

County of Orange
 Comprehensive Annual Financial Report
 For the Year Ended June 30, 2004

The “net change in fund balances” for governmental funds of \$25,824 in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances differs from the “change in net assets” for governmental activities of \$180,085 reported in the government-wide Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

Net change in fund balances – total governmental funds	\$	25,824
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When capital assets used in governmental activities are purchased or constructed in the current fiscal year, the resources expended for those assets are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. In addition, donations, transfers, sales and other disposals/acquisitions of capital assets are not reported in governmental funds. These assets, and their associated depreciation expense, must be reported or removed in the government-wide financial statements.

	31,745
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The payment of principal on long-term debt or the payment of other long-term liabilities is reported as an expenditure in the governmental funds because current financial resources have been consumed. Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. These transactions do not have any effect on net assets in the government-wide financial statements. The details of the \$71,834 principal and other long-term liability payments and other financing source are as follows:

Principal and other long-term liability payments:		
Bonds payable	\$ 103,395	
Deferred amount on refunding	1,833	
Option B pool participant claims	800	
Capital lease obligations	4,663	
Arbitrage rebate payable	(11)	
Proceeds from issuance of bonds payable, net of bond premium and bond issuance cost	<u>(38,846)</u>	71,834

Revenues related to prior years that are available in the current fiscal year (i.e. property taxes) are reported as revenues in the governmental funds. In contrast, revenues that are earned, but unavailable in the current year are deferred in the governmental funds. For government-wide reporting purposes, the changes in the deferred revenue accounts are analyzed to determine the revenues on a full accrual basis. The details of this \$60,489 difference are as follows:

Government mandated and voluntary nonexchange revenues earned in FY 03-04	62,488	
Property tax revenues levied in FY 03-04 but not available	<u>(1,999)</u>	60,489

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
(Dollar Amounts in Thousands)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The details of this \$13,121 difference are as follows:

Accrued interest expense on bonds payable	(21,370)	
Reversal of prior year's interest expense accrual	22,712	
Amortization of deferred charges	(373)	
Compensated employee absences expense	2,274	
Pension costs and amortization of the County's investment account with OCERS	(2,917)	
Accrued litigations and claims expense	(2,000)	
Interest accretion on capital appreciation bonds	<u>(11,447)</u>	(13,121)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telephone services, to individual governmental funds. The loss of Internal Service Funds is eliminated in the Statement of Activities as an adjustment to the various functions to arrive at a break-even basis. Also, general or non-program revenues and expenses of the Internal Service Funds are recorded in governmental activities.

	<u>3,314</u>
Change in net assets of governmental activities	<u><u>\$ 180,085</u></u>
