

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 (the Board), 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 (GAAP) in the United States of America, 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 Board 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 the OC Community Resources 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.

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. Please refer to Note 11, Long-Term Obligations, which discusses the retirement of the Teeter Bonds and consequently the elimination of separate financial statements by the bondholders. 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 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 Board 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 Board. 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 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, or by accessing Orange County's website at <http://www.ac.ocgov.com/finrpt.asp>.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" 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 the legally separate component unit, Children and Families Commission of Orange County, 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 debt is 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:

- 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, net of depreciation.
- 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. All of the County's net asset restrictions are externally imposed by outside parties, 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 payments. At June 30, 2009, the County's governmental activities reported restricted net assets of \$1,256,467 restricted for the purposes of capital projects, debt service, legally segregated special revenue funds restricted for grants and other purpose, and regional park endowment. Restricted Net Assets for business-type activities amounted to \$461,168 and are restricted for the use of Airport and Waste Management activities, including debt service, passenger facility charges (PFC) replacements and renewals, landfill closure/postclosure, and landfill corrective action. At June 30, 2009, the County reported \$27,935 of net assets restricted by enabling legislation related to the Airport's PFC.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-Wide Financial Statements (Continued)

- 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.

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, charges for engineering services provided, and property taxes.

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. Property taxes provide most of this fund's revenues.

Orange County Parks (OC 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.

Other Public Protection This fund accounts for safety and law enforcement activities such as the child support program, automated fingerprint identification systems and investigation team. Revenues consist primarily of federal and state grants.

Teeter Plan Obligation Commercial Paper Program Note This fund accounts for the financing of the County's purchase of delinquent taxes receivable pursuant to the Teeter Plan. The Teeter Plan is an alternate secured property tax distribution plan, whereby, the County distributes 100% of the local secured levy to the taxing agencies participating in the Teeter Plan and in exchange receives the right to keep the delinquent taxes, penalties and interest.

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, commercial and general aviation operations, leased property, auto parking, 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 nine 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 has a total of 239 trust and agency funds for FY 2008-09. 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, or 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)

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

Fund Financial Statements (Continued)

The County reports the following trust funds:

Private-Purpose Trust These funds are used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples of private-purpose trusts include unidentified funds, unclaimed prisoner funds and decedents' property held for escheatment.

Investment Trust

Investment Pool

These funds are used to account for assets, consisting primarily of cash and investments, of separate legal entities, other than school districts, which participate in the County Treasurer's external investment pool.

Educational Investment Pool

These funds are used to account for assets, consisting primarily of cash and investments, of school districts that participate in the County Treasurer's external Educational Investment Pool.

Pension (and Other Employee Benefits) Trust

Extra-Help Defined Benefit Plan

This fund is used to account for the retirement plan for employees performing services on the basis of less than half-time or as extra-help. This retirement plan was closed to new participants as of February 28, 2002. The eligible employees of this plan are not covered by the Orange County Employees Retirement System (OCERS).

Extra-Help Defined Contribution Plan

This fund is used to account for the defined contribution retirement plan for extra-help and part-time employees working less than 20 hours a week. This plan replaced the Defined Benefit Retirement Plan and was effective for new employees on March 1, 2002. The eligible employees of this plan are not covered by OCERS.

401(a) Defined Contribution Plan

This fund accounts for the 401(a) retirement plan, which was established on January 1999 for eligible employees, including members of the Board, Elected Officials, certain executive managers, certain grandfathered administrative managers and attorneys represented by the Orange County Attorney's Association and certain other employee classifications as defined in the plan document.

Retiree Medical Defined Benefit Plan

This fund is used to account for the retiree medical benefits plan for eligible employees. The Board has adopted the County of Orange Retiree Medical Trust (The Trust) on July 2, 2007 to receive irrevocable contributions, to deposit, hold and invest such contributions separate and apart from the County and to exclusively pay out the Plan benefits for those eligible under the Plan.

Retiree Medical Defined Contribution Plan

This fund is used to account for the retiree medical defined contribution plan for new employees with the Association of Orange County Deputy Sheriffs (AOCDS). This plan replaced the Retiree Medical Grant for new employees on October 23, 2007, and to supplement frozen grants for current employees hired prior to March 1, 2002 whose accruals were frozen as of November 21, 2008.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

Additionally, the County reports the following agency funds:

Unapportioned Tax and Interest Funds

This group of funds is used to account for the collection of property taxes, and later distribution of such taxes, as well as the interest earned on them. Included are taxes collected by the County for other governmental units using the County treasury, as well as governmental units not using the County treasury, such as cities.

Departmental Funds

This group of funds is used by certain County officers to hold various types of cash receipts and deposits in a fiduciary capacity including the collection of taxes for special assessment debt. Disbursements are made from these funds by the County Auditor-Controller upon requisition of the responsible officer.

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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Receivables are reported net of allowances for uncollectible receivables in the Statement of 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. 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. Additionally, only the interfund transfers between governmental and business-type activities are reported in the Statement of Activities.

Governmental Fund Financial Statements

Governmental funds are used to report all governmental activities that are not primarily self-funded by fees or charges to external users or other funds and 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*

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

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 (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, property taxes in-lieu of motor vehicle license fees, 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 collectability 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 expected to be received later than 60 days following the end of the fiscal year, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, and the receivable and deferred revenue are eliminated. Receipts that have not met all of the earning requirements are reported as unearned revenue. As of June 30, 2009, the County reported \$189,737 of deferred revenue, and \$57,421 of unearned revenue, in the governmental funds' Balance Sheet.

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 and capital leases are recorded in the year 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.

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.

Proprietary Fund Financial Statements

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund Financial Statements (Continued)

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

The County has two enterprise funds: Airport and Waste Management. The principal operating revenues 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.

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.

Fiduciary Fund Financial Statements

Fiduciary funds are used to account for assets held in a trustee or agency capacity and cannot be used to support the County's own programs. Trust funds are accounted for using the economic resources measurement focus and accrual basis of accounting. Agency funds report only assets and liabilities and therefore, do not have a measurement focus; however, agency funds use the accrual basis of accounting to recognize receivables and payables.

D. Budget Adoption and Revision

No later than October 2nd of each year, after conducting public hearings concerning the proposed budget, the Board 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. 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. 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 except for the General Fund as detailed in the Budgetary Comparison Statement, Note A. 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 revenues and expenditures during the year for budget-to-actual comparisons.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

The major special revenue fund Budgetary Comparison Statements reported by the County in the Basic Financial Statements are:

- *Roads*
- *Flood Control District*
- *OC Parks*
- *Other Public Protection*

E. 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. As discussed in Note 4, Deposits and Investments - Concentration of Credit Risk – Serpentine Funding Limited (formerly Whistlejacket Capital LLC), the County has priced its structured investment vehicle holdings in Serpentine Notes through alternative sources and analysis.

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. Fair value for investment agreements and guaranteed investment contracts is amortized cost. The trustee uses an independent service to value those securities, which are based on quoted market price and stated at fair value.

The Pools value participants’ shares using an amortized cost basis. Specifically, the Pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the Pools’ investments. The total difference between the fair values of the investments in the Pools and the values distributed to pool participants using the amortized cost method described above is reported in the equity section of the condensed statement of net assets (see Note 4, Deposits and Investments) as undistributed and unrealized gain. The investments in the Retiree Medical Defined Benefit Trust are managed by the Orange County Employees Retirement System (OCERS) and are reported at fair value. Refer to Note 18, Retirement Plans, to obtain OCERS stand-alone annual financial statements.

F. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost, which is 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Prepaid Costs

The County pays for certain types of services in advance such as pension cost 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, 2009, the County has prepaid costs of \$111,153 in the Statement of Net Assets, which primarily consist of the County's Investment Account with OCERS for future pension costs of \$101,471 (see Note 18 for additional information regarding this pension investment asset for the OCERS Pension Plan) and a deferred charge of \$3,930 reported in the Business-Type activities representing the agreement with the City of Irvine to prepay community amenities and transportation improvement costs associated with operating the Frank R. Bowerman Landfill for the period of 2008 through 2014.

H. Land and Improvements Held for Resale

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

I. 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

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	2 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Self-Insurance

The County is self-insured for general and automobile liability and workers' compensation claims, for claims arising under the County self-insured PPO Health Plans, salary continuance plan, dental plan, and unemployment benefits program. Liabilities are accrued based upon case reserves, development of known and incurred but not reported claims, including allocated and unallocable loss adjustment expenses. For additional information, refer to Note 16, Self-Insurance.

K. 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 properties. 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 Board), special districts governed by the Board, and the County General Fund.

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 state-assessed properties), 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 within the fiscal year and collected 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, 2009 is allocated to and recorded in 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 in the fund-level financial statements, and recognized as revenue in the government-wide financial statements. 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, 2009, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately .80% of the combined beginning secured and unsecured property tax roll charge.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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

L. 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.

M. 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.

N. 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 2008-09 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 are not charged CWCAP 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)

O. Effects of New Pronouncements

The following lists recent GASB pronouncements implemented or are effective in FY 2008-09:

- GASB Statement No. 49, “*Accounting and Financial Reporting for Pollution Remediation Obligations*,” – see Notes 2 and 17 for additional information.
- GASB Statement No. 52, “*Land and Other Real Estate Held as Investments by Endowments*.” The County’s Permanent Fund does not own any land and other real estate investments.
- In March 2009, GASB issued Statement No. 55, “*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.” This statement incorporates the hierarchy of GAAP for state and local governments into the GASB authoritative literature. The goal of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all GAAP for state and local governments so that they derive from a single source. The requirements of this statement are effective upon issuance.
- In March 2009, GASB issued Statement No. 56, “*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.” This statement incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards into the GASB. The objective of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all sources of GAAP so that they derive from a single source. The requirements of this statement are effective upon issuance.

The following summarizes recent GASB Pronouncements and their impact, if any, on future financial statements:

In June 2007, GASB issued Statement No. 51, “*Accounting and Reporting for Intangible Assets*.” This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the County to implement this statement in FY 2009-10.

In June 2008, GASB issued Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments*.” This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the County to implement this statement in FY 2009-10. Currently, the County Treasurer’s Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County’s investment pools and the Public Financing Advisory Committee policy prohibits derivative debt instruments.

In March 2009, GASB issued Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2010, which requires the County to implement this statement in FY 2010-11.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. 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.

Q. 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 Government-Wide 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 Government-Wide Statement of Net Assets.

<i>Government-Wide Statement of Net Assets Line Item</i>	<i>Corresponding Governmental and Proprietary Fund 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 and Investments; and Restricted Pooled Cash/Investments – Closure and Postclosure Care 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. CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," addresses when a government would be required to report a liability in its financial statements related to cleanup pollution or contamination. Pollution remediation obligation should be measured as of July 1, 2008, so that beginning net assets can be restated. As of the effective date of this statement, the pollution remediation liability was measured as of the beginning of FY 2008-09 and the net assets were restated as follows:

2. CHANGES IN ACCOUNTING PRINCIPLES (Continued)

	<u>Airport</u>	<u>Waste Management</u>	<u>Total - Business- -Type Activities</u>
Net Pollution Remediation Obligation at June 30, 2007	\$ --	\$ --	\$ --
Pollution Remediation Obligation	1,483	10,988	12,471
Less: Expected Recoveries	(394)	--	(394)
Less: Payments in FY 2007-08	<u>--</u>	<u>(471)</u>	<u>(471)</u>
Net Pollution Remediation Obligation at June 30, 2008	<u>\$ 1,089</u>	<u>\$ 10,517</u>	<u>\$ 11,606</u>

The GASB Statement No. 49 adjustment for pollution remediation obligation is reflected in the Net Assets Beginning of the Year for the Proprietary Funds' Statement of Revenues, Expenses, and Changes in Fund Net Assets:

	<u>Airport</u>	<u>Waste Management</u>	<u>Total - Business- -Type Activities</u>
Net Assets at June 30, 2008	\$ 421,557	\$ 493,745	\$ 915,302
GASB Statement No. 49 Adjustment	<u>(1,089)</u>	<u>(10,517)</u>	<u>(11,606)</u>
Net Assets at June 30, 2008 as Restated	<u>\$ 420,468</u>	<u>\$ 483,228</u>	<u>\$ 903,696</u>

The Enterprise Funds' Beginning Net Assets flow to the government-wide Statement of Activities, and accordingly, the GASB Statement No. 49 adjustment for pollution remediation obligation is also reflected in the Net Assets Beginning of the Year for business-type activities in the Statement of Activities:

	<u>Total – Business-Type Activities</u>
Net Assets at June 30, 2008	\$ 907,588
GASB Statement No. 49 Adjustment	<u>(11,606)</u>
Net Assets at June 30, 2008 as Restated	<u>\$ 895,982</u>

Refer to Note 17, Estimated Liability for Other Litigation, Claims and Pollution Remediation, for additional information.

3. DEFICIT FUND EQUITY

The Workers' Compensation Internal Service Fund (ISF) reported a deficit net asset balance of \$25,260. The deficit results from the amount calculated in the annual actuarial study which includes case reserves, development of known claims, incurred but not reported claims, allocated and unallocated loss adjustment expenses, and a discount for anticipated investment income. The deficit for the Workers' Compensation ISF increased by \$10,898 from the previous fiscal year due to an increase in the actuarial determined liability amount and decreased charges to participants in the program. Charges to County departments have not provided sufficient cash flow to entirely fund the deficit in this ISF. The County will continue to review charges to departments and manage the funding status of the Workers' Compensation Program to the most efficient level.

