78,364), the Refunding Bonds and Recovery COPs and Debt Prepayment Fund (\$7,103), and Other Governmental Funds (\$12,028) to the debt service funds in connection with debt service payments for the various County debt covenants.
- \$29,740 was transferred from the Tobacco Settlement Fund to the General Fund to finance various health care programs. The \$12,100 transferred to Other Governmental Funds was for the Theo Lacy Jail construction.
- \$3,303 was transferred to the Watershed Management program from the Flood Control District.
- \$12,227 in net proceeds and interest earnings from the Importation of Out-of-County Waste Program earned by Waste Management during the current fiscal year was transferred to the General Fund for Recovery COPs Lease Financing as part of the Bankruptcy Recovery Plan.
- As part of the Bankruptcy Recovery Plan, \$4,393 was transferred from the General Fund to the Plan of Adjustment Available Cash Fund in order to make the annual payments to the Option B Pool participants and to distribute available cash. The \$4,000 was transferred from Orange County Development Agency (OCDA) funds to the General Fund for the annual recovery contribution.
- \$31,392 was transferred from Other Governmental Funds to the General Fund for the reimbursement of various County programs as follows:
 - \$2,559 for capital projects and maintenance
 - \$28,833 for Sheriff Department programs and projects
- \$36,250 was transferred from the General Fund to the Other Public Protection group of funds for the annual transfer of Public Safety Sales Tax Excess Revenue.

In addition, the County had nonrecurring transfers in the current fiscal year, which consisted of the following:

- \$3,260 transferred from the General Fund to the Unemployment Insurance Fund for repayment of disbursements made during prior years for non-insurance related charges.
 - \$1,736 was transferred from the Real Estate Development Fund to the General Fund for the sale of assets and for rents and leases of certain General Fund assets.
 - \$1,345 was transferred from the Emergency Medical Services Fund (EMS) to reimburse the General Fund for EMS services.
 - \$2,651 was transferred from a Community Services Fund to the General Fund for the Community Health Nursing Program.
 - \$4,867 was transferred from the Facilities Development and Maintenance Fund to the General Fund to cover increased costs of IHSS provider wages and benefits.
 - \$29,700 was transferred from the Designated Special Revenue Fund to the General Fund to finance County Operations.
 - \$10,000 was transferred from the OCDA Santa Ana Heights 93 Bond Issue Fund to the OCDA Debt Service Fund to defease the outstanding 1993 Tax Allocation Revenue Bonds.
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9. LONG-TERM OBLIGATIONS

General Obligation Bonds Payable

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 2004, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$3,599,048.

Bankruptcy Recovery

On December 6, 1994, the County filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of approximately \$1,600,000 in losses to the County investment pool ("Pool"), which was recorded on the County's books and records for FY 1994-95 with approximately \$600,000 allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts, and special districts.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, various methods to raise funds, and State legislation ("Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

These monies, together with certain other County revenues will be used to satisfy the principal and interest payments on the Recovery Certificates of Participation ("Recovery COPs"). The Recovery COPs and Refunding Recovery Bonds ("Recovery Bonds") represent obligations of the County, payable from the General Fund. The enacted Recovery Statutes provide the Recovery COPs holders with statutory liens on part of the County's motor vehicle license fees (VLF) and certain sales tax revenues, and further permitted the County to elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the Recovery COPs. Beginning in 1998, State legislation reduced the amount of VLF paid by owners of automobiles in the State. The State previously made up the difference in VLF collected under reduced rates and the fees that would have been collected under the old fee formula with monies from the State general fund. However, beginning in July 2003, the State acted to triple the motor vehicle license fee. Following a successful recall, Governor Schwarzenegger rescinded the VLF increase and took action to backfill the County's VLF loss. In addition, state legislation reduced the sales tax attributable to the County by 0.25% and backfilled this revenue loss with property taxes. The backfilled property taxes are pledged to secure the Recovery COPs. With the passage of Proposition 1A in November 2004, VLF rates have been reduced. However, the Recovery COPs and Recovery Bonds will remain secured by a pledge and intercept of up to \$54,000 in VLF and an additional pledge of certain property tax revenues. For more information refer to Note 20, Subsequent Events.

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Recovery COPs and to pay the annual amount of \$800 plus interest due on Option B Pool Participant warrants. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was \$2,400; that amount has been reduced by the required annual amount of \$800, so that the remaining balance at the end of this fiscal year is \$1,600.

9. LONG-TERM OBLIGATIONS (Continued)

Bankruptcy Obligations

Refunding Recovery Bonds, Series 1995A

In June 1995, the County issued \$278,790 of 1995 Refunding Recovery Bonds ("1995 Recovery Bonds"). The 1995 Recovery Bonds are a General Fund obligation of the County and are being paid from VLF intercepted from the State Controller, to the extent that there are sufficient fees available for debt service. These VLF, if not used to pay debt service, would otherwise be received by the County General Fund. The 1995 Recovery Bonds were issued to refund obligations of the County in partial satisfaction of claims of certain Investment Pool participants pursuant to the Comprehensive Settlement Agreement between the County and such participants. In June 1998, the County spent \$31,335 from its Debt Repayment Reserve to purchase defeasance securities, which were placed in escrow to legally defease a portion of the 1995 Recovery Bonds. The outstanding principal balance of these bonds as of June 30, 2004 was \$225,870.

Recovery Certificates of Participation, Series 1996A

In June 1996, the County issued \$760,800 in the aggregate principal amount of its 1996 Recovery Certificates of Participation, Series A ("1996 Recovery COPs"). Proceeds of the 1996 Recovery COPs were applied to (1) provide funds for the payment of the claims of the holders of the County's 1994-95 Taxable Notes and 1994-95 Tax and Revenue Anticipation Notes (Series A and Series B), whose maturities were extended to June 30, 1996, and the payment of certain other claims and uses approved by the Bankruptcy Court, (2) refund \$124,700 of outstanding COPs executed and delivered on behalf of the County, (3) fund a reserve account for the 1996 Recovery COPs and two months of capitalized interest, and (4) pay costs associated with the delivery of the 1996 Recovery COPs. The 1996 Recovery COPs are general fund obligations of the County, secured by certain statutory liens and payable from an intercept of VLF, certain sales taxes and the County's portion of the Countywide Adjustment Amount, to the extent there are sufficient license fees, sales tax and Countywide Adjustment Amount funds available for debt service. These VLF and sales tax revenues from unincorporated areas of the County and the Countywide Adjustment Amount, if not used to pay debt service, would otherwise be received by the County General Fund. As of June 30, 2004, the outstanding principal balance of the 1996 Recovery COPs was \$607,790.

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, COPs representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the \$33,579 Refunding COPs (Civic Center Parking Facilities Project). The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation. At June 30, 2004, the outstanding principal amount of the Refunding COPs was \$11,604.

9. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements (Continued)

Tax Allocation Revenue Bonds, Series 1992A and 2001 (Neighborhood Development and Preservation Project)

In June 1992, the Orange County Financing Authority issued its \$28,082 1992 Tax Allocation Revenue Bonds, Series A (Neighborhood Development and Preservation Project) ("NDAPP Bonds"). The proceeds of the NDAPP Bonds were loaned to the Orange County Development Agency (OCDA) for use in connection with OCDA's Neighborhood Development and Preservation Project ("NDAPP Project"). Debt service on the NDAPP Bonds is secured by a pledge of the property tax increments, which OCDA receives, from property within the NDAPP Project.

In July 2001, OCDA issued its \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 ("NDAPP Refunding Bonds"). A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140 of the \$27,072 outstanding NDAPP Bonds. As of June 30, 2004, the outstanding principal amount of the current interest NDAPP Bonds was \$932, the accreted interest on the capital appreciation NDAPP Bonds was \$126 for the year then ended, and the outstanding principal amount of the NDAPP Refunding Bonds was \$24,727.

Lease Revenue Refunding Bonds, Series 2002 (Juvenile Justice Center Facility)

In May 2002, the Orange County Public Financing Authority (OCPFA) issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, in the principal amount of \$80,285, with a premium of \$3,164. The Lease Revenue Refunding Bonds were issued to (1) redeem the outstanding Refunding Certificates of Participation (Juvenile Justice Center Facility), (2) finance the acquisition of certain software and computer equipment for the general governmental purposes of the County, and (3) pay costs related to the issuance of the bonds, including bond insurance premiums.

The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2002, between the OCPFA and the County, and other amounts held by the Trustee in the funds and accounts established under the Indenture (other than the rebate fund), except as otherwise provided in the Indenture. As of June 30, 2004, the outstanding principal amount of the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002 was \$76,483.