3. DEFICIT FUND EQUITY (Continued)

The Teeter Plan Obligation Commercial Paper Program Note Fund reported a deficit fund balance of \$15,103. The County implemented its Teeter Commercial Paper (CP) Program on August 26, 2008, for the purpose of refunding the outstanding Teeter Bonds and to provide a continuing source of funding for the County's annual obligation to make distributions to the taxing agencies participating in the Teeter Plan. \$178,300 of CP Notes were issued to retire the outstanding Orange County Special Finance Authority Teeter Plan Revenue Bonds, Series 1995 A through E on September 2, 2008, to redeem the 2008-2009 Teeter Notes on November 10, 2008, and to fund a Tax Losses Reserve Fund. The deficit results from additional costs and interest expense of the CP Notes incurred in the first year of the CP Program, and insufficient delinquent tax collection to retire the CP principal. The County will continue to monitor and manage the collection of delinquent base tax receipts, penalties, and interest in order to eliminate the deficit fund balance.

4. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled \$6,324,481 as of June 30, 2009. 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 Care Costs, Restricted Pooled Cash/Investments, Cash/Cash Equivalents, Imprest Cash, 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 County Treasurer has also established the OC Extended Fund B which is comprised of Serpentine Funding Limited U.S. Restricted Pass Through Notes ("P-T Notes"). The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average maturity of 60 days. The maximum maturity of both the Extended Fund and OC Extended Fund B is five years. The Extended Fund shall have a duration not to exceed a leading 1-3 Year index +25%.

The primary investment objectives of the Treasurer's investment activities are to safeguard principal and to maintain the liquidity needs of the County and other depositors. After meeting the primary investment objectives, the Treasurer considers attaining a competitive rate of return commensurate with investment risk and attempting to stabilize 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.

The Treasurer also manages specific investment funds subject to the IPS as well as Board action or other legal authority. Included below under the heading "Specific Investments" are the John Wayne Airport Investment Pool (Money Market Fund), the Children and Families Commission of Orange County Investment Pool (US Treasuries), and other separately managed investments.

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 as compensating balances. The Treasurer has established separate bank and investment custody accounts for the County's school participants.

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

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% 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% 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.

Total County deposits and investments at fair value as of June 30, 2009, are reported as follows:

Deposits:	
Imprest Cash	\$ 2,171
Deposit Overdraft	(90,561)
Total Cash Overdrafts	(88,390)
Investments:	
With Treasurer	5,973,972
With Trustee	438,899
Total Investments	6,412,871
Total Deposits and Investments	\$ 6,324,481

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

Governmental Funds	\$ 1,880,355
Component Unit	133,996
Fiduciary Funds	3,420,825
Proprietary Funds	889,305
Total Deposits and Investments	\$ 6,324,481

B. Investments

State statutes, the Board's ordinances and resolutions, 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 following are significant differences where the IPS is more restrictive than the Code: investments in reverse repurchase agreements are allowed by the Code but are not allowed under the IPS; the Code allows a higher percentage for investments in a single issuer for a period up to three business days; the Code does not limit the purchase of securities from issuers that have been placed on credit-watch negative whereas the IPS does.

The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value:

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

Authorized Investment	% of Market Value
1. U.S. Treasury instruments backed by the full faith and credit of the United States government	100%
2. Obligations issued or guaranteed by agencies of the United States government	100%
3. Commercial paper of a high rating (A-1/P-1/F1) as provided by at least two of the following National Recognized Statistical Rating Organizations (NRSROs): Standard & Poor's Corporation (S&P), Moody's Investors Services, Inc. (Moody's), or Fitch Ratings (Fitch), with further restrictions regarding issuer size and maturity.	No more than 45% - Money Market No more than 40% - Extended Fund
4. Negotiable certificates of deposits issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank, or the Money Market Funds may invest in U.S. dollar denominated certificates of deposits issued in London, England (Euro CD)	No More than 30%
5. Bankers Acceptances	No More than 40%
6. Money Market Funds	No More than 20%
7. Local Agency or state municipal debt	No More than 30%
8. "AAA" receivable-backed securities from two or more of the NRSROs with further restriction as to the type	No More than 10%
9. Medium-term notes of a high rating ("A-" for Money Market Funds & "AA" for the Extended Fund with a further limitation of a maximum of 50% "AA" rated for the Extended Fund) as provided by at least two of the NRSROs	No More than 30%
10. Repurchase agreements with counterparties having a minimum A-1 or equivalent rating from a NRSROs and collateralized by US Treasury and US government agency securities at 102% of market, valued no less frequently than weekly	No More than 50%
11. Money Market Funds may invest in funding agreements	No More than 10%

In addition, no investment may be purchased from an issuer that has been placed on credit watch-negative by any of NRSROs, or whose credit rating by any of the NRSROs is less than the minimum rating required by the IPS for that class of security unless the issuer has a short-term rating of A-1+ or F1+ or a long-term rating of at least an "AA" or "Aa2" by S&P and Fitch or Moody's. All purchases of permitted investments are required to comply in every respect with California Government Code Sections 53601, 53601.7 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

Repurchase agreements are limited to a one year maturity and can only be entered into with entities prescribed in the Code Section 53601.7. 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 current IPS expressly prohibits leverage, reverse repurchase agreements as defined by the Code, structured notes, structure investment vehicles, and derivatives. The Board approved an updated IPS on December 16, 2008, prohibiting the purchase of structured investment vehicles. 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, 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

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

market value of the pooled funds may be invested in securities of any one issuer, 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 denominated in United States dollar. At the time of the purchase of any security, a fund may invest up to 12.5% of its total market value in the securities of a single issuer for a period of up to three business days. The fund may not invest in the securities of more than one issuer under this provision at any time.

The Treasury Oversight Committee established in December 1995, which consists of the elected County Auditor-Controller, the County Executive Officer, the elected County Superintendent of Schools, one special district representative member, and one member from the public sector appointed by the Board, conducts Treasury oversight. On December 1, 2008, S&P Rating Services assigned an AAAM Principal Stability Fund Rating to the Orange County Money Market Fund and the Orange County Educational Money Market Fund. The Pools are not registered with the SEC. On July 16, 2009, at the request of the County as approved by the Treasury Oversight Committee, Moody's Investors Service withdrew their ratings assigned to the Orange County Investment Pool and Orange County Educational Investment Pool. Moody's previous rating occurred as of June 26, 2008, at which time they affirmed their Aaa/MR1 ratings assigned to the Pools.

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% involuntary participants. At June 30, 2009, the County Pool includes approximately 8.48% involuntary participant deposits for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

As of June 30, 2009, the major classes of the County's investments consisted of the following:

<u>With Treasurer:</u>	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average
<u>County Pool</u>					
U.S. Government Agencies	\$ 1,765,662	\$ 1,753,437	Discount, 0.16 - 3.60%	07/06/09 - 06/22/12	0.90
U.S. Treasury Bills	21,699	28,767	0.00%	05/06/10	0.85
Commercial Paper	266,261	266,313	Discount	07/06/09 - 11/12/09	0.06
Negotiable Certificates of Deposit	95,036	95,000	0.41 - 1.02%	09/23/09 - 05/04/10	0.09
Medium-Term Corporate Notes	542,342	538,621	0.46 - 3.68%	07/30/09 - 06/15/12	0.48
Repurchase Agreements	127,046	127,046	1.30 - 3.85%	07/07/09 - 12/10/09	0.20
Money Market Mutual Funds	301,204	301,204	Variable	07/01/09	0.00
	\$ 3,119,250	\$ 3,110,388			0.62 *
<u>Educational Pool</u>					
U.S. Government Agencies	\$ 1,511,846	\$ 1,501,625	Discount, 0.10 - 3.60%	07/06/09 - 06/22/12	1.00
U.S. Treasury Bills	18,249	24,193	0.00%	05/06/10	0.85
Commercial Paper	302,895	303,000	Discount	07/07/09 - 10/13/09	0.10
Negotiable Certificates of Deposit	63,021	63,000	0.41 - 1.02%	09/23/09 - 05/04/10	0.08
Medium-Term Corporate Notes	532,752	529,336	0.35 - 3.68%	07/06/09 - 06/15/12	0.47
Repurchase Agreements	67,666	67,599	3.77 - 3.85%	12/01/09 - 12/10/09	0.44
Money Market Mutual Funds	260,831	260,831	Variable	07/01/09	0.00
	\$ 2,757,260	\$ 2,749,584			0.67 *

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

<u>With Treasurer (Continued):</u>	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
<u>Specific Investments</u>					
U.S. Government Agencies	\$ 30,580	\$ 30,491	0.25 - 6.25%	07/15/09 - 09/20/29	0.19
U.S. Treasury Bills	30,290	30,000	0.25 - 4.80%	07/09/09 - 04/30/10	0.43
Commercial Paper	2,000	2,000	Discount	07/14/09	0.04
Negotiable Certificates of Deposit	2,000	2,000	0.41%	09/23/09	0.06
Medium-Term Corporate Note	9,203	9,145	0.34 - 2.21%	08/10/09 - 03/23/10	0.16
Repurchase Agreements	1,082	1,082	6.18%	08/15/19	10.13
Money Market Mutual Funds	22,307	22,307	Variable	07/01/09	0.00
	\$ 97,462	\$ 97,025			0.35 *
<u>With Trustees:</u>					
<u>Restricted Investments with Trustees</u>					
U.S. Government Agencies	\$ 179,510	\$ 136,358	Discount	09/29/09-09/01/21	4.24
U.S. Treasury Bonds	3,478	2,613	Discount, 9.00%	11/15/18	0.09
Guaranteed Investment Contracts	33,847	33,847	Variable, 4.27-5.01%	07/08/09-11/02/18	0.59
Money Market Mutual Funds	133,391	133,391	Variable	07/01/09	0.00
Stable Value Fund	11,342	11,342	Variable	07/01/09	0.00
	\$ 361,568	\$ 317,551			4.92 *
<u>With External Orange County</u>					
<u>Retirement System (OCERS):</u>					
Restricted Investments **	\$ 73,426				
<u>With State's Local Agency Investment</u>					
<u>Fund (LAIF):</u>					
Restricted Investment ***	\$ 3,905				

* Portfolio weighted average maturity

** The Retiree Medical Trust reports \$73,426 of restricted investments with OCERS. Refer to Note 18 to obtain OCERS financial statements.

*** The Law Library fund reports \$3,905 of restricted investments with LAIF.

Interest Rate Risk

Of the County Pool's \$3,119,250 and the Educational Pool's \$2,757,260 portfolio at June 30, 2009, over 71.40% and 69.18%, respectively of the investments have a maturity of six months or less. Of the remainder, 23.14% and 25.29% respectively have a maturity of more than one year.

As of June 30, 2009, variable-rate notes comprised 34% of both the County Pool and Educational Pool. 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 (WAM), the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Interest Rate Risk-Weighted Average Maturity (Money Market Funds)

In accordance with the IPS, the County Treasurer manages investment related risk for deposits and investments by limiting the weighted average maturity to 60 days in the Money Market Funds. At June 30, 2009, the weighted average maturity of the County Pool (which includes the Extended Funds) was 0.62 years and the Educational Pool (which includes the Extended Funds) was 0.67 years. At the same date, the Net Asset Value (NAV) of the Money Market Funds for both pools was \$1.00 (in absolute dollar amounts). The annual average daily investment balance of the County Pool and the Educational Pool amounted to \$3,249,574 and \$2,910,700 with an average effective yield of 2.10% and 2.11%, respectively, for the year ended June 30, 2009.

Interest Rate Risk-Duration (Extended Funds)

At June 30, 2009 the Extended Funds (which comprises both the County and Educational Pools) amounted to \$2,757,916. Of this amount, the County Pool owned 50.91% and the Educational Pool owned 49.09%. In accordance with the IPS, the County Treasurer manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index. The portfolio duration computed using the Macaulay duration method, for the Extended Fund as of June 30, 2009 was 1.31 years.

As of June 30, 2009, the Extended Fund consisted of the following investments (Amounts in thousands. Duration is in years.)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Macaulay Duration</u>
U.S. Government Agencies	\$ 1,931,881	1.87
Asset-Backed Securities	39,948	0.94
Medium-Term Corporate Notes	686,087	0.65
Municipal Debt	100,000	0.44
Total Fair Value	<u>\$ 2,757,916</u>	
Portfolio Duration		1.31

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, in accordance with the IPS, 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.

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the NRSROs as explained above. For an issuer of short-term debt, the rating must be no less than "A-1" or "SP-1" (S & P), "P-1" or "MIG 1/VMIG 1" (Moody's), or "F1" (Fitch), while an issuer of long-term debt shall be rated no less than an "A" in the Money Market funds and AA in the Extended Fund. As of June 30, 2009, the County's investments in commercial paper were rated A-1 by S & P, P-1 by Moody's and F1 by Fitch.

Concentration of Credit Risk

At June 30, 2009, 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.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Concentration of Credit Risk (Continued)

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, 2009 (NR means Not Rated):

	S & P	Moody's	Fitch	% of Portfolio
<u>County Pool</u>				
Asset-Backed Securities *	NR	NR	NR	0.70%
U.S. Government Agencies				
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.59%
Federal Farm Credit Bank	AAA	Aaa	AAA	9.00%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	4.13%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	14.68%
Freddie Mac Discount Notes	AAA	Aaa	AAA	2.95%
Freddie Mac Bonds	AAA	Aaa	AAA	18.26%
Commercial Paper	A-1	P-1	F1	8.54%
Negotiable Certificates of Deposit	A-1	P-1	F1	3.05%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	2.57%
Corporate Notes	AA	Aa	AA	6.71%
Corporate Notes	AAA	Aaa	AAA	7.25%
Corporate Notes	AA	Aa	NR	0.85%
Municipal Debt	A-1	P-1	F1	4.07%
Money Market Mutual Funds	AAA	Aaa	AAA	9.65%
Total County Pool				<u>100.00%</u>
<u>Educational Pool</u>				
Asset-Backed Securities *	NR	NR	NR	0.66%
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	0.63%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.40%
Federal Farm Credit Bank	AAA	Aaa	AAA	9.55%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	4.63%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	15.58%
Freddie Mac Discount Notes	AAA	Aaa	AAA	1.46%
Freddie Mac Bonds	AAA	Aaa	AAA	15.59%
Commercial Paper	A-1	P-1	F1	10.98%
Negotiable Certificates of Deposit	A-1	P-1	F1	2.29%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	2.11%
Corporate Notes	AA	Aa	AA	9.28%
Corporate Notes	AAA	Aaa	AAA	7.93%
Municipal Debt	AAA	Aa	AAA	2.45%
Money Market Mutual Funds	AAA	Aaa	AAA	9.46%
Total Educational Pool				<u>100.00%</u>

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Concentration of Credit Risk (Continued)

	S & P	Moody's	Fitch	% of Portfolio
<u>Specific Investments</u>				
U.S. Treasuries	AAA	AAA	AAA	31.08%
U.S. Government Agencies				
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	2.59%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	12.48%
Federal Farm Credit Bank	AAA	Aaa	AAA	5.66%
Freddie Mac Bonds	AAA	Aaa	AAA	10.51%
Ginnie Mae Bonds	AAA	Aaa	AAA	0.14%
Commercial Paper	A-1	P-1	F1	2.05%
Negotiable Certificates of Deposit	A-1	P-1	F1	2.05%
Medium-Term Notes	AA	Aa	AA	9.44%
Repurchase Agreements	NR	NR	NR	1.11%
Money Market Mutual Funds	AAA	Aaa	AAA	22.89%
Total Specific Investments				<u>100.00%</u>
<u>Restricted Investments with Trustees</u>				
<u>(Excluding Restricted Investments with OCERS and LAIF) **</u>				
U.S. Government Agencies				
Federal Home Loan Bank	NR	P-1	F1	2.05%
Federal National Mortgage Association Medium- Term Notes	AAA	Aaa	AAA	45.58%
Freddie Mac Discount Notes	NR	P-1	F1	0.96%
U.S. Treasuries	AAA	NR	AAA	2.03%
Guaranteed Investment Contracts	NR	NR	NR	9.36%
Money Market Mutual Funds	AAA	Aaa	NR	36.88%
Stable Value Fund	NR	NR	NR	3.14%
Total Restricted Investments with Trustees				<u>100.00%</u>

* Refer to the Restructuring of Whistlejacket Capital LLC section for details on non-rating of asset-backed securities.

** For the ratings of the restricted investments held with OCERS, refer to OCERS Comprehensive Annual Financial Report for the year ended December 31, 2008. For the ratings of the restricted investments held with LAIF, refer to the California State Treasurer's web site at <http://www.treasurer.ca.gov/pmia-laif/index.asp>

Concentration of Credit Risk-Structured Investment Vehicles

As of June 30, 2009, the County Pools did not hold any structured investment vehicles. All structured investment vehicle holdings were either restructured, called, sold, or matured during the fiscal year.

Restructuring of Whistlejacket Capital LLC (Whistlejacket)

Whistlejacket Capital LLC (a structured investment vehicle) U.S. Medium-Term Notes were purchased by the Extended Fund (jointly owned by the County and Educational Pools) in 2007. On February 11, 2008 Whistlejacket breached a financial covenant relating to the market value of its underlying collateral. As a result of this "enforcement event," Deloitte LLP was appointed as Receiver for Whistlejacket on February 12, 2008. On February 15, 2008, the Receiver declared Whistlejacket insolvent.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Restructuring of Whistlejacket Capital LLC (Whistlejacket) (Continued)

On March 19, 2009, the Receivers of Whistlejacket entered into a restructuring agreement and a portfolio sale agreement with Goldman Sachs International. On April 29, 2009 a competitive auction of portfolio securities was held as part of the restructuring agreement. Each senior creditor had the option of cashing out their share of portfolio securities subject to the auction price or setting a reserve price below which senior creditors could elect to receive P-T Notes in a restructured program called Serpentine Funding Limited (incorporated under the laws of the Cayman Islands). The Treasurer's reserve price was not met and therefore the County received approximately \$63.5 million of Serpentine Funding Limited P-T Notes. In connection with the Treasurer's acquisition of the P-T Notes through the restructuring, a legal opinion was issued, stating in pertinent part that a) the Treasurer is authorized to exchange or purchase the P-T Notes and b) that the exchange or purchase of P-T Notes does not violate the IPS.

On May 7, 2009, Whistlejacket was restructured into Serpentine Funding Limited (Serpentine). The restructured entity is not a structured investment vehicle, has no leverage, and is unrated. Serpentine holds the restructured portfolio of securities and receives all principal and interest payments on the underlying securities. The Serpentine PT Notes are held in the Extended Fund B for the benefit of Pool participants with account balances at February 12, 2008.

The P-T Notes do not carry a stated rate of interest and have an initial maturity date of June 5, 2010. Payments of principal and interest received on the underlying portfolio securities will be made on a monthly basis. The Treasurer has the option to liquidate the P-T Notes once a year through a cash sale of the County's respective share of the Company's portfolio of securities at current market prices. The Treasurer may also solicit bids from brokers to sell the P-T Notes in the market.

As of June 30, 2009, the Extended Fund B (jointly owned by the County and Educational Pools) held \$39,948 (at fair value) of Serpentine Funding Limited Restricted PT Notes. These holdings are classified as asset backed securities in the accompanying disclosures for the County and Educational Pools. The Treasurer has determined the \$39,948 fair value of the Serpentine PT Notes by direct reference to the amount the County Pools would have received from the April 30, 2009, competitive portfolio auction described above, which equates to a price of 75.

The following table summarizes the principal and interest payments received from the Whistlejacket Receiver and Serpentine Funding Limited through June 30, 2009:

**Whistlejacket Capital/Serpentine Funding Limited
 Summary of Cash Distributions
 As of June 30, 2009**

Original Face Value at Date of Receivership				\$ 80,000
Cash Distributions:				
Payment Dates	Total Payment	Applied to Interest	Applied to Principal	Unrecovered Principal
October 27, 2008	\$ 18,449	\$ 593	\$ 17,856	\$ 62,144
May 07, 2009	27	--	27	62,117
June 25, 2009	9,157	--	9,157	52,960
	\$ 27,633	\$ 593	\$ 27,040	\$ 52,960

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements

In lieu of separately issued financial statements for the entire pools and the external portion of the pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2009:

Entire Pool

Statements of Net Assets

	County Investment Pool	Educational Investment Pool	Total
Net Assets Held for Pool Participants	\$ 3,208,630	\$ 2,683,761	\$ 5,892,391
Equity of Internal Pool Participants	\$ 3,082,806	\$ -	\$ 3,082,806
Equity of External Pool Participants	123,510	2,678,899	2,802,409
Undistributed and Unrealized Gain	2,314	4,862	7,176
Total Net Assets	<u>\$ 3,208,630</u>	<u>\$ 2,683,761</u>	<u>\$ 5,892,391</u>

Statements of Changes in Net Assets

Net Assets at July 1, 2008	\$ 3,240,062	\$ 2,704,428	\$ 5,944,490
Net Changes in Investments by Pool Participants	(31,432)	(20,667)	(52,099)
Net Assets at June 30, 2009	<u>\$ 3,208,630</u>	<u>\$ 2,683,761</u>	<u>\$ 5,892,391</u>

External Pool Portion

**Combining Statement of
Fiduciary Net Assets**

	County Investment Pool	Educational Investment Pool	Total
<u>Assets</u>			
Pooled Cash/Investments	\$ 123,159	\$ 2,674,401	\$ 2,797,560
Receivables			
Interest/Dividends	361	9,614	9,975
Total Assets	<u>123,520</u>	<u>2,684,015</u>	<u>2,807,535</u>
<u>Liabilities</u>			
Due To Other Governmental Agencies	10	254	264
Total Liabilities	<u>10</u>	<u>254</u>	<u>264</u>
<u>Net Assets</u>			
Held in Trust	123,510	2,683,761	2,807,271
Total Net Assets	<u>\$ 123,510</u>	<u>\$ 2,683,761</u>	<u>\$ 2,807,271</u>

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements (Continued)

**Combining Statement of Changes
 in Fiduciary Net Assets**

	County Investment Pool	Educational Investment Pool	Total
Additions:			
Contributions to Pooled Investments	\$ 255,033	\$ 6,454,382	\$ 6,709,415
Interest and Investment Income	2,041	77,914	79,955
Less: Investment Expense	(94)	(3,164)	(3,258)
Total Additions	<u>256,980</u>	<u>6,529,132</u>	<u>6,786,112</u>
Deductions:			
Distributions from Pooled Investments	<u>249,221</u>	<u>6,549,799</u>	<u>6,799,020</u>
Total Deductions	<u>249,221</u>	<u>6,549,799</u>	<u>6,799,020</u>
Change in Net Assets Held in Trust For External Investment Pool	7,759	(20,667)	(12,908)
Net Assets Held in Trust, Beginning of Year	<u>115,751</u>	<u>2,704,428</u>	<u>2,820,179</u>
Net Assets Held in Trust, End of Year	<u>\$ 123,510</u>	<u>\$ 2,683,761</u>	<u>\$ 2,807,271</u>

5. 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, 2009
	Balance July 1, 2008	Increases	Decreases	Adjustments	
Governmental Activities:					
Capital assets not depreciated:					
Land	\$ 610,889	\$ 34,440	\$ (507)	\$ --	\$ 644,822
Construction in Progress	317,234	105,374	(41,913)	--	380,695
Total Capital Assets Not Being Depreciated	<u>928,123</u>	<u>139,814</u>	<u>(42,420)</u>	<u>--</u>	<u>1,025,517</u>
Capital Assets, Depreciable:					
Structures and Improvements	955,350	27,638	--	--	982,988
Equipment	334,432	20,812	(11,423)	--	343,821
Infrastructure:					
Flood Channels	940,474	--	--	--	940,474
Roads	93,879	43,521	(4,121)	--	133,279
Bridges	62,665	2,384	--	--	65,049
Trails	32,979	7,762	--	--	40,741
Traffic signals	10,668	--	--	--	10,668
Harbors and Beaches	34,520	3,105	--	--	37,625
Capital Assets, Depreciable	<u>2,464,967</u>	<u>105,222</u>	<u>(15,544)</u>	<u>--</u>	<u>2,554,645</u>

5. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government				
	Balance	Increases	Decreases	Adjustments	Balance
	July 1, 2008				June 30, 2009
Less Accumulated Depreciation For:					
Structures and Improvements	(429,746)	(27,190)	--	--	(456,936)
Equipment	(236,850)	(22,632)	10,903	--	(248,579)
Infrastructure:					
Flood Channels	(210,248)	(9,589)	--	--	(219,837)
Roads	(52,008)	(3,962)	2,976	--	(52,994)
Bridges	(21,773)	(1,235)	--	--	(23,008)
Trails	(22,761)	(858)	--	--	(23,619)
Traffic signals	(8,657)	(505)	--	--	(9,162)
Harbors and Beaches	(22,227)	(745)	--	--	(22,972)
Total Accumulated Depreciation	<u>(1,004,270)</u>	<u>(66,716)</u>	<u>13,879</u>	<u>--</u>	<u>(1,057,107)</u>
Capital Assets, Depreciable (Net)	<u>1,460,697</u>	<u>38,506</u>	<u>(1,665)</u>	<u>--</u>	<u>1,497,538</u>
Governmental Activities Total Capital Assets, Net	<u>\$ 2,388,820</u>	<u>\$ 178,320</u>	<u>\$ (44,085)</u>	<u>\$ --</u>	<u>\$ 2,523,055</u>
	Balance				Balance
	July 1, 2008	Increases	Decreases	Adjustments	June 30, 2009
Business-Type Activities:					
Capital assets not depreciated:					
Land	\$ 38,058	\$ 25	\$ --	\$ --	\$ 38,083
Construction in Progress	76,048	68,223	(1,252)	--	143,019
Total Capital Assets Not Being Depreciated	<u>114,106</u>	<u>68,248</u>	<u>(1,252)</u>	<u>--</u>	<u>181,102</u>
Capital Assets, Depreciable:					
Structures and Improvements	355,370	1,096	(2,822)	(147)	353,497
Equipment	70,318	8,007	(3,656)	--	74,669
Infrastructure	388,108	--	--	--	388,108
Capital Assets, Depreciable	<u>813,796</u>	<u>9,103</u>	<u>(6,478)</u>	<u>(147)</u>	<u>816,274</u>
Less Accumulated Depreciation For:					
Structures and Improvements	(183,324)	(15,105)	2,823	--	(195,606)
Equipment	(35,882)	(6,231)	3,062	(675)	(39,726)
Infrastructure	(188,039)	(15,973)	--	--	(204,012)
Total Accumulated Depreciation	<u>(407,245)</u>	<u>(37,309)</u>	<u>5,885</u>	<u>(675)</u>	<u>(439,344)</u>
Capital Assets, Depreciable (Net)	<u>406,551</u>	<u>(28,206)</u>	<u>(593)</u>	<u>(822)</u>	<u>376,930</u>
Business-Type Activities Total Capital Assets, Net	<u>\$ 520,657</u>	<u>\$ 40,042</u>	<u>\$ (1,845)</u>	<u>\$ (822)</u>	<u>\$ 558,032</u>

5. CHANGES IN CAPITAL ASSETS (Continued)

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

Government Activities:	
General Government	\$ 3,380
Public Protection	34,849
Public Ways and Facilities	9,229
Health and Sanitation	2,139
Public Assistance	4,791
Education	908
Recreation and Cultural Services	5,446
Internal Service Funds' Depreciation	
Expense Allocated to Various Functions	5,974
Total Governmental Activities Depreciation Expense	<u>66,716</u>
Business-Type Activities:	
Airport	19,939
Waste Management	17,370
Total Business-Type Activities Depreciation Expense	<u>37,309</u>
Total Depreciation Expense	<u>\$ 104,025</u>

6. RECEIVABLES

GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*," 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:

Taxes Receivable

\$19,779 of taxes receivable for governmental activities is not expected to be collected within the next fiscal year, which represents the outstanding delinquent taxes receivables purchased with Teeter Plan Obligation Commercial Paper Program Notes in July 2008.