Orange County Public Facilities Corporation Revenue Bonds (Master Lease Programs)

In February 1993, the County issued a Master Lease Equipment Obligation in the principal amount of \$24,780. This obligation is secured by base rental payments on the acquired equipment. This bond was paid off on September 3, 2003.

9. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements (Continued)

Tax Allocation Revenue Bonds, Series 1993 and Series 2003 (Santa Ana Heights Project Area)

In August 1993, OCDA issued \$57,965 Santa Ana Heights Project Area, 1993 Tax Allocation Revenue Bonds ("SAHP Bonds"). The SAHP Bonds were secured by property tax increment revenues received by OCDA attributable to the Santa Ana Heights Project Area. On November 13, 2003, OCDA issued \$38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project Area 2003 at a premium of \$1,660. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. As of June 30, 2004, the outstanding principal amount of the SAHP Bonds was \$0 and the outstanding principal amount, including the unamortized premium of the SAHP Refunding Bonds, was \$40,125.

Taxable Pension Obligation Bonds, Series 1994A, 1996A, and 1997A

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of \$209,840 and Series 1994B in the aggregate principal amount of \$110,200 ("Series 1994 Pension Bonds"). The Series 1994 Pension Bonds were issued to refund the County's obligation under a debenture issued in favor of the Orange County Employees' Retirement System (OCERS) to fund the County's unfunded actuarial accrued liability to OCERS. The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994 Pension Bonds, the "Pension Obligation Bonds"). As of June 30, 2004, the outstanding principal amount of the Series 1994A, 1996A and 1997A Pension Bonds were \$5,000, \$64,652 and \$47,120, respectively.

On May 11, 2000, a cash tender offer of certain outstanding Pension Obligation Bonds was completed. The County purchased and canceled \$288,290 (maturity value) of Pension Obligation Bonds for a cost of \$179,016. On June 22, 2000, the debt service on the outstanding Pension Obligation Bonds was provided for through the deposit with the trustee of \$175,492 principal amount of "AAA" rated debt securities issued by Fannie Mae along with \$9,151 in debt service funds already being held by the trustee. In accordance with irrevocable instructions, these securities, together with other cash amounts and investments held by the trustee will be used solely to retire the remaining Pension Obligation Bonds as they mature. Because this was an economic defeasance and not a legal defeasance, this debt will be reported in the County's financial statements until it is fully redeemed.

Teeter Plan Revenue Bonds, Series 1995A through E

In June 1995, the Orange County Special Financing Authority ("the Authority") issued in the principal amount of \$155,000 in taxable (1995 Series A - \$32,400) and tax-exempt (1995 Series B through E - \$122,600) Teeter Plan Revenue Bonds ("Teeter Bonds"). The Teeter Bonds are limited obligations of the Authority payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program, to be received by the Authority, the County and a trustee. The outstanding principal balance of the Teeter Bonds as of June 30, 2004 was \$123,725.

9. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements (Continued)

Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project)

In April 2001, the OCPFA issued in the principal amount of \$10,330 Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project), to (1) finance the acquisition and installation of certain telecommunications equipment for general governmental purposes, (2) fund a debt service reserve fund, (3) pay capitalized interest on bonds, and (4) pay costs related to the issuance of bonds. The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to an Equipment Lease, and other amounts held by the Trustee in the funds established under the Indenture. As of June 30, 2004, the outstanding principal amount of the Lease Revenue Bonds was \$7,660.

Airport Revenue Refunding Bonds, Series 1997 and 2003

In July 1987, the County issued in the principal amount of \$242,440 of Airport Revenue Bonds, Series 1987 ("1987 Bonds") to finance the construction of new facilities at John Wayne Airport. In July 1993, the County issued in the principal amount of \$79,755 of Revenue Bonds to partially refund the 1987 Bonds. In April 1997, the County completed a forward refunding of the majority of outstanding 1987 Bonds. The principal amount of the refunding was \$135,050. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410. On May 29, 2003, the County issued in the principal amount of \$48,680 of Revenue Bonds ("2003 Bonds"), the proceeds of which, together with certain monies deposited with the Trustee, refunded and defeased the 1993 Bonds. The outstanding principal amount of 1997 and 2003 Bonds as of June 30, 2004 was \$144,984. All Airport Bonds are secured on a parity basis by a pledge of net revenues of the Airport Enterprise Fund.

Waste Management System Refunding Revenue Bonds, Series 1997

In November 1997, the OCPFA issued in the principal amount of \$77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The Waste Management System Bonds are secured by a pledge of (1) the net operating revenues; (2) all money, securities and funds in the Waste Management Enterprise Fund that are required to be held or set aside therein for any purpose other than the payment of operating expenses pursuant to the terms of the sublease, but excluding any such money, securities and funds in the (i) closure account or any other fund or account required pursuant to state or federal law to be held in trust, (ii) environmental account in an amount not exceeding \$50,000, (iii) post-closure reserve account, or (iv) that were borrowed or received to pay capital costs and excluding any deposits or net incremental solid waste system revenues or any deposits that are required to be made in the rebate account; and (3) to the extent permitted by and in accordance with the procedures established under any applicable law, any rights of the County under any approvals, licenses and permits relating to the System. The outstanding principal balance of these bonds as of June 30, 2004 was \$56,398.

Advance Refunding

In prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2004, \$20,550 of legally defeased debt remains outstanding.

9. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year 2003-04 Debt Obligation Activity

During FY 2003-04, the following event concerning County debt obligations took place:

Tax Allocation Refunding Bonds, Series 2003 (Santa Ana Heights Project Area)

On November 13, 2003, OCDA issued in the principal amount of \$38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project Area 2003 at a premium of \$1,660. The proceeds of the bonds and other available monies were used to (1) refund and defease the outstanding 1993 Tax Allocation Revenue Bonds at a redemption price equal to 102% of the aggregate principal amount, (2) fund a reserve account for the new bonds, and (3) pay all the cost of issuing the bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,833. This difference is reported as a deferred amount on refunding of SAHP Refunding Bonds. The current year amortization amount for the deferred amount on refunding is \$46 leaving an ending balance of \$1,787. The refunding resulted in a reduction of debt service payments over the next 20 years by \$25,025 and obtained an economic gain of \$5,256. The SAHP Refunding Bonds are secured by a pledge of tax revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. As of June 30, 2004, the outstanding principal amount, including the unamortized premium of the SAHP Refunding Bonds, was \$40,125.

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2004 were as follows:

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
-------------	-------------------------	--	-------------	--------------------------	-----------------------------------

Governmental Funds:

**County of Orange Refunding
 Recovery Bonds - Series 1995 A:**

Date Issued: June 1, 1995
 Interest Rate: 5.0% to 6.50%
 Original Amount: \$278,790
 Maturing in installments through June 1, 2015. \$ 240,110 \$ -- \$ (14,240) \$ 225,870 \$ 15,165

**Orange County Public Facilities
 Corporation, 1996 Recovery
 Certificates of Participation - Series 1996 A:**

Date Issued: June 12, 1996
 Interest Rate: 4.20% to 6.00%
 Original Amount: \$760,800
 Maturing in installments through July 1, 2026. 633,450 -- (25,660) 607,790 26,965