Accounts Receivable

\$560 of accounts receivable for governmental activities is not expected to be collected within the next fiscal year. Of this amount, \$503 consists of invoices billed by OC Animal Care for dog license fees and penalties. The remaining \$57 represents invoices billed by the Social Services Agency for welfare aid overpayments to its clients.

Deposits Receivable

\$400 in deposits receivable for governmental activities is not expected to be collected within the next fiscal year, which represents a deposit that is required by the vendor (Cardinal Health) per the price agreement with the Health Care Agency; the deposit will be returned within 60 days of the expiration of the price agreement.

Notes Receivable

\$29,331 of notes receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$27,477 consists of loans to build affordable, low to moderate income, and senior housing. \$1,290 is from the sale of surplus of County property. The remaining \$564 is for rehabilitation and loans provided to first time home buyers.

6. RECEIVABLES (Continued)

Loans Receivable

\$2,958 of loans receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$2,083 represents advances to Dana Point Harbor operators and \$800 is a loan receivable for Green River's Golf Course operation expenses. The remaining \$75 represents a loan receivable for an operating expense account for the SARP Prado Dam property management.

Due from Other Governmental Agencies

\$82,764 due from other governmental agencies for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$70,001 is owed by the State of California to the County for various Senate Bill (SB90) mandated cost reimbursements for programs and services the State requires the County to provide. \$12,349 is owed by the State to the Health Care Agency (HCA) for reimbursement of the Cost Report Settlement Process for Medi-Cal services provided by HCA and its contractors. The remaining \$414 includes revenue for the cost-share from Riverside County for the Seven Oaks Dam-Santa Ana River Project.

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2009 is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>			
General Fund	Teeter Plan Obligation Commercial			
	Paper Program Note	\$	8	
	Roads		1,878	
	Flood Control District		4,757	
	OC Parks		2,420	
	Other Public Protection		5,969	
	Other Governmental Funds		35,825	
	Internal Service Funds		1,213	
	Airport		1,496	
	Waste Management		2,219	
			<u>2,219</u>	\$ 55,785
Roads	General Fund		218	
	Flood Control District		478	
	OC Parks		24	
	Other Public Protection		5	
	Other Governmental Funds		330	
			<u>330</u>	1,055

7. INTERFUND RECEIVABLES AND PAYABLES (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>			
Flood Control District	General Fund	\$	1,321	
	Roads		618	
	OC Parks		54	
	Other Public Protection		27	
	Other Governmental Funds		415	
	Internal Service Funds		1	
	Waste Management		1	\$ 2,437
OC Parks	General Fund		106	
	Roads		9	
	Other Governmental Funds		20	
	Internal Service Funds		57	192
Other Public Protection	General Fund		14	
	Roads		16	
	Flood Control District		52	
	Other Governmental Funds		12	
	Internal Service Funds		10	
	Airport		1	105
Other Governmental Funds	General Fund		12,194	
	Roads		1	
	Flood Control District		1	
	OC Parks		2	
	Other Public Protection		4	
	Other Governmental Funds		4,701	
	Internal Service Funds		62	
	Airport		95	
	Waste Management		2	17,062
Airport	Internal Service Funds		24	24
Waste Management	Roads		6	
	Flood Control District		4	
	OC Parks		1	
	Internal Service Funds		14	25

7. INTERFUND RECEIVABLES AND PAYABLES (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>			
Internal Service Funds	General Fund	\$	2,459	
	Roads		4	
	Flood Control District		4	
	OC Parks		109	
	Other Public Protection		22	
	Other Governmental Funds		25	
	Internal Service Funds		48	
	Airport		484	
	Waste Management		23	
			<u>23</u>	<u>\$ 3,178</u>
	Total			<u><u>\$ 79,863</u></u>

Due From/To Primary Government and Component Unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	\$ 67
Primary Government – Internal Service Funds	Component Unit – Children & Families Commission of Orange County	\$ 1

The majority of the interfund balances resulted from the time lag between the time that (1) goods and services were provided, (2) the recording of those transactions in the accounting system, and (3) payments between the funds were made.

Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General Fund	Other Governmental Funds	\$	1,778

The interfund loan represents an advance made to OC Public Libraries from the General Fund for the OC Public Library Headquarter building.

8. 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, 2009, approximates \$18,169.

8. COUNTY PROPERTY ON LEASE TO OTHERS (Continued)

The County leases 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, 2009 are as follows:

<u>Fiscal Year(s) Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2010	\$ 13,031	\$ 38,925
2011	13,379	33,705
2012	10,053	17,990
2013	7,544	5,113
2014	7,297	4,197
	<u>51,304</u>	<u>99,930</u>
2015-2019	37,218	8,474
2020-2024	41,237	8,574
2025-2029	43,171	730
2030-2034	60,678	--
2035-2039	62,258	--
2040-2044	3,167	--
	<u>247,729</u>	<u>17,778</u>
Total future minimum rentals	<u>\$ 299,033</u>	<u>\$ 117,708</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$334 (Flood Control District), \$3,851 (OC Parks), \$26,311 (Airport), \$16 (Waste Management), and \$87 (Other Governmental Funds) for the year ended June 30, 2009.

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2009 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>			<u>Explanations</u>
<u>Governmental Funds</u>				
General Fund	Other Public Protection	\$ 1,144		
	Other Governmental Funds	107,493		
	Internal Service Funds	<u>2,034</u>	\$ 110,671	(a), (f)
Flood Control District	General Fund	<u>3,415</u>	3,415	(g)
OC Parks	General Fund	<u>5,143</u>	5,143	(h)
Other Public Protection	General Fund	109,308		
	Other Governmental Funds	<u>698</u>	110,006	(b)
Teeter Plan Obligation Commercial Paper Program Note	General Fund	19,858		
	Other Governmental Funds	<u>102,166</u>	122,024	(c), (i)

9. INTERFUND TRANSFERS (Continued)

<u>Transfer from</u>	<u>Transfer to</u>			<u>Explanations</u>
<u>Governmental Funds (Continued)</u>				
Other Governmental Funds	General Fund	\$ 177,707		
	Teeter Plan Obligation			
	Commercial Paper			
	Program Note	118,258		
	OC Parks	282		
	Other Governmental Funds	<u>133,891</u>	\$ 430,138	(d), (j)
Internal Service Funds	General Fund	<u>105</u>	<u>105</u>	
Total Governmental Funds			<u><u>\$ 781,502</u></u>	
<u>Enterprise Funds</u>				
Waste Management	General Fund	11,704		
	OC Parks	<u>2,425</u>		
Total Enterprise Funds			<u><u>\$ 14,129</u></u>	(e), (k)

Interfund transfers reflect a flow of assets between funds and component units of the primary government without an equivalent flow 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. The details of the significant, transfers are outlined below:

Routine Transfers

- a. Transfer from General Fund
 - A total of \$69,262 was transferred from the General Fund to Debt Service and Special Revenue Funds in connection with debt service payments for the various County debt issues.
 - \$10,895 was transferred from the General Fund to Other Governmental Funds in order to distribute available cash to the remaining claimants of the bankruptcy loss as part of the Bankruptcy Recovery Plan.
 - \$1,203 of reimbursed claimable costs was transferred from the General Fund to Other Governmental Funds to cover future lease payments for the Social Services Agency Santa Ana Regional Center.
 - \$12,527 was transferred from the General Fund to Other Governmental Funds to finance the county's 60 percent share of the Social Services Agency Wraparound Program.
 - \$1,800 was transferred from the General Fund to Other Governmental Funds to pay for parking facilities bonds and other operating costs associated with the parking facilities.
- b. Transfer from Other Public Protection
 - \$39,843 was transferred from the Other Public Protection Fund to the General Fund for the annual transfer of Public Safety Sales Tax Revenue.
 - \$35,572 was transferred from Other Public Protection to the General Fund for the reimbursement of various County programs as follows:
 - \$12,137 for Sheriff Department Programs
 - \$6,824 for Prop. 36, Substance Abuse and Crime Prevention Act expenses

9. INTERFUND TRANSFERS (Continued)

Routine Transfers (Continued)

- b. Transfer from Other Public Protection (Continued)
 - \$6,341 for the Clerk-Recorder's information technology, capital acquisitions and/or improvements.
 - \$5,928 for the Probation's Youth Offender Block Grant expenditures
 - \$2,770 for the Child Support Services Programs
 - \$1,572 for legal fee services
 - \$28,135 was transferred from the Other Public Protection Fund to the General Fund to support the Sheriff Department's operations.

- c. Transfer from Teeter Plan Obligation Commercial Paper Program Note
 - \$17,100 of excess penalties and interest from delinquent tax payments was transferred from Teeter Plan Obligation Commercial Paper Program Note Fund to the General Fund.
 - \$2,758 was transferred from the Teeter Plan Obligation Commercial Paper Program Note Fund to the General Fund for reimbursement of costs related to the Teeter Commercial Paper Plan.

- d. Transfer from Other Governmental Funds
 - \$33,716 of tobacco settlement monies was transferred from Other Governmental Funds to the General Fund to finance various health care programs.
 - \$22,062 of bond proceeds was transferred from Other Governmental Funds to the General Fund for the Cogeneration Plant at the County's Central Utility Facility.
 - \$11,742 was transferred from Other Governmental Funds to the General Fund to support Social Services Agency's facilities projects.
 - \$73,905 was transferred from Other Governmental Funds to the General Fund for the reimbursement of various County programs as follows:
 - \$45,228 for Prop. 63, Mental Health Services Act expenses
 - \$20,028 for Social Services Agency Wraparound Program
 - \$8,649 for emergency medical services

- e. Transfer from Enterprise Funds
 - \$11,633 in net proceeds and interest earnings from the Importation of Out-of-County Waste Program earned by OC Waste and Recycling during the current fiscal year was transferred to the General Fund for Recovery COPs Lease Financing as part of the Bankruptcy Recovery Plan.

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

- f. Transfer from General Fund
 - \$2,038 was transferred from the General Fund to Other Governmental Funds for the Laguna Niguel Library Expansion Project.
 - \$4,700 was transferred from the General Fund to Other Governmental Funds to support the Tustin Family Campus Project.

- g. Transfer from Flood Control District
 - \$3,415 was transferred from the Flood Control District Fund to the General Fund for the Watershed Management Program.

- h. Transfer from OC Parks
 - \$5,000 was transferred from the OC Parks Fund to the General Fund for the purchase of the Chestnut Avenue Complex.

9. INTERFUND TRANSFERS (Continued)

- i. Transfer from Teeter Plan Obligation Commercial Paper Program Note
 - \$102,165 was transferred from the Teeter Plan Obligation Commercial Paper Program Note Fund to Other Governmental Funds to retire the Orange County Special Finance Authority Teeter Plan Revenue Bonds, Series 1995 A through E.

- j. Transfer from Other Governmental Funds
 - \$118,258 was transferred from Other Governmental Funds to consolidate the residual balances of the Orange County Special Financing Authority into the Teeter Plan Obligation Commercial Paper Program Note Fund, which now accounts for the Teeter Commercial Paper Plan.
 - \$121,308 represented the residual equity of the Special Assessment Districts, Community Facilities District and Service Areas Capital Projects Fund that was transferred to the Service Areas, Lighting, Maintenance and Assessment Districts Special Revenue Fund as part of the consolidation process to combine similar activities into one fund.
 - \$3,020 of surplus fund over the bond reserve amount was transferred from Other Governmental Funds to the General Fund.

- k. Transfer from Enterprise Funds
 - \$2,425 was transferred from the Waste Management Enterprise Fund to the General Fund for open space allocation at a habitat reserve.

10. SHORT-TERM OBLIGATIONS

Teeter Plan Notes

On July 10, 2008, the County issued its 2008-2009 Teeter Plan Notes (the "Teeter Notes") in the aggregate principal amount of \$75,600. The Teeter Notes were issued for the purpose of financing, together with certain monies (delinquent taxes, penalties, and interest) paid to the County by the Orange County Special Financing Authority, the County's obligations to purchase delinquent secured taxes receivable of certain local governmental taxing agencies pursuant to the Teeter Plan. The County optionally redeemed the Teeter Notes on November 10, 2008, which had a maturity date of June 30, 2009, with proceeds from the Teeter Plan Obligation Commercial Paper Notes.

Teeter Plan Obligation Commercial Paper Notes Series A

On August 26, 2008, the County issued its Teeter Plan Obligation Commercial Paper Notes Series A (the "CP") in the amount of \$178,300. The proceeds of the CP, together with other available monies, were used to (1) retire the outstanding Orange County Special Financing Authority Teeter Plan Revenue Bonds, Series 1995 A through E on September 2, 2008, (2) redeem the 2008-2009 Teeter Notes on November 10, 2008, (3) fund a Tax Losses Reserve Fund, and (4) pay costs of issuance of the notes. The CP constitutes an obligation of the County required by law and is secured by a direct pay letter of credit for an authorized maximum stated amount of \$322,192 provided by Dexia Credit Local, certain delinquent taxes (excluding penalties and interest) and the County General Fund. Subject to certain requirements of CP documents, additional CP may be issued to finance the County's obligations under the Teeter Plan. As of June 30, 2009, the outstanding principal amount of the CP notes was \$178,300.

2008-2009 Tax and Revenue Anticipation Notes

On September 17, 2008, the County issued its 2008-2009 Tax and Revenue Anticipation Notes (the "Notes") in the aggregate principal amount of \$100,000 to finance the seasonal cash flow requirements of the County during the fiscal year ending June 30, 2009. The Notes are secured by a pledge of certain general fund monies. The County paid the notes on June 30, 2009.

10. SHORT-TERM OBLIGATIONS (Continued)

Description	Balance July 1, 2008	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2009	Amounts Due within One Year
County of Orange					
2008-2009 Teeter Plan Notes					
Date Issued: July 10, 2008					
Interest Rate: 3.00%					
Original Amount: \$75,600					
Maturing in Installments Through June 30, 2009	\$ --	\$ 75,600	\$ (75,600)	\$ --	\$ --
County of Orange					
Teeter Plan Obligation Commercial					
Paper Notes, Series A					
Date of Original Issuance: August 26, 2008					
Interest Rate: Variable					
Original Amount: \$178,300					
Various Dates of Maturity with Installments Not to Exceed 270 Days from Date of Issuance	--	178,300	--	178,300	178,300
County of Orange					
2008-2009 Tax and Revenue					
Anticipation Notes					
Date Issued: September 17, 2008					
Interest Rate: 3.00%					
Original Amount: \$100,000					
Maturing in Installments Through June 30, 2009	--	100,000	(100,000)	--	--
Total	<u>\$ --</u>	<u>\$ 353,900</u>	<u>\$ (175,600)</u>	<u>\$ 178,300</u>	<u>\$ 178,300</u>

11. LONG-TERM OBLIGATIONS

General Bonded Debt

General Obligation Bonded Debt

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25% of the last equalized assessment property tax roll. At June 30, 2009, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$5,360,115. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIII A, Section 1 requires the approval of 2/3 of the voters voting on the proposition.

Bankruptcy Obligations

Refunding Recovery Bonds 2005 Series A

On August 18, 2005, the County issued its \$146,005 Refunding Recovery Bonds 2005 Series A (2005 Recovery Bonds) at a premium of \$9,318. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the Recovery Refunding Bonds 1995 Series A (1995 Recovery Bonds), were used to refund and defease the outstanding 1995 Recovery Bonds and pay costs of issuance for the 2005 Recovery Bonds. As of June 30, 2009, the outstanding principal amount, including the premium of the 2005 Recovery Bonds, was \$101,456.

11. LONG-TERM OBLIGATIONS (Continued)

Bankruptcy Obligations (Continued)

Lease Revenue Refunding Bonds Series 2005

On August 16, 2005, the Orange County Public Financing Authority (OCPFA) issued its \$419,755 Lease Revenue Refunding Bonds Series 2005 (Series 2005 Bonds) at a premium of \$19,973. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the 1996 Recovery Certificates of Participation (Recovery COPs), were used to defease certain non-callable Recovery COPs, the remainder was used to fund a debt service reserve fund for the Series 2005 Bonds, and pay costs of issuance of the Series 2005 Bonds. As of June 30, 2009, the outstanding principal amount, including the premium of the Series 2005 Bonds, and interest were \$297,438 and \$47,005, respectively.

The Series 2005 Bonds are limited obligations of the OCPFA payable through July 2017, and are payable solely from base rental payments to be made by the County pursuant to a lease, dated as of August 1, 2005, 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.

Revenue Bonds Payable and Certificates of Participation

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, Certificates of Participation (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), which are payable through December 2018. At June 30, 2009, the outstanding principal amount and interest of the Refunding COPs were \$5,502 and \$20,529, respectively.

The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation.

Tax Allocation Refunding Bonds, Series 2001 (Neighborhood Development and Preservation 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 Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. As of June 30, 2009, the outstanding principal amount, including premium of the Series 2001 Bonds, and interest on the NDAPP Refunding Bonds were \$21,679 and \$8,316, respectively.

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

In May 2002, the OCPFA issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, in the principal amount of \$80,285, payable through June 2019, with a premium of \$3,164. The Lease Revenue Refunding Bonds were issued to (1) redeem the outstanding Refunding COPs (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. As of June 30, 2009, the outstanding principal amount, including the premium of the Series 2002 bonds, and interest were \$56,573 and \$16,664, respectively.

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

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

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.

Lease Revenue Bonds, Series 2006

On October 19, 2006, the OCPFA issued its \$32,700 Lease Revenue Bonds, Series 2006 (Series 2006 Bonds) at a premium of \$2,140. The Lease Revenue Bonds, payable through June 2018, were issued to finance the construction of a cogeneration conversion project at the County's central utility facility, fund a debt service reserve fund for the bonds, and pay costs relating to the issuance of the bonds. As of June 30, 2009, the outstanding principal amount, including the premium of the Series 2006 Bonds, and interest were \$32,125 and \$7,786, respectively.

The bonds are limited obligations of the OCPFA payable solely from, and secured solely by, revenues of the Authority, consisting primarily of certain rental payments to be made by the County pursuant to, and as defined in the Lease.

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

In November 2003, OCDA issued \$38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project (SAHP) 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. The SAHP Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the SAHP. As of June 30, 2009, the outstanding principal amount including premium of the Series 2003 Bonds and interest of the SAHP were \$32,721 and \$12,905, respectively.

Taxable Refunding Pension Obligation Bonds, Series 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 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).

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. As of June 30, 2009, the outstanding principal amount of the Series 1996A and 1997A Pension Bonds were \$36,981 and \$32,730, respectively.

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Airport Revenue Refunding Bonds, Series 1997 and 2003

In July 1987, the County issued in the principal amount of \$242,440 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 Airport Revenue Refunding Bonds, Series 1993 (1993 Bonds) to partially refund the 1987 Bonds. In April 1997, the County issued in the principal amount of \$135,050 Airport Revenue Refunding Bonds, Series 1997 (1997 Bonds) to complete a forward refunding of the majority of outstanding 1987 Bonds. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410.

Refer to section FY 2008-09 Debt Obligation Activity of this note for information about the in-substance defeasance of the 1997 Bonds.

On May 29, 2003, the County issued in the principal amount of \$48,680 Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds), the proceeds of which, together with certain monies deposited with the Trustee, refunded and defeased the 1993 Bonds. The outstanding principal amount and interest for 2003 Bonds as of June 30, 2009, were \$37,677 and \$9,629, respectively.

The Airport Revenue Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses; (2) interest earnings; and (3) other miscellaneous revenue. The 2003 Bonds are payable through July 2018. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds.

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 bonds are payable through December 2013. The outstanding principal amount and interest on these bonds as of June 30, 2009 were \$31,725 and \$4,462, respectively. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120% of the aggregate debt service requirement over the life of the bonds.

Advance Refunding

During this and 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, 2009, \$39,680 of legally defeased debt remains outstanding.

11. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year 2008-09 Debt Obligation Activity

During FY 2008-09, the following events concerning County debt obligations took place:

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.

On August 26, 2008, the County issued its CP not to exceed \$178,300. The proceeds of the CP, less cost of issuance, were used along with other available monies to retire the outstanding Orange County Special Financing Authority Teeter Plan Revenue Bonds, Series 1995 A through E on September 2, 2008, to redeem the 2008-2009 Teeter Notes on November 10, 2008, and to fund a Tax Losses Reserve Fund.

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 were paid off on December 15, 2008.

The bonds were 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. The base rental payments were required to be sufficient to pay the principal of and interest on the bonds when due and payable.

Airport Revenue Refunding Bonds, Series 1997

On May 6, 2009, the Airport executed an in-substance defeasance of the 1997 Bonds, for the outstanding carrying principal balance of \$44,155. The Airport contributed \$45,367, the outstanding principal amount and interest, to an irrevocable escrow trust account. The amounts were invested in certain United States Treasury Securities that will be used for the redemption of the 1997 Bonds on July 1, 2009. As of June 30, 2009, the debt is considered to be extinguished.

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2008-09

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2009 were as follows:

Description	Balance July 1, 2008	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2009	Amounts Due within One Year
<u>Governmental Funds:</u>					
<u>County of Orange</u>					
<u>Refunding Recovery Bonds - 2005 Series A:</u>					
Date Issued: August 18, 2005 to Refund and Defeas the Outstanding Refunding Recovery Bonds - Series 1995A Interest Rate: 3.00% to 5.00% Original Amount: \$146,005					
Maturing in Installments Through June 1, 2015.	\$ 115,467	\$ (866)	\$ (13,145)	\$ 101,456	\$ 14,629
Deferred Amount on Refunding	(7,292)	1,042	--	(6,250)	(1,042)
<u>Orange County Public Financing Authority</u>					
<u>Lease Revenue Refunding Bonds, Series 2005:</u>					
Date Issued: August 16, 2005 to Refund and Defeas the 1996 Recovery Certificates of Participation - Series 1996A. Interest Rate: 3.00% to 5.75% Original Amount: \$419,755 FY 2008-09 Principal and Interest: \$61,634 FY 2008-09 Total Pledged Revenues: \$77,027					
Maturing in Installments Through July 1, 2017.	345,932	(733)	(47,761)	297,438	51,366
Deferred Amount on Refunding	(20,229)	2,129	--	(18,100)	(2,129)
<u>Orange County Public Facilities Corporation,</u>					
<u>Refunding Certificates of Participation:</u>					
<u>(Civic Center Parking Facilities Project)</u>					
Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) to Refund the 1987 COPs 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 FY 2008-09 Principal and Interest: \$2,605 FY 2008-09 Total Pledged Revenues: \$2,700					
Maturing in Installments Through December 1, 2018.	6,306	--	(804)	5,502	744

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2008-09 (Continued)

Description	Balance July 1, 2008	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2009	Amounts Due within One Year
<u>Orange County Development Agency</u>					
<u>Tax Allocation Refunding Bonds - Series 2001:</u>					
<u>(Neighborhood Development and Preservation Project)</u>					
Date Issued: July 11, 2001 to Refund the Series A 1992 Tax Allocation Revenue Bonds					
Interest Rate: 4.00% to 5.50%					
Original Amount: \$26,160					
FY 2008-09 Principal and Interest: \$2,174					
FY 2008-09 Total Pledged Revenues: \$21,053					
Maturing in Installments Through September 1, 2022.	22,774	(10)	(1,085)	21,679	1,125
Deferred Amount on Refunding	(822)	55	--	(767)	(55)
<u>Orange County Public Financing Authority</u>					
<u>Juvenile Justice Center Facility Lease Revenue Refunding Bonds - Series 2002</u>					
Date Issued: May 1, 2002 to Refund the Outstanding Refunding Certificates of Participation.					
Interest Rate: 3.00% to 5.50%					
Original Amount: \$80,285					
FY 2008-09 Principal and Interest: \$7,086					
FY 2008-09 Total Pledged Revenues: \$77,027					
Maturing in Installments Through June 1, 2019.	\$ 60,876	\$ (173)	\$ (4,130)	\$ 56,573	\$ 4,485
Deferred Amount on Refunding	(2,405)	219	--	(2,186)	(219)
<u>Orange County Public Financing Authority</u>					
<u>Lease Revenue Bonds, Series 2006</u>					
Date Issued: October 19, 2006					
Interest Rate: 4.00% to 5.00%					
Original Amount: \$32,700					
FY 2008-09 Principal and Interest: \$4,201					
FY 2008-09 Total Pledged Revenues: \$77,027					
Maturing in Installments Through June 1, 2018	34,840	(35)	(2,680)	32,125	2,830
<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 the 1993 Tax Allocation Revenue Bonds					
Interest Rate: 2.00% to 5.25%					
Original Amount: \$38,465					
FY 2008-09 Principal and Interest: \$2,970					
FY 2008-09 Total Pledged Revenues: \$14,073					
Maturing in Installments Through September 1, 2023.	34,217	\$ (46)	(1,450)	\$ 32,721	1,599
Deferred Amount on Refunding	(1,419)	92	--	(1,327)	(92)