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
<u>Orange County Public Facilities Corporation, Refunding Certificates of Participation (Civic Center Parking Facilities Project):</u>					
Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior December 22, 1987 bond issue					
Interest Rate: CIB - 4.40% to 6.75%					
Interest Rate: CAB - 6.85% to 7.05%					
Original Amount: CIB - \$24,495					
Original Amount: CAB - \$9,084					
Maturing in installments through December 1, 2018.					
	13,959	--	(2,355)	11,604	2,520
<u>Orange County Financing Authority Tax Allocation Revenue Bonds - Series 1992 A (Neighborhood Development and Preservation Project):</u>					
Date Issued: June 1, 1992 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior June 1, 1989 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.50% to 6.50%					
Interest Rate: CAB - 6.50% to 6.55%					
Original Amount: CIB - \$27,150					
Original Amount: CAB - \$932					
Maturing in installments through September 1, 2022.					
	932	--	--	932	332
<u>Orange County Development Agency Tax Allocation Refunding Bonds - Series 2001 (Neighborhood Development and Preservation Project):</u>					
Date Issued: July 11, 2001 - Current Interest Rate Bonds (CIB)					
To refund prior June 1, 1992 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.00% to 5.50%					
Original Amount: \$26,160					
Maturing in installments through September 1, 2022.					
	25,712	(20)	(965)	24,727	287
Deferred Amount on Refunding	(1,097)	55	--	(1,042)	(55)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
<u>Orange County Public Financing Authority</u>					
<u>Juvenile Justice Center Facility Lease</u>					
<u>Revenue Refunding Bonds - Series 2002:</u>					
Date issued: May 1, 2002, and delivered April 24, 2002, to refund the outstanding Refunding Certificates of Participation.					
Interest Rate: 3.00% to 5.375%					
Original Amount: \$80,285					
Maturing in installments through June 1, 2019.	80,173	(40)	(3,650)	76,483	3,771
Deferred Amount on Refunding	(3,500)	219	--	(3,281)	(219)
<u>Orange County Public Facilities</u>					
<u>Corporation Revenue Bonds</u>					
<u>Master Lease Program:</u>					
Date Issued: February 1, 1993					
Interest Rate: 3.40% to 5.50%					
Original Amount: \$24,780					
Maturing in installments through September 1, 2003.	1,605	--	(1,605)	--	--
<u>Orange County Development Agency</u>					
<u>Santa Ana Heights Project Area</u>					
<u>1993 Tax Allocation Revenue Bonds:</u>					
Date Issued: August 1, 1993 to refund prior September 1, 1987 bond issue					
Interest Rate: 3.25% to 6.20%					
Original Amount: \$57,965					
Maturing in installments through September 1, 2023.	49,560	--	(49,560)	--	--
<u>Orange County Development Agency</u>					
<u>Santa Ana Heights Project Area 2003</u>					
<u>Tax Allocation Refunding Bonds:</u>					
Date Issued: November 13, 2003 to refund prior August 1, 1993 bond issue					
Interest Rate: 2.00% to 5.25%					
Original Amount: \$38,465					
Maturing in installments through September 1, 2023.	--	40,125	--	40,125	1,658
Deferred Amount on Refunding	--	(1,787)	--	(1,787)	(92)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
<u>County of Orange Taxable Pension</u>					
<u>Obligation Bonds – Series 1994 A:</u>					
Date Issued: September 1, 1994					
Interest Rate: 6.15% to 8.21%					
Original Amount: \$209,840					
Maturing in installments through September 1, 2004.					
	9,000	--	(4,000)	5,000	5,000
<u>County of Orange</u>					
<u>Taxable Refunding Pension</u>					
<u>Obligation Bonds – Series 1996 A:</u>					
Date Issued: June 1, 1996 – Current Interest Rate Bonds (CIB)					
Date Issued: June 12, 1996 – Capital Appreciation Bonds (CAB)					
To refund prior September 1, 1994 bond issue.					
Interest Rate: CIB – 7.47% to 7.72%					
Interest Rate: CAB – 8.09% to 8.26%					
Original Amount: CIB - \$81,680					
Original Amount: CAB - \$40,000					
Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB).					
	64,652	--	--	64,652	--
<u>County of Orange</u>					
<u>Taxable Refunding Pension</u>					
<u>Obligation Bonds – Series 1997 A:</u>					
Date Issued: January 1, 1997 – Current Interest Rate Bonds (CIB)					
Date Issued: January 14, 1997 – Capital Appreciation Bonds (CAB)					
To refund a substantial portion of the September 1, 1994 bond issue.					
Interest Rate: CIB – 5.71% to 7.36%					
Interest Rate: CAB – 7.33% to 7.96%					
Original Amount: CIB - \$71,605					
Original Amount: CAB - \$65,318					
Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB).					
	47,120	--	--	47,120	--
<u>Orange County Special Financing Authority</u>					
<u>Teeter Plan Revenue Bonds -</u>					
<u>Series A through E:</u>					
Date Issued: June 1, 1995					
Interest Rate: Variable (Series A,B,C,D and E)					
Original Amount: \$155,000					
Maturing in installments through November 1, 2014.					
	123,725	--	--	123,725	--

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
<u>Orange County Public Financing Authority, Telecommunications Equipment Project Lease Revenue Bonds - Series 2001:</u>					
Date Issued: April 1, 2001					
Interest Rate: 4.00%					
Original Amount: \$10,330					
Maturing in installments through Dec 15, 2008.	9,020	--	(1,360)	7,660	1,415
Subtotal - Governmental Funds	1,294,421	38,552	(103,395)	1,229,578	56,747
<u>Enterprise Funds:</u>					
<u>Airport Revenue Refunding Bonds - Series 1997:</u>					
Date Issued: April 2, 1997 to refund \$131,490 of the 1987 Airport Revenue bond issue					
Interest Rate: 5.00% to 6.00%					
Original Amount: \$135,050					
Maturing in installments through July 1, 2012.	100,718	(210)	(8,110)	92,398	8,733
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(2,648)	769	--	(1,879)	(654)
<u>Airport Revenue Refunding Bonds - Series 2003:</u>					
Date Issued: May 29, 2003 to refund 1993 Airport Revenue bond issue					
Interest Rate: 2.50% to 5.00%					
Original Amount: \$48,680					
Maturing in installments through July 1, 2018	52,886	(300)	--	52,586	2,732
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	(10,827)	773	--	(10,054)	(1,304)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
<u>Orange County Public Financing Authority</u>					
<u>Waste Management System Refunding</u>					
<u>Revenue Bonds - Series 1997:</u>					
Date Issued: November 18, 1997 to refund \$77,445 of the OCPFC 1988 Certificate of Participation (Solid Waste Management System)					
Interest Rate: 4.375% to 5.75%					
Original Amount: \$77,300					
Maturing in installments through December 1, 2013.					
	60,663	(185)	(4,080)	56,398	4,467
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(3,780)	614	--	(3,166)	(621)
Subtotal - Enterprise Funds	<u>197,012</u>	<u>1,461</u>	<u>(12,190)</u>	<u>186,283</u>	<u>13,353</u>
Total	<u>\$1,491,433</u>	<u>\$ 40,013</u>	<u>\$ (115,585)</u>	<u>\$ 1,415,861</u>	<u>\$ 70,100</u>

Schedule of Long-Term Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by fund type on an annual basis:

Fiscal Year(s) Ending June 30	Enterprise Funds		Governmental Funds		Total
	Principal	Interest	Principal	Interest	
2005	\$ 15,060	\$ 10,085	\$ 57,077	\$ 73,107	\$ 155,329
2006	16,015	9,282	64,853	74,107	164,257
2007	16,880	8,403	65,141	71,206	161,630
2008	17,795	7,456	75,692	67,089	168,032
2009	18,790	6,458	64,766	63,433	153,447
2010-2014	91,570	16,136	314,448	315,999	738,153
2015-2019	20,190	2,612	307,109	223,754	553,665
2020-2024	--	--	171,517	86,325	257,842
2025-2029	--	--	110,040	10,159	120,199
Total	<u>196,300</u>	<u>60,432</u>	<u>1,230,643</u>	<u>985,179</u>	<u>2,472,554</u>
Add: Premium	5,082	--	5,045	--	10,127
Less: Deferred amount on refunding	(15,099)	--	(6,110)	--	(21,209)
Principal Payable, Net	<u>\$ 186,283</u>	<u>\$ 60,432</u>	<u>\$ 1,229,578</u>	<u>\$ 985,179</u>	<u>\$ 2,461,472</u>

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9. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2004 were as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Bonds and COPs Payable:					
Revenue bonds	\$ 287,282	\$ 38,465	\$ (57,140)	\$ 268,607	\$ 7,427
Certificates of participation	647,409	--	(28,015)	619,394	29,485
Pension obligation bonds	120,772	--	(4,000)	116,772	5,000
Recovery bonds	240,110	--	(14,240)	225,870	15,165
Add: Premium on bonds payable	3,445	1,660	(60)	5,045	36
Less: Deferred amount on refunding	(4,597)	(1,833)	320	(6,110)	(366)
Total Bonds & COPs Payable, Net	<u>1,294,421</u>	<u>38,292</u>	<u>(103,135)</u>	<u>1,229,578</u>	<u>56,747</u>
Interest on Capital Appreciation Bonds	62,108	11,447	--	73,555	--
Other long-term liabilities:					
Compensated employee absences payable	148,169	108,531	(110,601)	146,099	79,144
Arbitrage rebate payable	23	11	--	34	--
Pool participant claims	2,400	--	(800)	1,600	800
Capital lease obligations payable	58,233	18,142	(4,663)	71,712	4,402
Insurance claims payable	112,141	110,797	(95,104)	127,834	55,751
Total other long-term liabilities	<u>320,966</u>	<u>237,481</u>	<u>(211,168)</u>	<u>347,279</u>	<u>140,097</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 1,677,495</u>	<u>\$ 287,220</u>	<u>\$ (314,303)</u>	<u>\$ 1,650,412</u>	<u>\$ 196,844</u>
Business-type Activities:					
Bonds Payable:					
Revenue bonds	\$ 208,490	\$ --	\$ (12,190)	\$ 196,300	\$ 15,060
Add: Premium on bonds payable	5,777	--	(695)	5,082	872
Less: Deferred amount on refunding	(17,255)	--	2,156	(15,099)	(2,579)
Total Revenue Bonds Payable, Net	<u>197,012</u>	<u>--</u>	<u>(10,729)</u>	<u>186,283</u>	<u>13,353</u>
Other long-term liabilities:					
Compensated employee absences payable	4,516	3,653	(3,519)	4,650	2,165
Arbitrage rebate payable	31	57	--	88	--
Landfill site closure/postclosure liabilities	181,221	1,173	(9,737)	172,657	3,025
Total other long-term liabilities	<u>185,768</u>	<u>4,883</u>	<u>(13,256)</u>	<u>177,395</u>	<u>5,190</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 382,780</u>	<u>\$ 4,883</u>	<u>\$ (23,985)</u>	<u>\$ 363,678</u>	<u>\$ 18,543</u>