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2008-09 (Continued)

Description	Balance July 1, 2008	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2009	Amounts Due within One Year
<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 the Taxable POBs Series 1994 A					
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).					
	37,556	--	(575)	36,981	5,285
<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: June 14, 1997 - Capital Appreciation					
Bonds (CAB)					
To Refund the Taxable POBs Series 1994 A					
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).					
	\$ 35,172	\$ --	\$ (2,442)	\$ 32,730	\$ 5,095
<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)	--	--
<u>Orange County Public Financing Authority,</u>					
<u>Telecommunications Equipment Project</u>					
<u>Lease Revenue Bonds - Series 2001</u>					
Date Issued: April 1, 2001					
Interest Rate: 4.00%					
Original Amount: \$10,330					
FY 2008-09 Principal and Interest: \$1,688					
FY 2008-09 Total Pledged Revenues: \$77,027					
Maturing in Installments Through December 15, 2008.					
	1,654	--	(1,654)	--	--
Subtotal - Governmental Funds	\$ 786,352	\$ 1,674	\$ (199,451)	\$ 588,575	\$ 83,621

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2008-09 (Continued)

Description	Balance July 1, 2008	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2009	Amounts Due within One Year
<u>Enterprise Funds:</u>					
<u>Airport Revenue Refunding Bonds -</u>					
<u>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					
FY 2008-09 Principal and Interest: \$13,459					
FY 2008-09 Total Pledged Revenues: \$47,277					
Maturing in Installments Through July 1, 2012					
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	\$ 54,766	\$ 134	\$ (54,900)	\$ --	\$ --
	(490)	490	--	--	--
<u>Airport Revenue Refunding Bonds -</u>					
<u>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					
FY 2008-09 Principal and Interest: \$4,588					
FY 2008-09 Total Pledged Revenues: \$47,277					
Maturing in Installments Through July 1, 2018.					
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	40,804	(391)	(2,736)	37,677	3,204
	(5,183)	1,008	--	(4,175)	(873)
<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					
FY 2008-09 Principal and Interest: \$7,128					
FY 2008-09 Total Pledged Revenues: \$29,295					
Maturing in Installments Through December 1, 2013.					
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	37,154	(119)	(5,310)	31,725	5,712
	(977)	396	--	(581)	(306)
Subtotal - Enterprise Funds	126,074	1,518	(62,946)	64,646	7,737
Total	\$ 912,426	\$ 3,192	\$ (262,397)	\$ 653,221	\$ 91,358

11. LONG-TERM OBLIGATIONS (Continued)

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:

<u>Fiscal Year(s) Ending June 30</u>	<u>Governmental Funds</u>		<u>Enterprise Funds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2010	\$ 84,124	\$ 29,191	\$ 8,485	\$ 3,297	\$ 125,097
2011	81,510	29,750	8,965	2,818	123,043
2012	87,439	35,026	9,470	2,310	134,245
2013	56,223	39,724	9,980	1,792	107,719
2014	54,407	29,332	10,514	1,262	95,515
2015-2019	194,954	133,471	20,190	2,612	351,227
2020-2024	25,887	30,472	-	-	56,359
Total	<u>584,544</u>	<u>326,966</u>	<u>67,604</u>	<u>14,091</u>	<u>993,205</u>
Add: Premium	32,661	--	1,798	--	34,459
Less: Deferred Amount on Refunding	<u>(28,630)</u>	<u>--</u>	<u>(4,756)</u>	<u>--</u>	<u>(33,386)</u>
Principal Payable, Net	<u>\$ 588,575</u>	<u>\$ 326,966</u>	<u>\$ 64,646</u>	<u>\$ 14,091</u>	<u>\$ 994,278</u>

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2009 were as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>	<u>Due within One Year</u>
Governmental Activities:					
Bonds and COPs Payable:					
Revenue Bonds	\$ 598,210	\$ --	\$ (182,485)	\$ 415,725	\$ 59,200
Certificates of Participation	6,306	--	(804)	5,502	744
Pension Obligation Bonds	72,728	--	(3,017)	69,711	10,380
Recovery Bonds	106,751	--	(13,145)	93,606	13,800
Add: Premium on Bonds Payable	34,524	--	(1,863)	32,661	3,034
Less: Deferred Amount on Refunding	<u>(32,167)</u>	<u>--</u>	<u>3,537</u>	<u>(28,630)</u>	<u>(3,537)</u>
Total Bonds & COPs Payable, Net	<u>786,352</u>	<u>--</u>	<u>(197,777)</u>	<u>588,575</u>	<u>83,621</u>
Interest Accretion on Capital					
Appreciation Bonds Payable	124,129	14,039	--	138,168	--
Other Long-Term Liabilities:					
Compensated Employee Absences Payable	160,254	124,857	(119,379)	165,732	92,143
Arbitrage Rebate Payable	652	617	(30)	1,239	--
Capital Lease Obligations Payable	90,769	--	(5,817)	84,952	4,838
Insurance Claims Payable	146,816	93,577	(82,226)	158,167	43,078
Net Pension Obligation	660	234	(242)	652	--
Total Other Long-Term Liabilities	<u>399,151</u>	<u>219,285</u>	<u>(207,694)</u>	<u>410,742</u>	<u>140,059</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 1,309,632</u>	<u>\$ 233,324</u>	<u>\$ (405,471)</u>	<u>\$ 1,137,485</u>	<u>\$ 223,680</u>

11. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities (Continued)

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due within One Year
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 130,550	\$ --	\$ (62,946)	\$ 67,604	\$ 8,485
Add: Premium on Bonds Payable	2,174	--	(376)	1,798	431
Less: Deferred Amount on Refunding	(6,650)	--	1,894	(4,756)	(1,179)
Total Revenue Bonds Payable, Net	<u>126,074</u>	<u>--</u>	<u>(61,428)</u>	<u>64,646</u>	<u>7,737</u>
Other Long-Term Liabilities:					
Compensated Employee Absences Payable	3,809	4,386	(3,432)	4,763	2,372
Arbitrage Rebate Payable	36	94	--	130	--
Landfill Site Closure/Postclosure Liabilities	191,204		(18,156) *	173,048	1,906
Pollution Remediation Obligation	11,606	--	(1,133)	10,473	1,843
Total Other Long-Term Liabilities	<u>206,655</u>	<u>4,480</u>	<u>(22,721)</u>	<u>188,414</u>	<u>6,121</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 332,729</u>	<u>\$ 4,480</u>	<u>\$ (84,149)</u>	<u>\$ 253,060</u>	<u>\$ 13,858</u>

* Refer to Note 14 for additional information regarding reduction in Landfill Site Closure/Postclosure Liabilities.

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2009, is \$165,732 compared with \$160,254 at June 30, 2008. Employees are entitled to paid annual leave, compensated time, and in some cases vacation and sick time depending on job classification, length of service, and other factors. 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 owners 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 reflected in Agency Departmental Funds.

11. LONG-TERM OBLIGATIONS (Continued)

Special Assessment District Bonds (Continued)

Major capital outlay expenditures relating to these bonds are accounted for in the "Service Areas, Lighting, Maintenance and Assessment Districts" Special Revenue Fund. Special assessment district and community facilities district bonds outstanding as of June 30, 2009, amounted to \$675,949.

12. CONDUIT DEBT OBLIGATIONS

From 1980 through 2009, 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.

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 is 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 financial statements.

As of June 30, 2009, there were 60 series of bonds outstanding, with an aggregate principal amount payable of \$631,169.

13. LEASES

Commitments Under Operating Leases

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. During FY 2008-09, the County revised its methodology for calculating future commitments for operating leases. The following table reflects the County's estimates using this revised methodology:

<u>Fiscal Year Ending June 30</u>	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
2010	\$ 8,265	\$ 29,880	\$ 38,145
2011	2,020	27,503	29,523
2012	1,462	19,789	21,251
2013	875	16,580	17,455
2014	479	13,110	13,589
2015 - 2019	4	31,228	31,232
Total	<u>\$ 13,105</u>	<u>\$ 138,090</u>	<u>\$ 151,195</u>

Total expenditures for equipment rentals and operating leases incurred for FY 2008-09 was \$60,117.

Capital Leases

The following is an analysis of property leased under capital leases:

Land	\$ 22,418
Structures & Improvements	98,433
Less: Accumulated Depreciation	<u>(25,476)</u>
Total	<u>\$ 95,375</u>

13. LEASES (Continued)

Capital Lease (Continued)

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, 2009:

<u>Fiscal Year Ending June 30</u>		
2010	\$	11,302
2011		10,238
2012		10,089
2013		9,676
2014		9,898
2015-2019		45,216
2020-2024		39,946
2025-2027		5,594
Total Minimum Lease Payments		141,959
Less: Amount Representing Interest		(57,007)
Present Value of Net Minimum Lease Payments	\$	<u>84,952</u>

14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require Orange County Waste & Recycling (OCW&R) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain postclosure 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, OCW&R will 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.

OCW&R 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 – Ceased accepting waste in 1996, final closure certification in 2005)
- Coyote Canyon (Newport Beach – Ceased accepting waste in 1990, final closure certification in 1995)

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by OCW&R. Santiago Canyon's lease with The Irvine Company was terminated in November 2002, and The Irvine Company donated the landfill, valued at \$1,400, to the County. Coyote Canyon was owned by The Irvine Company and leased by the County. The County accepted the conveyance of the real property from The Irvine Company, along with the real property adjacent to the landfill and certain easement rights, valued at \$3,950. This action was approved by the Board on November 21, 2006.

The total landfill closure and postclosure care liability at June 30, 2009 was \$173,048. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (24.51% for FRB, 77.82% for Olinda Alpha and 21.75% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. As a result of the landfill expansion at the FRB Landfill in FY 2008-09, the total estimated maximum capacity has increased, thereby reducing the cumulative percentage of landfill used and the total landfill closure and postclosure care liability at June 30, 2009. OCW&R will recognize the remaining estimated cost of closure and postclosure care of \$169,813 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2008 dollars (using the 2008 inflation factor of 1.022). OCW&R has enough landfill capacity to operate the system for a minimum of twenty-five years. However, OCW&R intends to operate the landfills well beyond this period as a result of approved and planned expansions.

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

In compliance with the California Integrated Waste Management Board's regulations, OCW&R makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the state mandated formula. Also in compliance with regulations, OCW&R has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure costs. The agreements state that OCW&R pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OCW&R ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OCW&R has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted for inflation, based on state provided inflation factors. The state mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2009, a total of \$118,424 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs.

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. With the implementation of GASB 49, the County is required to report a liability for pollution remediation with respect to every landfill in which an obligating event is not considered or contemplated within the calculation of closure and postclosure costs in accordance with GASB 18. Refer to Note 17, Estimated Liability for Other Litigation, Claims and Pollution Remediation, for additional discussion regarding pollution remediation liabilities.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2009, 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:

Project Title	Remaining Commitments
Governmental Activities:	
General Fund	
Central Justice Center - Phase II - HVAC/ADA	\$ 3,640
Cogeneration Plant at Central Utility Facility	2,757
	6,397
Roads	
Ortega Highway Widening Project	13,425
Katella Avenue – Smart Street Improvement Project	7,557
Foothill Circulation Project: Alton – Irvine	1,480
Irvine Avenue Widening Project – University to Southeast Bristol	1,401
	23,863
Flood Control District	
Los Alamitos Pump Station: New Pump and Pump House	11,384
San Juan Creek Channel Improvement Project	11,249

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Project Title	Remaining Commitments
Governmental Activities (Continued):	
Flood Control District (Continued)	
Katella Yard Relocation Project – Collins Avenue	\$ 3,231
San Diego Creek Mitigation	1,828
Compressed Natural Gas Fueling Station Project at Collins Avenue	1,278
	28,970
Other Governmental Funds	
Transportation Fleet Maintenance and Support Services	1,659
Central Jail Complex Consolidation Maintenance Project	4,594
	6,253
Business-Type Activities:	
Airport	
Design and Construction of the Central Plant	26,663
Terminal Building Gate Expansion	15,179
Design of the New Parking Structure C	4,492
Passenger Loading Bridges for Terminal A and B	3,548
New South Remain Over Night Airplane Parking	1,988
Building Commissioning Services	1,628
	53,498
Waste Management	
Administration and Crew Quarters Building Construction – Prima Deshecha Landfill	3,549
Construction Management/ Construction Quality Assurance Services – Frank R. Bowerman Landfill	3,385
Zone 1 Construction Management/Construction Quality Assurance/ Archeo-Paleo Services – Prima Deshecha Landfill	2,975
Olinda Truck Scales Installation	1,017
	10,926
Total Commitments	\$ 129,907

In addition, the County is involved in the Santa Ana River (SAR) Mainstem Project. The SAR is a major flood control project implemented and funded by the Federal 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 Federal Government and the OCFCD only through a separate project cooperation agreement (PCA). The purpose of the SAR Mainstem/Prado Dam project (Project) is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain. When the SAR Project was initiated in 1989, the U.S. Army Corps of Engineers (COE) considered this flood plain to constitute the worst flood threat west of the Mississippi River as to impacts to the population and property. The Project involves a combination of flood channel improvements and constructing 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 \$1,800,000. OCFCD's cost share is estimated to be \$314,500 for acquisition of real property rights, relocation (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction of the Prado Dam Project. As of June 30, 2009, the OCFCD has expended about \$380,525 on the entire Santa Ana River Project.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

The construction of Seven Oaks Dam and most 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 was completed in December 2008. Landscaping along the SAR in Orange County is underway and is expected to be completed in FY 2009-10, subject to funding. Design for the construction of interior dikes in the Prado Dam reservoir, and for improvements and protection of SR 91 in the SAR Canyon are also underway. The COE has completed construction of National Housing Tract Dike and Sewage Treatment Plant Dike in 2008 and landscaping for the dikes will commence in September 2009. Several environmental mitigation studies and restoration/preservation projects are underway in all three counties. All property right acquisitions for the Seven Oaks Dam and along the lower SAR in Orange County up to Weir Canyon Road are completed. The escrow for purchase of the Green River Golf Course was closed on September 29, 2006. This property is required for construction of protection along SR 91 and nearby mobile homes, open space/recreation mitigation, and to accommodate increased flooding when the Prado Dam outlet gates are constructed and operational. The first phase of SR-91 protection is set to start construction in October 2009. The OCFCD has started the preliminary design of the 4 miles of the Santa Ana River Interceptor Line Relocation Project. The OCFCD has also been acquiring property rights for the Prado Dam Project, subject to the availability of funding.