9. LONG-TERM OBLIGATIONS (Continued)

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2004 is \$146,099 compared with \$148,169 at June 30, 2003. The decreased balance is primarily due to a reduction in the number of employees, due in part to the hiring freeze on vacant positions. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

Special Assessment District Bonds

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular county tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County, the State, or any political subdivision thereof is pledged to the payment of the bonds. Assessment District Bonds represent limited obligations of the County payable solely from special assessments paid by property holders within each district. Accordingly, such obligations are not included in the accompanying basic financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facilities District. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund. Accordingly, such obligations are not included in the accompanying basic financial statements.

The County is acting as an agent of the assessment and community facilities districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because of the County's limited obligation in connection with special assessment district and community facilities district debt, related transactions are recorded as contributions and distributions within the Investment Pool Trust Fund.

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts, Community Facilities Districts and Service Areas" Capital Projects Fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 2004, amounted to \$765,089.

10. CONDUIT DEBT OBLIGATIONS

From 1980 through 2004 the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate-income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

10. CONDUIT DEBT OBLIGATIONS (Continued)

The bonds do not constitute an indebtedness or liability of the County and neither the County, the State of California nor any political subdivisions thereof are obligated in any manner for the repayment of the bonds and in no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements.

As of June 30, 2004, there were 91 series of bonds outstanding, with an aggregate principal amount payable of \$1,078,086.

11. LEASES

Commitments Under Operating Leases

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments:

<u>Fiscal Year Ending June 30</u>	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
2005	\$ 20,807	\$ 27,963	\$ 48,770
2006	12,222	27,084	39,306
2007	6,569	22,933	29,502
2008	3,459	22,319	25,778
2009	--	15,424	15,424
2010-2014	--	54,120	54,120
2015-2019	--	14,715	14,715
Total	<u>\$ 43,057</u>	<u>\$ 184,558</u>	<u>\$ 227,615</u>

Total rent expenditures for operating leases incurred for FY 2003-04 was \$48,312.

Capital Leases

The following is a summary of property leased under capital leases:

Land	\$ 13,810
Equipment	4,437
Less: Accumulated Depreciation	(1,541)
Structures and Improvements	73,291
Less: Accumulated Depreciation	(10,936)
Total	<u>\$ 79,061</u>

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2004:

<u>Fiscal Year Ending June 30</u>	
2005	\$ 10,520
2006	10,670
2007	10,059
2008	10,169
2009	10,327
2010-2014	35,169
2015-2019	23,199
2020-2024	13,936
2025-2027	1,910
Total minimum lease payments	125,959
Less: amount representing interest	(54,247)
Present value of net minimum lease payments	<u>\$ 71,712</u>

12. RESERVED FUND BALANCES/NET ASSETS

In the fund financial statements, governmental funds and certain fiduciary funds report reservations of fund balance/net assets for amounts that are not available for appropriation or are legally restricted for use for a specific purpose. In addition, the Board of Supervisors has established certain fund balance reserves for future purposes that are essentially designations of fund balances that represent tentative management plans that are subject to change. Fund balances at June 30, 2004 are reserved for the following purposes:

	General Fund	Roads	Public Library	Refunding Bonds & Recovery COPs and Debt Prepayment	Flood Control District	Harbors, Beaches, and Parks	Other Governmental Funds	Fiduciary Funds
Assets Not Available for Appropriations:								
Encumbrances	\$ 67,548	\$ 36,091	\$ 690	\$ --	\$ 17,788	\$ 10,750	\$ 16,035	\$ --
Long-term Receivables	1,719	--	--	--	--	--	13,870	--
Imprest Cash Funds	1,247	--	53	--	--	--	13	--
Employee's Retirement	--	--	--	--	--	--	--	9,653
Inventory of Materials and Supplies	295	91	--	--	210	106	400	--
Prepaid Costs	52	--	--	--	--	--	1,031	--
Land and Improvements Held for Resale	--	--	--	--	--	--	1,703	--
Debt Service	--	--	--	146,503	--	--	358,104	--
Private Purpose Trust	--	--	--	--	--	--	--	47,404
External Investment Pools	--	--	--	--	--	--	--	2,502,837
Fund Balances Reserved by Board of Supervisors for a Future Purpose:								
Equipment Replacement	--	10,144	--	--	484	1,757	--	--
Equipment Purchase (New)	--	--	--	--	--	--	1,413	--
Administration Fees	--	--	--	--	--	--	6,046	--
Loans	100	--	--	--	--	1,453	18,085	--
Land Purchase	--	--	--	--	17,946	70	--	--
Operations	200	--	--	--	--	--	21,245	--
Future Road Projects	--	57,667	--	--	--	--	--	--
Library Contingencies	--	--	2,017	--	--	--	--	--
Capital Projects	--	--	--	--	104,042	8,807	932	--
General Reserves	--	42	--	--	12,609	7,204	15,281	--
Cash Difference Funds	9	--	--	--	--	--	--	--
Contingencies	18,000	--	--	--	--	--	11,325	--
Revitalization Projects	--	--	--	--	--	3	12,250	--
Operations - Strategic Priorities	90,016	--	--	--	--	--	--	--
Reserved Fund Balances/Net Assets	<u>\$ 179,186</u>	<u>\$ 104,035</u>	<u>\$ 2,760</u>	<u>\$ 146,503</u>	<u>\$ 153,079</u>	<u>\$ 30,150</u>	<u>\$ 477,733</u>	<u>\$ 2,559,894</u>

General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves and interfund loans are used by the County to ensure that sufficient cash is available to meet operating needs each fiscal year until property tax revenues are received in December and April. General reserves are increased or decreased by the County Board of Supervisors as part of the annual budget process.

13. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require the Integrated Waste Management Department (IWMD) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, IWMD is required by GASB Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*", to report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

IWMD owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine – Active)
- Olinda Alpha (Brea – Active)
- Prima Deshecha (San Juan Capistrano – Active)
- Santiago Canyon (Orange – Closed in 2002)
- Coyote Canyon (Newport Beach – Closed in 1995)

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by IWMD. Santiago Canyon's lease with the Irvine Company was terminated in November 2002 and in return the Irvine Company donated the landfill valued at \$1,400 to the County of Orange. Coyote Canyon is owned by the Irvine Company and is under lease.

The total landfill closure and postclosure care liability at June 30, 2004 was \$172,657, of which \$9,923 is for remediation. The total liability represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date (35.60%), less actual costs disbursed related to both closure and postclosure of Santiago Canyon and Coyote Canyon landfills. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$160,306 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 2004 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board's regulations, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD, on an annual basis, sets aside cash for the FRB, Olinda Alpha, Prima Deshecha, and Santiago Canyon landfills into escrow funds held by the County. As of June 30, 2004, \$170,478 has been set aside for these costs and is included in the accompanying Proprietary Funds' Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. The State mandated formula under which these contributions are computed would provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure and postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

13. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS (Continued)

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities; acceptable and prohibited waste types; and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever operated by the County. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase. IWMD has completed preliminary environmental site assessments for the former refuse disposal stations. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2004, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund within governmental or business-type activities:

<u>Governmental Activities:</u>	<u>Project Title</u>	<u>Remaining Commitments</u>
General Fund		
	Juvenile Hall (60 bed expansion construction costs)	\$ 4,735
	Juvenile Hall (Replacement of three existing housing units)	15,009
	Sheriff-Coroner – Euro Helicopter Model AS350 B-2	2,289
	Subtotal	22,033
Roads		
	Foothill Circulation Phasing Plan	
	-Alton-Irvine Boulevard to Foothill Transportation Corridor	1,624
	Laguna Canyon Road	
	-State Route 73 to Interstate 405	18,721
	Subtotal	20,345
Flood Control District		
	Huntington Beach Channel	
	- Indianapolis to Adams	5,739
	- Atlanta to Indianapolis	2,309
	Subtotal	8,048
Other Governmental Funds		
	Theo Lacy Jail Construction	1,172
	Sewer Improvements	2,733
	Vehicles - Public Protection	1,311
	Subtotal	5,216

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

<u>Business-type Activities:</u>	<u>Project Title</u>	<u>Remaining Commitments</u>
Airport		
	Fire Station #33 Remodel	6,730
	Electric Generation Plant	2,461
	Airport Rescue & Fire Fighting Vehicle	1,024
	Subtotal	<u>10,215</u>
Integrated Waste Management		
	Frank R. Bowerman Phase VIIA Construction - Equipment Maintenance Facility	3,427
	Linda Lower East Drainage Channel Construction	1,396
	Prima Zone 1 & 4 Permits Design Master Plan Update	1,329
	Subtotal	<u>6,152</u>
	Total	<u>\$ 72,009</u>

In addition, The County is involved in the Santa Ana River (SAR) Mainstem Project. The SAR Mainstem Project is a major flood control project implemented and funded by the Federal Government - U.S. Army ("Government") and three local sponsors – the Orange County Flood Control District (OCFCD), San Bernardino County Flood Control District, and Riverside County Flood Control and Water Conservation District. A component of the initial project has been re-designated as the Prado Dam Project, which is being implemented and funded by the Government and OCFCD only through a separate project cooperation agreement (PCA). The purpose of the SAR Mainstem and Prado Dam Project ("Project") is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain, which is considered by the U.S. Army Corps of Engineers (COE) to constitute the worst flood threat west of the Mississippi River in terms of impacts to the population and property. The Project involves a combination of flood channel improvements and the constructing of new channels in Orange, San Bernardino and Riverside counties, construction of the new Seven Oaks Dam in San Bernardino county, construction of improvements and protection at the Santiago retention basin and along the creek, raising the existing Prado Dam and increasing its flood flow outlet gates and reservoir capacity, along with several environmental mitigation related studies, habitat restoration and protection activities, recreation amenities, and preservation of historical sites and records.

The COE's estimated combined cost of all project components is \$1,400,000, with the OCFCD's cost share estimated to be \$413,000 for acquisition of real property rights, relocation (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction. As of June 2004, the OCFCD has expended about \$232,000 on the Project. The construction of Seven Oaks Dam and most of the channel improvements in Riverside, San Bernardino and Orange counties have been completed. The relocation and protection of State Route (SR) 71 adjacent to Prado Dam (a joint OCFCD and Caltrans project) is complete. Construction to raise the Prado Dam embankments and install new outlet gates is underway. Construction of improvements and protection of SR 91 in the SAR Canyon is also underway. Several environmental mitigation studies and restoration and preservation projects are underway in all three counties. All property rights acquisition for the Seven Oaks Dam, along the lower SAR in Orange County up to Weir Canyon Road, are completed. Since approval of the PCA in February 2003, the OCFCD is actively acquiring property rights, subject to the availability of funding for the Project.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

The Project has been authorized by the State Legislature for reimbursement of up to 70 percent of the local sponsors' expenses through the State Flood Control Subvention Fund, administered by the Department of Water Resources (DWR). To date, the OCFCD has submitted \$137,000 in claims and received \$121,000 in reimbursements. An additional \$25,000 in claims have been or are in the process of being prepared for submittal to the DWR. Once a claim is reviewed and approved by the DWR, 90 percent of the eligible expenditures can be paid if funds are available, with the remaining 10 percent paid after an audit by the State Controller's Office. The County does not accrue these claim amounts as revenue due to the uncertainty of DWR eligibility approval and due to the typical lengthy review and audit completion time periods after claim submission.

At this time, the OCFCD will not have sufficient funds to meet its entire cost share obligation for the Project primarily due to the rapid escalation in real estate costs and due to relocations and mitigation expenses that were not initially or fully contemplated in the COE's estimates. Therefore, reimbursements on past expenses through the State Flood Control Subvention Program are critical for project completion.

15. SELF-INSURANCE

The County is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; salary continuance; and providing health benefits to employees, retirees and their dependents. The County has chosen to establish Internal Service Funds (ISFs) where assets are set aside for claim settlements and judgments associated with such losses.

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention. The Workers' Compensation Program ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to \$5,000. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance provides up to an additional \$40,000 in liability coverage. There have been no claims or settlements that exceeded the self-insurance threshold. Accordingly, no claims or settlements have been paid by the excess insurance.

Independent actuarial studies are secured annually for the Workers' Compensation and Property and Casualty Risk ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, and allocated loss adjustment expenses. Unpaid claim liabilities are calculated considering inflation, claims cost trends, including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Unpaid claims liabilities have been discounted at a rate of 1.25% to reflect anticipated future investment earnings.

All County departments and other governmental agencies authorized by the Board of Supervisors to participate in the Workers' Compensation ISF are charged for their pro rata share of costs based upon employee classification rates and claims experience. All County departments participate in the Property and Casualty Risk self-insurance program and are charged for their pro rata share based upon claims experience and budgeted positions. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controllers' Office for cost plan allocations.

15. SELF-INSURANCE (Continued)

The County has also established the Unemployment Insurance ISF, which covers all employees, and the County Indemnity Health Plans and Self-Insured Benefits ISFs, which provide health, dental and salary continuance for a portion of its employees. The County pays through the State of California the standard unemployment benefits. The health insurance coverage is up to \$2,000 for each covered employee or dependent.

Revenues of the ISFs, when combined with current reserves and future contributions, are expected to provide adequate resources to meet liabilities as they come due.

Changes in the balances of claims liabilities during the past two fiscal years for these self-insurance funds are as follows:

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 2002-03	71,705	21,453	11,581	104,739
Claims and Changes in Estimates	36,917	3,348	53,454	93,719
Claim Payments	(25,382)	(8,045)	(52,890)	(86,317)
Unpaid Claims, End of FY 2002-03	\$ 83,240	\$ 16,756	\$ 12,145	\$ 112,141
Claims and Changes in Estimates	39,754	9,180	61,863	110,797
Claim Payments	(27,232)	(8,219)	(59,653)	(95,104)
Unpaid Claims, End of FY 2003-04	\$ 95,762	\$ 17,717	\$ 14,355	\$ 127,834

The workers' compensation costs continue to increase due to mandated indemnity benefits, the impact of legislative and regulatory changes, and a trend in rising medical costs. In April 2004 Workers' Compensation reform legislation was approved to assist in reducing costs. Many of the measures within the legislation will not be implemented by the state until the early part of 2005, at which time costs should level or be reduced.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS

There are lawsuits and claims pending against the County, which arise during the normal course of business. To the extent the outcome of such litigation would result in probable loss to the County, any such loss would be accrued in the accompanying financial statements. The lawsuits and claims discussed below represent issues in which the financial loss to the County has been determined to be a potential liability by County Counsel.

Refuse Disposal Stations The County has operated various refuse disposal stations which it owned or leased, and at some of these stations methane gas has been detected on the property. The Local Enforcement Agency (LEA), the entity that regulates landfills, has directed the property owners to develop corrective action plans and propose long-term landfill gas remediation plans at the sites. Many of these sites are currently owned by different cities within the County, and these cities are either in the process of implementing or have started implementing the landfill gas mitigations required by the LEA. The cities, which currently own the sites have notified the County that it is their position that the County is responsible for control of the landfill gas on the sites. The County cannot estimate the cost to control the landfill gas. The costs, however, could be substantial. At this time no amount has been accrued. It is possible that the County could incur significant costs if the courts rule against the County. Listed below are those refuse disposal stations with potential claims or regulatory actions against the County.