The Project has been authorized by the State Legislature for reimbursement of up to 70% of the Local Sponsors' expenses through the State Flood Control Subvention Fund, which is administered by the Department of Water Resources (DWR). As of June 30, 2009 the OCFCD has submitted \$231,978 in claims, and received \$174,615 in reimbursements. An additional \$34,389 in claims is in the process of being prepared for submittal to the DWR, for a total of unpaid claims for expenses through June 30, 2009 of about \$91,753. Of this amount, \$27,349 was appropriated by the State for FY 2009-10, and therefore was accrued as revenue in the government-wide financial statement. Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid, subject to available funding, with the remaining 10% paid after an audit by the State Controller's Office.

At this time, the OCFCD will not have sufficient funds to meet its entire cost share obligation for the Project, due to estimated cost increases that were not initially or fully contemplated in the COE's prior estimates, and because of delays in receiving State Subvention Program reimbursements. If State reimbursements are more promptly received, the OCFCD should be able to complete acquisition of real property and perform relocations and meet its cost share obligations to complete the Project. Therefore, reimbursements on past expense through the State Subvention Program are critical for project completion.

16. 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. Excess liability insurance provides up to an additional \$40,000 in liability coverage. There have never been verdicts or settlements that exceed the self-insurance threshold. Accordingly, no claims or settlements have been paid under the excess insurance policy.

16. SELF-INSURANCE (Continued)

Independent actuarial studies are prepared annually for the Workers' Compensation and Property and Casualty Risk ISFs. The reported unpaid claims liabilities are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, allocated loss adjustment expenses and unallocated loss adjustment expenses. Unpaid claims 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 3.65% to reflect anticipated future investment earnings.

All County departments and other governmental agencies authorized by the Board 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 actual number of positions from a biweekly County payroll report. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controller's Office for cost plan allocations.

The County has established the Unemployment Insurance ISF, which covers all employees and pays through the State of California the standard unemployment benefits, the County self-insured PPO Health Plans ISF, which provides health plan benefits, and the Health and Other Self-Insured Benefits ISFs, which provides dental and short-term disability benefits for a portion of the County's employees.

The County's Premier Wellwise and Premier Sharewell PPO Plans have a lifetime coverage maximum of \$3,000 and \$1,000, respectively, for each covered employee or dependent. The dental insurance coverage is up to \$1,500 annually (absolute dollars) for each covered employee or dependent. The short-term disability insurance coverage is up to 12 months or when the employee returns to work, whichever comes first. Unemployment benefits coverage by the statute is up to 26 weeks and up to an additional 73 weeks of benefits coverage through the FED-ED program or when the employee returns to work or no longer meets the requirements for the benefits.

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	Unemployment Insurance	Health & Other Insurance	Total
Unpaid Claims, Beginning of FY 2007-08	\$ 104,830	\$ 34,299	\$ 1,000	\$ 7,481	\$ 147,610
Claims and Changes in Estimates	30,080	--	593	57,519	88,192
Claim Payments	(24,052)	(8,393)	(877)	(55,664)	(88,986)
Unpaid Claims, End of FY 2007-08	\$ 110,858	\$ 25,906	\$ 716	\$ 9,336	\$ 146,816
Claims and Changes in Estimates	28,570	10,089	3,187	51,731	93,577
Claim Payments	(20,154)	(8,069)	(1,854)	(52,149)	(82,226)
Unpaid Claims, End of FY 2008-09	\$ 119,274	\$ 27,926	\$ 2,049	\$ 8,918	\$ 158,167

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION

Estimated Liability for Litigation and Claims

There are lawsuits and claims pending against the County which may arise during the normal course of business. To the extent the outcome of such litigation would result in a probable loss to the County, any such loss would be accrued in the accompanying financial statements.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

In addition to the accrued liabilities for self-insurance claims incurred but not reported in Note 16, and other specific litigation and claims described herein, 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, or 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.

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.

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

The OCFA has requested reimbursement from the County for expenses incurred for remediating contamination from motor vehicle fuels that leaked from underground storage tank systems at nine fire stations. Of the amount requested, the County has reimbursed the OCFA \$1,476 and \$177 is outstanding. The OCFA is currently seeking reimbursement from the State for the remaining balance of \$177. It is estimated that it may take years before the State will finish processing the OCFA's reimbursement claim. The County intends to reimburse the OCFA the remaining balance if the State denies the OCFA's reimbursement claim.

Retired Employees Association of Orange County, Inc. v. County of Orange On September 12 and 25 and October 24, 2006, the Board approved agreements with a number of employee bargaining units addressing the County's Retiree Medical Plan and the method by which current employee and retiree health insurance premiums would be determined. These changes include, but are not limited to, separately pooling current employees and retirees for the purposes of health premium setting beginning in 2008, reducing the maximum annual adjustment in the Plan Grant from 5% to 3% beginning in 2008 and reducing the Plan Grant by 50% for retirees eligible for Medicare Parts A and B. Refer to Note 19 for details on the Retiree Medical Plan.

On November 5, 2007, the Retired Employee's Association of Orange County (REAOC) filed a Complaint for Declaratory and Injunctive Relief filed in Federal District Court contesting the splitting of the pool for purposes of determining health insurance premiums. The County was served with the Complaint on November 21, 2007.

On December 7, 2007, the County filed a Motion to Dismiss alleging various deficiencies in the Complaint. After oral argument on January 14, 2008, the Court took the matter under submission and on February 12, 2008, issued its ruling denying the County's motion as to the Plaintiff's first six claims and granting the motion as to the seventh. The types of claims that survived were: Breach of Contract, Promissory Estoppel, Violation of Due Process and Impairment of Contract. The Plaintiff's seventh Claim for Violation of the California's Pension Protection Act was dismissed without leave to amend.

After lengthy discovery which included the production of tens of thousands of pages of documents and many depositions; the County and REAOC filed, on November 20, 2008, cross motions for summary judgment. Oral argument on both motions was heard on December 22, 2008, and on June 19, 2009, the Court issued an order granting Defendant's Motion for Summary Judgment and denying as moot Plaintiff's Motion for Summary Adjudication. Costs were awarded for the County in the amount of \$36.

On June 30, 2009, REAOC's attorneys filed their notice of appeal with the Ninth Circuit and their opening brief is due Friday, August 28, 2009. The County filed its brief on September 28, 2009. The case is now fully briefed in the Ninth Circuit. The date for oral argument has not yet been set.

It is difficult to predict the County's potential liability at this time; however, should Plaintiff succeed in their overall efforts, this lawsuit could have a significant financial impact on the County.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

Gaylan Harris, et al. v. County of Orange On January 22, 2009, retired Orange County employee, Gaylan Harris, filed a Class Action Complaint for Damages and Injunctive Relief in Federal District Court. His complaint alleges that the "County's unilateral removal" of the retiree "grant," a stipend paid to retirees to defray the cost of medical insurance, and the "subsidy," which he defines as the pooling of retirees with active employees for the purpose of insurance rate setting, constituted an impairment of contract, a denial of due process and a breach of contract. On February 3, 2009, Mr. Harris amended his complaint to include a charge of unlawful age discrimination in violation of California Government Code section 12940 (a). The Clerk of Board received service of both the original and amended complaints late Thursday, April 9, 2009. It appears that many of the claims are similar to those set forth in the REAOC case discussed above; however, here, Mr. Harris seeks monetary damages on behalf of himself and the other class plaintiffs.

The County answered the lawsuit on May 29, 2009, and shortly thereafter, filed a motion to stay the proceedings pending the outcome of the REAOC litigation. Because the REAOC decision was issued prior to the hearing date, this motion was taken off calendar. On August 24, 2009, a Case Management Conference was held and the Court set the case for trial on October 19, 2010. The parties have stipulated to certify the plaintiffs as a class; conducting some discovery; and then filing summary judgment motions. It is difficult to predict the outcome at this time, but there is a significant monetary exposure in light of the damages claims.

Pirkle Trucking and Equipment v. County of Orange Pirkle Trucking has sued the County alleging causes of action for breach of contract, bad faith denial of a contract, and failure to discharge a mandatory duty. The complaint arises out of the County's invitation for bids seeking trucking contractors for hauling. Plaintiff alleges that it was awarded the contract and that later the County repudiated said award. The County denies each of these allegations and claims that the complaint has no basis in its allegations or its claim for damages. Plaintiff alleges it has suffered damages in the amount of \$850 for the improper breach by the County as well as general damages in the amount of \$5,000 and punitive damages. The County contends the contract was never formally awarded to Plaintiff and the entire complaint is without merit. The County denies each of the allegations and has challenged the first complaint with a Demurrer which was granted by the Court with leave to Plaintiff to amend its complaint. Plaintiff filed an Amended Complaint and the County has once again filed a Demurrer. The County's Demurrer was heard on October 8, 2009. The Court took the matter under submission and no ruling has been issued.

Joann Blackstar, et al. v. County of Orange On January 23, 2009, a class action lawsuit seeking declaratory and injunctive relief was filed in the Central District federal court by the Western Center on Law & Poverty and its co-counsel on behalf of four named class representatives, naming the County, all members of the Board, the Social Services Agency (SSA), and the Director of SSA, as defendants.

The named plaintiffs are alleged to be representatives of a class of plaintiffs described as applicants and recipients of Food Stamps, Medi-Cal, and General Relief. Motions for class certification and preliminary injunction have been filed by Plaintiffs' counsel and responded to by County Counsel. The Motions remain pending before the District Court while the parties have been engaging in settlement discussions. The class plaintiffs allege (among other allegations) that the County and SSA are failing to meet federal and state statutory requirements applicable to the timely processing of entitlement applications. They allege that such failures result in denial of the plaintiffs' statutory rights and a deprivation of due process. Plaintiffs' motion for preliminary injunction seeks to require the Defendants to implement procedures as soon as possible to ensure the timely and uninterrupted delivery of Food Stamps and Medi-Cal benefits to eligible applicants and recipients as required by state and federal law. Plaintiffs have since withdrawn their request for a preliminary injunction for Medi-Cal, though Medi-Cal and General Relief remain at issue in the lawsuit if settlement does not occur.

If the injunction as described by Plaintiffs' counsel is obtained, however, and if federal or state funding levels for the affected entitlement programs being administered by the County are reduced or otherwise inadequate, compliance with such an injunction may require substantial additional expenditures of County General Fund monies in amounts that cannot yet be reliably estimated. Plaintiffs also allege that they will seek recovery of attorneys' fees and costs. In the context of a class action such as this, if class certification is granted (which the County intends to oppose), such attorneys' fees could be substantial (again not subject to any reliable estimate at this time).

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

Alliance of Orange County Workers v. County of Orange The Alliance of Orange County Workers (AOCW) represents approximately four hundred and seventy (470) blue collar sanitation workers within the Operations and Maintenance (OSM) bargaining unit of the County. AOCW has filed a grievance with the County, alleging that its represented members are entitled to a 1.5 percent “market adjustment” salary increase, dating back to June 23, 2006, based on a commitment allegedly made in a September 1, 2006, “side letter” negotiated between the County and AOCW’s predecessor, the Service Employees International Union, Local 787. The County disputes AOCW’s interpretation of the side letter, and no market adjustments to AOCW member salaries were ever approved by the Board. Nevertheless, the Market Adjustment Grievance could potentially result in an arbitral backpay award against the County in the amount of \$922, and quite possibly more, depending on (1) whether the County is compelled by a court to arbitrate the grievance, and if it is, (2) the date of the arbitrator’s award, should the arbitrator rule in AOCW’s favor. The County has taken the position that the Market Adjustment Grievance is not substantively arbitrable, and the dispute as to whether the controversy is, in fact, arbitrable under the applicable labor agreement is currently pending in Orange County Superior Court. Because the County has not yet been ordered to arbitrate this controversy, no arbitrator has been selected to hear the grievance.