- Sparkes Pit/Rains Disposal Station #18, City of Anaheim – Potential Litigation
- Coyote Canyon Landfill, The Irvine Company – Pending Litigation
- Forster Refuse Disposal Station #17, Private Owner – Potential Litigation
- Cannery Street Refuse Disposal Station #16, City of Huntington Beach – Notice of Intent to Sue
- San Joaquin Refuse Disposal Station #13, University of California, Irvine — Actively Negotiating Resolution

Barratt American Incorporated, et al., v. County of Orange (Orange County Superior Court Case No. 814037) Plaintiff alleges the County overcharged for building permit and inspection fees from 1999 through 2001 (and continuing) and impermissibly accumulated a surplus in Fund 113, the Building and Safety special revenue fund, which is used to account for building and safety permit fees, much of which plaintiff alleges was subsequently spent on impermissible items. Plaintiff seeks a variety of forms of relief, including injunctive, declaratory and monetary damages.

A second phase of trial took place on August 17, 2001. The court ruled that plaintiffs cannot challenge in state court an approximately \$2,500 allocation of investment pool loss approved by the United States Bankruptcy Court in the Orange County Bankruptcy proceedings. The court further ruled against the plaintiffs on their claim that the Office of Management and Budget A-87 controls the County's discretion on how to disperse the surplus. The court also ruled against the plaintiffs on their claim that the County cannot maintain a reserve balance in the surplus funds. At this time, it is not possible to reasonably estimate the likely outcome of the matter.

On March 26, 2001 and on July 1, 2003, plaintiff filed two new complaints (Orange County Superior Court Cases No. 01CC04025 and No. 03CC00235 respectively) against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaints are similar to the former complaint except that the new complaints challenge the enactment of a fee reduction ordinance enacted by the County early in 2001 and 2003. The County denies the allegations and intends to defend itself in court against the complaint. For Case No. 01CC04025, refer to Note 20, Subsequent Events. No trial date has been set for Case No. 03CC00235.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)

County of Orange v. Assessment Appeals Board No. 3 The County brought an action against County Assessment Appeals Board No. 3 over a ruling that the County Assessor unlawfully assessed a parcel of residential property. The issue is whether reductions in assessed value under Proposition 8 are permanent or temporary. If temporary, the Assessor may increase the assessment for a given year by more than 2% from the previous year's assessment up to the previously established base year value under Proposition 13, plus an annual inflation factor of up to 2%. If permanent, the Proposition 8 reduction establishes a new base year value, which limits the Assessor's ability to increase such value in subsequent years to up to 2% annually.

The Assessor contends that Proposition 8 reductions in assessments are temporary and when the assessed value of the property returns to pre-reduction value, the Assessor must return to using the base year value, adjusted for inflation, even if the increased assessment exceeds 2% of the prior year's reduced value.

On December 27, 2001, the Superior Court ruled that the County Assessor used an illegal assessment method in recapturing Proposition 13 values. The Court of Appeals reversed that ruling and held that the recapturing methodology was lawful. The California Supreme Court refused to hear the case. The appellate court ruling is now final.

Bezaire/Pool., et al.v. County of Orange On March 26, 2004, the Court of Appeal reversed the Superior Court ruling and held that the Assessor's reading of Proposition 13 was correct. The Court of Appeal agreed that declines in assessed values do not create new assessment base years for Proposition 13 purposes. Under Proposition 8's 1978 amendments to Proposition 13, assessors have reduced taxable values for real property where the property's market value is below its Proposition 13 value. Once the property's market value exceeds the Proposition 13 value, the Proposition 13 value again becomes the taxable value for the property. Renee M. Bezaire and Robert A. Pool, wife and husband, requested the Supreme Court to review the case, but on July 21, 2004, the Supreme Court denied the request for review and ruled in favor of the County. The case has been finalized.

William B. Bunker, etc., et al.v. County of Orange Plaintiff contends that the County has consistently violated the statute requiring the Assessment Appeals Board ("AAB") to hear and finally determine applications for change in property tax assessments within two years. According to the statute, if the applications are not finally determined by the AAB within two years, the taxpayers' opinions of value as stated in their applications must be adopted. The plaintiff seeks an order on behalf of himself and all similarly situated taxpayers whose applications were not finally determined within two years requiring that the County give notice to each of these taxpayers that they have overpaid their taxes. The taxpayers would then have one year to file a claim for property tax refunds.

The Court of Appeal reversed the trial court's ruling, which the County initially prevailed upon demurrer at the trial court level. The Court of Appeal held that the County is required to give notice under Revenue and Taxation Code section 1604(c). The Court of appeal subsequently denied the County's Petition for Rehearing on the issue of the court's opinion addressing Revenue and Taxation Code section 1604(e).

Since the amount of the liability depends upon the number of taxpayers entitled to notice, the number of taxpayers filing claims for refunds and the amount of such claims, the County is unable to estimate potential liability in this matter. However, the total liability to the County, including attorney's fees, could exceed \$2,000. The County's attorneys are currently in settlement discussions with plaintiff, and will be presenting a settlement proposal to the Board of Supervisors in the near future. An estimated \$2,000 liability has been accrued in the government-wide financial statements. The class settlement has been approved by the court and a claims administrator has been retained to handle claims.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)

Potential Fire Station Claims. Certain fire stations previously owned by the County were transferred to the Orange County Fire Authority (OCFA) in connection with OCFA's formation in March 1995. As part of the joint powers agreement forming OCFA, of which the County is a party, the County agreed to indemnify OCFA for certain claims and liabilities arising prior to OCFA formation.

OCFA has contacted the County regarding potential claims against the County arising out of possible contamination from motor vehicle fuels that leaked from underground storage tank systems at nine fire stations. OCFA claims are currently tolled until February 2007 under tolling agreements with the County. In addition, an abutting landowner at one of the stations has threatened litigation alleging that contamination from leaking storage tank systems has migrated to the abutting property.

Although the County may face liability for contamination from underground storage tanks at fire stations, and the potential liability may be substantial, the County assessment of the potential claims is in the preliminary stages, making accurate quantification of potential liability, if any, difficult. With regard to the potential third-party claim, the County has not been provided sufficient access to the abutting property to permit an adequate assessment of the potential contamination.

17. OTHER CONTINGENCIES

In addition to the accrued liabilities for self-insurance claims incurred but not reported and other litigation and claims described previously, the County is also a defendant in numerous other lawsuits and claims arising from, among other things, breach of contract and tax disputes. Although the aggregate amount asserted in such lawsuits and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or changes in financial position of the funds of the County.

As the owner and operator of a number of landfill sites, the County has potential exposure to environmental liability. IWMD may be required to perform corrective action at any of its current or former refuse disposal stations, even if the County no longer owns the site. IWMD has completed preliminary environmental site assessments for the former refuse disposal stations. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

Grant monies received from federal and state sources are subject to audit by these agencies to determine whether expenditures are in compliance with the respective grant provisions. County management does not believe that a material liability will result from these audits. However, there is currently an outstanding issue related to federal funding that could have an impact on the County's Health Care Agency (HCA).

HCA is currently under investigation by federal authorities for potential civil fraud and False Claims Act violation in connection with its Medicare billings for mental health services. The investigation is being directed by the United States Attorney's Office for the Central District of California, working in conjunction with Office of the Inspector General for the Department of Health and Human Services ("OIG"). The County believes that the investigation focuses on HCA's Medicare billing practices from 1990 through 1999, and that the investigators believe that HCA may have made numerous false claims on its Medicare bills during that period and may have submitted false claims for physician services that were not rendered by physicians.

17. OTHER CONTINGENCIES (Continued)

HCA is currently engaged in settlement discussions with the federal government, which are ongoing. No civil lawsuits have been filed by the federal government in connection with the investigation. Because no civil lawsuits have yet been filed in this investigation, and because the issues in this matter involve complex and disputed issues of fact and law, it is difficult to estimate any likely penalties and/or other costs that the County may be required to pay and no amounts have been accrued in the basic financial statements.

18. RETIREMENT PLANS

Orange County Employees Retirement System (OCERS)

Plan Description Substantially all County employees participate in the Orange County Employees Retirement System ("OCERS," or the "System"), a cost-sharing multiple-employer public employee retirement system established in 1945 by the voters of Orange County under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the System and account for approximately 17% of the active and retired System membership. All together there are 16 employers in the System.

OCERS provides for retirement, death, disability, and cost-of-living benefits, and is subject to provisions of the County Employees' Retirement Law of 1937 and other applicable statutes. Members employed after September 20, 1979, are designated as Tier II members. Members employed prior to September 21, 1979, are designated as Tier I members; the establishment of Tier II resulted in a reduced allowance beginning at age 50. The retirement allowance is based upon the member's age at retirement, final compensation, and the total years of service under the System. Terminated employees may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

OCERS is governed by a Board of Retirement consisting of nine regular and one alternate member. Four Retirement Board members are appointed by the Board of Supervisors, three members plus one alternate are elected from active County employees, one member is elected from retirees, and the County Treasurer-Tax Collector is a statutory member. OCERS issues a stand-alone annual financial report each year ending December 31. OCERS' annual financial report can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701 or by calling (714) 558-6200.

Funding Policy In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. For FY 2003-04, employer's contributions, as a percentage of covered payrolls, were 9.15% for General members, 37.87% for Safety-Law Enforcement members and 8.57% for Safety-Probation members. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members.

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Funding Policy (Continued)

For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. Effective June 28, 2002, for Tier I and II Safety members, the rate of contribution is calculated to provide an annuity equal to 3/100 of the member's "final compensation" for each year of service rendered at age 50. Probation Services employees were granted safety retirement status by the Board of Supervisors as of June 28, 2002 and will earn benefits under a 2/100 at 50 formula for service after that date. On or after June 10, 2005, Probation Service employees will earn benefits under a 3/100 at 50 benefits formula. Refer to Note 20 (Subsequent Events) for updated information on retirement benefits. The Pension Liability or Asset at transition was calculated in accordance with the provisions of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," and was zero at transition and the effective date.

According to OCERS' financial report for the year ended December 31, 2003, the County's 2003 contribution represented 83% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued \$320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to fund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account ("Investment Account") with the POB proceeds in the amount of \$318,300. For FY 1995-96 the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The 1996 agreement provided for the Investment Account to be used to fund the County's entire employer contribution in a decreasing percentage each year. In August 2002, the System Retirement Board and the Board of Supervisors approved a new agreement that gives the County complete discretion, subject to a notice requirement, over how much of the total annual retirement contribution will be paid from the Investment Account. The balance of the Investment Account on June 30, 2004, after draws of \$33,309 in 2003-04 to pay for part of the County's annual retirement contribution and credits for market returns, was \$146,753.

Because of a large increase in the Unfunded Actuarial Accrued Liability, the County's cash contribution was \$114,847, approximately 78% of the total required. The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/02	\$ --	\$ 38,322	\$ 38,322	100%
06/30/03	59,801	37,804	97,605	100%
06/30/04	114,847	33,309	148,156	100%

18. RETIREMENT PLANS (Continued)

County of Orange 401(a) Plan

Plan Description Effective January 1999, as amended and restated on March 1, 2002, the County established the County of Orange 401(a) Plan for the benefit of eligible employees, including members of the Board of Supervisors, certain executive managers, administrative managers included in the Executive Policy Unit, attorneys represented by the Orange County Attorney's Association and certain other employee classifications as defined in the plan document. The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2004, the plan has 704 participants.

Funding Policy This plan is a defined contribution plan funded entirely by employer contributions. County contributions to the plan vary according to employee classification and range from \$100 per month to 6% of bi-weekly compensation. Additional County contributions equal to 1.5% of compensation are made on behalf of certain employees electing not to participate in OCERS. Total contributions for the year ended June 30, 2004, were \$1,035 by the County and zero by the employees. A third-party custodian holds all plan assets in trust. Plan participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2004, the value of plan assets was \$3,182.

Extra Help Employees

The County provides retirement plans for extra-help employees and part-time employees working less than 20 hours a week. The plans were adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of these plans are not covered by OCERS. There are currently two active plans for employees in this category. The Defined Benefit Retirement Plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. The Extra Help Employee Deferred Compensation Plan replaced the Defined Benefit Retirement Plan and was effective for new employees hired on or after March 1, 2002.

Defined Benefit Retirement Plan

Plan Description The plan is a single-employer defined benefit retirement plan for employees performing services based on less than half-time or as extra-help. The normal retirement benefits for a participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday. The County Board of Supervisors has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

The plan was closed to new participants as of February 28, 2002. As of June 30, 2004, the plan consists of 331 active plan participants, 1,653 terminated plan participants entitled to but not yet receiving benefits, and 15 retirees receiving benefits.

18. RETIREMENT PLANS (Continued)

Defined Benefit Retirement Plan (Continued)

Plan Description (Continued)

The plan financial statements are prepared using the accrual basis of accounting. Plan participant and County contributions are recognized in the period in which contributions are due, as required by statutory or contractual agreements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan. The employee contributions are recognized when due, pursuant to the plan documentation.

Investments are reported at fair value as further described in Note 1.F and are fully invested in the County Pool as described in Note 3. The plan has not issued separate stand-alone financial statements.

Funding Policy Plan participants are required to contribute between 2.5 and 7.5 percent of their annual covered compensation based upon their attained age as of January 1 of each calendar year. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, there have been no County contributions. The annual required contribution is equal to:

- Normal cost
- Minus employee contribution
- Plus 30-year amortization of the unfunded actuarial accrued liability

The County charges a benefits administration fee to County agencies, which fund the cost of administering all of the County benefit programs, including the Extra Help Defined Benefit Retirement Plan. The County Treasurer charges its normal investment management fee related to the Pension Trust Fund's participation in the County Pool.

Annual Pension Cost GASB Statement No. 27 requires the County to have an actuarial valuation performed at least biennially to determine the plan's annual pension cost. For this June 30, 2004 disclosure, the plan's annual pension cost was calculated using the data and assets as of June 30, 2004 and the methodologies set forth in the July 1, 2004 actuarial valuation report.

The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is the total of (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the unfunded actuarial liability. Based on the July 1, 2003, interest on the net pension obligation is \$24.

18. RETIREMENT PLANS (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

For the fiscal year ended June 30, 2004, the County's annual required contribution was \$336. The required contribution was determined as part of the July 2003 actuarial valuation report, which used the traditional (unprojected) unit credit actuarial cost method. The actuarial assumptions included (a) 5.5% investment return (net of administrative expenses), (b) the 1983 Group Annuity Mortality table for Males and Females, and (c) projected annual salary increases of 4% a year (used to project future payroll only). Both (a) and (c) include a 3.75% annual inflation component. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years.

Orange County Defined Benefit Retirement Plan
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/00	\$ 2,666	\$ 3,750	\$ 1,084	71.1%	\$ 18,920	5.7%
06/30/01	\$ 3,419	\$ 4,149*	\$ 730	82.4%	\$ 19,676	3.7%
06/30/02	\$ 4,121	\$ 7,035	\$ 2,914	58.6%	\$ 24,192	12.0%
06/30/03	\$ 4,655	\$ 8,137**	\$ 3,482	57.2%	\$ 25,160***	13.8%
06/30/04	\$ 4,707	\$ 8,124	\$ 3,417	57.9%	\$ 9,306	36.7%

*June 30, 2001 Actuarial Accrued Liability based on June 30, 2000 valuation results rolled forward one year

**June 30, 2003 Actuarial Accrued Liability based on June 30, 2002 valuation results rolled forward one year.

***June 30, 2003 covered payroll is based on June 30, 2002 valuation results rolled forward one year using salary scale assumption of 4.0%

Schedule of Employer Contributions

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	\$ 2	0%	\$ 28
2001	\$ 73	0%	\$ 101
2002	\$ 65	0%	\$ 166
2003	\$ 275	0%	\$ 441
2004	\$ 330	0%	\$ 771

18. RETIREMENT PLANS (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

The annual pension cost and net pension obligation for the current year were as follows:

	06/30/03	06/30/04
Annual required contribution	\$ 277	\$ 336
Interest on net pension obligation	9	24
Adjustment to annual required contribution	(11)	(30)
Annual pension cost	275	330
Contributions made	--	--
Increase in net pension obligation	275	330
Net pension obligation, beginning of year	166	441
Net pension obligation, end of year	441	771

Note: The three preceding schedules include information determined as part of the actuarial valuations at the dates indicated.

Extra Help Deferred Compensation Plan

Plan Description On March 1, 2002, the County adopted a Defined Contribution Plan, the Extra Help Employees Deferred Compensation Plan, to replace the Defined Benefit Retirement Plan for extra-help employees and part-time employees working less than 20 hours per week. This plan is a tax-deferred retirement plan, established in accordance with Internal Revenue Code sections 457 and 3121 and is intended to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS. As of June 30, 2004 there were 1,175 participants in the plan.

The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return.

If a participant's employment status changes from a part-time or extra-help employee to a permanent full-time employee, or a part-time employee working 20 hours or more per week, those participants may elect to transfer the balance to the County's Deferred Compensation Plan or leave the balance in the plan until they are no longer employed with the County.

Funding Policy Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in a stable value fund offered through GWFS Equities, Inc. (formerly BenefitsCorp Equities, Inc.), which is designed to protect principal and maximize earnings. There is no additional contribution made by the County. Total contributions for the year ended June 30, 2004, were \$680 by the employees and zero by the County.

Annual Pension Cost There are no separate recordkeeping or administrative fees charged to the participants. The investment management fee charged by GWFS Equities, Inc. for the stable value fund is deducted from the interest earnings each quarter as a percentage of the interest rate credited.

19. POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description Eligible retired County employees receive a monthly grant which offsets the cost of monthly health plan premiums. The grant amount is determined by a formula which multiplies a set base number by the number of years of County employment (up to a maximum of 25 years) resulting in a monthly grant amount. The set base number for calendar year 2004 is \$14.92 (in absolute dollar amount). Therefore, the maximum monthly grant amount for calendar year 2004 is \$373 (in absolute dollar amount). The set base number is adjusted annually based on a medical inflation index, with a maximum increase of five percent. Retired employees pay for health plan premiums which exceed their grant amount, if any. For FY 2003-2004, the Plan contributed \$14,180 in Retiree Medical Grants for retiree health premium costs.

The County of Orange Board of Supervisors approved the post employment health care benefits on August 1, 1993 for retired employees meeting the eligibility requirements set forth within the Retiree Medical Plan Document (the Plan).

Funding Policy The Plan is currently funded by a combination of current employees' 1% payroll deduction and funds set aside and identified within the Orange County Employees Retirement System (OCERS). The source of the funds within OCERS is investment earnings that exceed the assumed actuarial rate of return. Currently, there are no direct County contributions toward this plan. Due to several years of realized gains on OCERS' assets of less than the assumed actuarial rate of return, excess reserves have been depleted and a fund set aside for interim funding of the Plan, the Retiree Member Benefit Reserve (RMBR), is being used for that purpose.

Revised Agreement In August 2004, the County of Orange Board of Supervisors and the OCERS Board approved an amended and restated Additional Retiree Benefit Account (ARBA) agreement (the Agreement) which, among other things, revised the funding of the Plan in cases when excess reserves from OCERS are not available. Under the new Agreement, if the funding level for RMBR is less than the projected two years' funding level, and there are no excess reserves in OCERS, the County will increase retirement rates to the lesser of the amount required to bring RMBR to a two year funding level or one percent of General Fund payroll.

Actuarial Valuation In August 2004, the County received an actuarial valuation for Post Employment Medical Benefits ("the Report") from an outside consultant. Information contained in the Report was not intended to be used for financial reporting under the provisions of GASB Statement No. 45, as different actuarial assumptions and or methods may be appropriate (Refer to Note 1.P for additional information on GASB Statement No. 45). One of the assumptions of the Report was that there would never be excess earnings in OCERS which would offset the cost of the Plan. Also, included in the liabilities for retiree medical benefits is the value of the subsidy provided to retirees by extending medical benefits to retirees at the same rate charged to active employees. The estimate is that retiree premiums would be 43% higher if retirees were not in the County group medical coverage plans. The total estimated actuarial liability is \$1,300,000.

19. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Retiree Medical Benefit Liabilities are as follows:

	Number	Actuarial Liability for Past Service
Current Retirees	5,205	\$ 452,023
Actives Eligible to Retire	3,943	435,385
Other Actives	14,155	441,591
Total	23,303	\$ 1,328,999

	Severance Benefit	Retire Medical Benefit	Total Retiree Medical Program
Actuarial Liability for Past Service	\$ 15,095	\$ 1,328,999	\$ 1,344,094
Plan Assets	15,095	87,162	102,257
Unfunded Liability for Past Service	\$ -	\$ 1,241,837	\$ 1,241,837

Total Annual Cost	\$ 2,167	\$ 99,941	\$ 102,108
-As level percent of pay over 30 years			

County Plans For the Future In August 2004, the Board of Supervisors directed County staff to form a Retiree Medical Insurance Panel to address the variety of issues concerning the Plan, including the current structure of the program and associated costs. For the immediate future, the County intends to fund the Plan on a pay-as-you-go basis.

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2004:

State of California Budget Impact on County of Orange

The Governor signed the FY 2004-05 State Budget on July 31, 2004. The spending plan addresses budget shortfalls through program savings, borrowing, funding shifts, and local government contributions. The State's combined FY 2002-03 and FY 2003-04 year-end deficits will be paid for beginning in FY 2004-05 by a sales tax-property tax swap known as the "triple flip." The State sales tax will be raised by one-quarter cent dedicated to paying off the State's Economic Recovery Bonds, authorized for a total of \$15,000,000, which were issued to pay off the State's debt. This increase will be offset by repealing the one-quarter cent portion of the sales tax dedicated to local government. The lost sales tax to local government will be replaced with property taxes (the "Countywide Adjustment Amount") equal to the lost sales tax revenue. Since the County's portion of sales tax is pledged to the repayment of the Recovery COPs, Assembly Bill 296 (Chapter 757, Statutes of 2003) amended the applicable Government Code provisions, adding the Countywide Adjustment Amount as security for the Recovery COPs. For more information on the Recovery COPs refer to Note 9, Long-Term Obligations.

20. SUBSEQUENT EVENTS (Continued)

State of California Budget Impact on County of Orange (Continued)

Other legislation passed as part of the State Budget process, along with Proposition 1A, an initiative State Constitutional amendment passed by the voters on November 2, 2004, provides for the following local government financing impacts:

- A reduction in the VLF rate from 2.00% to 0.65%.
- A swap of county and city VLF revenues for property taxes, equal to the difference between the VLF rate of 2.00% and 0.65% with a revenue-neutral impact on cities and counties. An allowance of \$54,000 for continuing Orange County's share of intercepted VLF dedicated to the debt service on the Recovery COPs and Recovery Bonds was included in the legislation. (See Note 9, Long Term Obligations).
- A two-year shift of property taxes from counties, cities, redevelopment agencies, and special districts to school districts to partially reduce the State's General Fund deficit, in the total Statewide amount of \$1,300,000 for each of fiscal years 2004-05 and 2005-06. The estimated impact on the Orange County General Fund from this tax shift is around \$27,731 for each of the fiscal years 2004-05 and 2005-06. The County has incorporated this revenue decrease, as well as shift amounts for the County's redevelopment agencies and dependent special districts, in the final budget for fiscal year 2004-05.
- New Constitutional restrictions on the State's ability to impose unfunded mandates and limits the State's ability to reduce County revenues in the future.

With regard to other revenue and program spending impacts, the County adopted the impacts of the State's final adopted FY 2004-05 budget.

Barratt American Incorporated, et al., v. County of Orange

On October 1, 2004, Barratt American Incorporated filed a new complaint (Orange County Superior Court Case No. 04CC001664) against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaint is similar to the former complaints reported in Note 16, Estimated Liability for Other Litigation and Claims, except that the new complaint challenges the enactment of a fee ordinance enacted by the County in 2004. The County denies the allegation and intends to defend itself against the complaint in court. At this time, it is not possible to reasonably estimate the likely outcome of the matter. The Court has not yet set a trial date.

On November 19, 2004, trial concluded for Cases No. 814037 and No. 01CC04025. The County is awaiting the trial court's decision, and at this time, it is not possible to reasonably estimate the likely outcome of the matter. For more information, refer to Note 16.

Retirement

On August 24, 2004, the Board of Supervisors adopted a change in retirement benefits for the general members of the Orange County Employees Retirement System (OCERS), excluding those employees represented by the American Federation of State, County and Municipal Employees (AFSCME).

20. SUBSEQUENT EVENTS (Continued)

Retirement (Continued)

The benefit, which will become effective July 1, 2005, is funded through ongoing employee payroll deductions (beginning June 24, 2005) and an offset to County expenses in the form of significant health care changes, which result in higher costs to the employee and lower costs to the County. The health care benefits are effective January 1, 2005. Additionally, the Attorney Unit will reduce the amount of the Attorney Optional Benefit Plan amount beginning January 2005 and the employer contribution to the Attorneys 401(a) plan will cease in June 2005.

The amount of contribution for employees in each bargaining unit and for the unrepresented employees varies, as set forth in the Memorandum of Understanding (MOU) and the Personnel and Salary Resolution (PSR) Amendments. The percentage of pay contributions by bargaining unit, combined with Health Plan savings, cover the annual costs of implementing retirement formula changes.

In addition, the MOUs set forth the intent of the parties that the change is without additional cost to the County. The MOUs confirm that payments continue on past the expiration date of the contracts and are intended to cover the 30-year amortization period. Annual review of the benefit and its associated costs and consideration of future contribution levels are also part of the agreements. Refer to Note 18 for more information on the County's retirement plans.