Estimated Pollution Remediation Obligations

GASB 49 requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. When a government knows or reasonably believes a site is polluted, the government should determine whether a pollution remediation obligation is recognizable as a liability when any of the following obligating events occur:

- The pollution poses an imminent danger to the public or environment and a government has little or no discretion to avoid remediation action
- A government has violated a pollution prevention-related permit or license
- A government is named (or evidence indicates it will be named, by a regulator as a responsible party for cleaning up pollution, or paying all or some of the cost of the cleanup
- A government is named (or evidence indicates it will be named), in a lawsuit to compel it to address the pollution
- A government begins or legally obligates itself to begin cleanup or post-cleanup activities (limited to amounts the government is legally required to complete)

In FY 2008-09, the County identified several environmental sites at John Wayne Airport (JWA) and OC Waste and Recycling (OCW&R) for which a pollution remediation liability has been recorded in the County’s financial statements. The following describes the nature of the obligating events, and the estimated liability as they relate to JWA and OCW&R.

John Wayne Airport (JWA)

In 1988 and 2006, the Airport was named as the responsible party in a cleanup and abatement order, for two sites on Airport property, by the California Regional Water Quality Control Board (RWQCB). The sites, the Old Fuel Farm and the Former Fire Station #33, were identified as having chemical impacts to the soil and groundwater. In 1994 and 2002, the Airport began monitoring and the remediation of the Old Fuel Farm and the Former Fire Station #33 sites, respectively.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations (Continued)

John Wayne Airport (JWA) (Continued)

In 2008, the sites were sampled as part of an assessment and the results revealed that the soil and groundwater were still impacted by chemical pollutants. In an effort to increase the removal of the chemicals, the Airport's environmental consultant reevaluated the sites and recommended a change to the remediation plan. The consultant calculated the new estimated pollution remediation liability based on a more active method of remediation that includes remedial technologies such as soil vapor extraction, dual phasing sparging and bioremediation. The Airport plans on implementing the new remediation method in FY 2009-10 and the sites are estimated to be remediated in about six to ten years. The Airport is still performing tests on the sites and the results could possibly affect the estimated pollution remediation liability as well as a change to the remedial technologies used to remediate the sites.

In 1995, the Airport entered into Memorandum of Understanding (MOU) with one of its fixed-based operators (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. The expected recoveries for the Old Fuel Farm site are not yet realized or realizable.

The estimated pollution remediation obligation as of June 30, 2009 is:

Old Fuel Farm Site	\$ 788
Former Fire Station # 33 Site	695
Less: Expected Recoveries (50% Recovery from FBO lessee)	<u>(394)</u>
Net Pollution Remediation Obligation	<u>\$ 1,089</u>

Orange County Waste & Recycling (OCW&R)

Four closed disposal sites were identified and the remediation costs were calculated for each of these sites based upon the type of remediation needed and the historical trend data for closed landfill sites. The combined pollution remediation obligation for these four closed landfill sites as of June 30, 2009, is \$9,384.

Cannery Former Refuse Disposal Station A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City, requiring the City to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, the City and the Huntington Beach City School District (School District) issued the Notices of Intent to Sue under the Resource Conservative and Recovery Act, and the Comprehensive Environmental Response, Compensation, and Liability Act to the County in 2004. The City's and School District's claims were tolled until June 2006 under a tolling agreement with the County. The City, County and School District entered into a Settlement Agreement in 2007, whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas. Pursuant to the Settlement Agreement, the County is currently installing a landfill gas collection and control system at the site. Construction is anticipated to be completed in October 2009. The remaining cost to the County for the design and construction of the system, and the cost to prepare a cooperative Site Maintenance Plan is \$316.

Upon completion of the landfill gas system construction, the County will retain responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, length of time that waste has been buried and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$653.

Total obligation for landfill gas remediation at the Cannery site over the anticipated 15-year operational period is \$969.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCW&R) (Continued)

Lane Road Former Refuse Disposal Station The site located in the City of Irvine and owned by NGP Realty Sub, L.P and others, was leased and operated by the County as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is presently above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owner requiring them to remedy the landfill gas exceedances, and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with the CEO Risk Management. The County entered into a Settlement Agreement with the property owners in 2005 whereby, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and is constructing an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site. The County anticipates that this construction will be completed in October 2009, and the remaining design and construction cost for the upgrade is \$875.

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either be inactive or be converted to a passive system. The cost for the operation, maintenance and monitoring of the system will be highest in the full first year of operation when the carbon canisters will likely need more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and less anticipated alternative monitoring requirements. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the anticipated operational period is \$4,987.

Total obligation for landfill gas remediation at the Lane Road site over the anticipated 25-year operational period is \$5,862.

San Joaquin Former Refuse Disposal Station The site, owned by the University of California at Irvine, was leased and operated by the County as a refuse disposal facility from 1954 to 1961. In 1996 a portion of the site was sold to the Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with the University that was approved by the Board in May 2005. Pursuant to the Cooperative Agreement, the County is currently constructing a landfill gas collection and control system, including a carbon treatment element. The construction of the system is anticipated to be completed in October 2009 and the remaining design and construction cost is \$293.

Upon completion of the landfill gas system, the County will retain responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The anticipated cost to operate, maintain and monitor the landfill gas collection system over the anticipated operational period is \$2,070.

The total obligation for landfill gas remediation at the San Joaquin site over the anticipated 15-year operational period is \$2,363.

La Veta Former Refuse Disposal Station Located in the City of Orange, La Veta is a former burn, dump and refuse disposal station leased to, and operated by, the County from 1946 to 1956. The site has multiple owners and was developed into a YMCA facility, apartments, a mobile home park and a small amount of open space. Recently, the County learned that the Californian Department of Toxic Substances Control (DTSC) and the United States Environmental Protection Agency previously performed limited soil and groundwater testing at the site. According to DTSC, the results of these tests indicate that further site assessment is warranted.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCW&R) (Continued)

La Veta Former Refuse Disposal Station (Continued)

DTSC has requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County is conducting a series of additional site investigations and assessments. Upon completion of these site assessments and based on the results contained therein, it is possible that DTSC will renew its request for a Voluntary Cleanup Agreement. The County is currently performing a complete environmental assessment of the site, under oversight by the DTSC. The remaining cost for performing the site assessment work is \$190.

It is possible that the County will incur additional costs as a result of the site conditions. However, at this time, those additional costs cannot be measured because the County is still conducting the site assessment. The costs could be significant.

18. RETIREMENT PLANS

Orange County Employees Retirement System (OCERS)

Plan Description: Substantially all County employees participate in the Orange County Employees Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established by the voters of Orange County in 1945 pursuant to the County Employees Retirement Law of 1937, California Government Code Section 31451 et. seq. (the Retirement Law). OCERS is an independent defined-benefit retirement plan in which employees of the County, Orange County Superior Court, and employees of certain cities and special districts within the County participate. OCERS is governed by the Board of Retirement (the "OCERS Board"). Certain attributes of independence of OCERS are guaranteed under the California Constitution. The OCERS Board consists of nine regular and one alternate member. Four OCERS Board members are appointed by the Board, 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.

The OCERS Board supervises the investment of OCERS assets and the distribution of benefits to retired employees. The OCERS Board also determines the annual contributions required of the County and other participating local governmental entities to fund OCERS. Such annual contributions consist primarily of two components: the so-called "normal cost" contribution and the amortized portion of the "unfunded actuarial accrued liability" (the UAAL) contribution, to the extent an UAAL exists.

The Retirement Law requires an actuarial valuation to be performed at least once every three years. OCERS practice has been to conduct an actuarial valuation annually as of December 31, which is the end of the OCERS fiscal year.

OCERS issues an audited stand-alone annual financial report for each year ending December 31, which 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.

According to OCERS most recent public report dated December 31, 2008, entities paying into the OCERS, also known as plan sponsors, include the County of Orange, City of San Juan Capistrano, Orange County Cemetery District, Orange County Children and Families Commission, Orange County Department of Education (closed to new members), OCERS, Orange County Fire Authority (OCFA), Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Public Law Library, Orange County Sanitation District, Orange County Superior Court, Orange County Transportation Authority (OCTA), Transportation Corridor Agencies, University of California, Irvine Medical Center and Campus (closed to new members). The County payments represent approximately 81% of the total plan sponsor payments into OCERS. As of December 31, 2008, OCERS was 71.3% funded. A schedule of funding progress for OCERS is included in Required Supplemental Information (RSI) section.

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Plan Description (Continued)

OCERS provides for retirement, death, disability, and cost-of-living benefits. Under OCERS, each County employee receives a defined-benefit pension at retirement, that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement. The OCERS Board does not set the benefit amounts. OCERS administers benefits that are set by the Board through the collective bargaining process with County employees in accordance with the Retirement Law.

Non-vested Supplemental Targeted Additional Retiree Cost of Living Adjustment (STAR COLA) benefits are also paid by OCERS to eligible retirees and survivors. Pursuant to Government Code Section 31874.3 of the County Employees Retirement Law of 1937, the OCERS Board has the sole authority to grant STAR COLA each year. The OCERS Board considers that, while they have the statutory ability to grant STAR COLA, it is the Plan Sponsors within OCERS who should grant the STAR COLA benefits. Retirees who have lost more than 20% of their purchasing power since retirement are eligible for this benefit, and currently, approximately 803 retirees who retired before April 1, 1981 and their survivors receive the STAR COLA. The STAR COLA benefits are excluded from the actuarial valuation, and are funded annually through current employer contributions.

Funding Policy: In accordance with various Board's resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. In the 1997 Ventura decision of the California Supreme Court, the Court stated that for the purpose of calculating pension benefits, "final compensation" can mean not only base salaries, but also other components. Orange County employee contributions under current contracts are calculated on base salary, eligible premium pay and some categories of overtime as defined in the 1997 Ventura decision.

Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS's responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2008-09, employer's contributions, as a percentage of covered payrolls, were 22.20% for General members, 36.05% for Safety-Law Enforcement members and 32.25% for Safety-Probation members.

Effective June 28, 2002, Safety member's rate of contribution is calculated to provide an annuity equal to 3% 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 as of June 28, 2002, and now earn benefits under a 3% at 50 benefits formula.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General Members who work for the County of Orange (approximately 14,000) became eligible for the benefit formula of 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General Members, the employee associations agreed to pay the costs of the difference between retirement benefits at the prior formulas and the new 2.7% at age 55 formula and also for the annual amortization of the unfunded liability created by the retroactive application of the increased benefit. However, members of the American Federation of State, County and Municipal Employees (AFSCME), which represents approximately 1,179 employees, did not elect the 2.7% at age 55 retirement formula and remain at the previous benefit formulas. The benefit formulas for AFSCME are an annual annuity equal to: 2% of the "final compensation" for each year of service rendered at age 57 for Tier I General members; and 1.6667% of the member's "final compensation" for each year of service rendered at age 57.5 for Tier II General members.

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial Valuation and Funding Methodology: OCERS is funded pursuant to the Entry Age Normal funding method. The annual required contribution for the current year was determined as part of an actuarial valuation performed by Segal Company as of December 31, 2006. The actuarial assumptions currently used in valuing the plan include, but are not limited to, (i) an investment return assumption of 7.75%, (ii) a policy to amortize OCERS Unfunded Actuarial Accrued Liability (UAAL) as of December 31, 2004, over a 30-year period on a closed basis, (iii) amortizing any increases or decreases in UAAL that arise in the future years due to actuarial gains or losses over separate 15-year periods, (iv) increases or decreases due to assumption changes are amortized over separate 30-year periods (v) all amortizations conducted on a level percent of pay basis and (vi) a 3.5% inflation assumption. According to the 2006 Valuation, the aggregate employer contribution rate is 24.01%. The aggregate Member employee rate, some of which are contributed by the sponsor under existing bargaining agreements, is 10.36%. The aggregate rates are for all of OCERS, and the County makes up approximately 85% of OCERS.

In September 1994, the County issued \$320,000 of pension obligation bonds, of which \$318,000 in proceeds were paid to OCERS. OCERS maintains the proceeds in a County Investment Account. Amounts in the County Investment Account have been used to fund a portion of the County's contributions over time, pursuant to agreements between OCERS and the County, which allows the County significant discretion in applying the credit. As of June 30, 2009, \$101,471 of such proceeds remains available for future credits to the County's pension obligations. For the fiscal year ended June 30, 2009, the County utilized \$36,500 of the County Investment Account to meet its Annual Required Contribution.

The table below shows the County's required contributions and the percentage contributed for the current fiscal year and each of the two prior fiscal years:

Orange County Employees' Retirement System County Contributions				
Year Ended	County Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
6/30/2007	\$ 223,505	\$ 11,000	\$ 234,505	100%
6/30/2008	253,620	11,000	264,620	100%
6/30/2009	256,531	36,500	293,031	100%

County Administered Pension Plans

County of Orange 401(a) Defined Contribution Plan

Plan Description: Effective January 1999, as amended and restated on March 1, 2002, the Board established the County of Orange 401(a) Plan for the benefit of eligible employees, Elected Officials, which included members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association, and certain other employee classifications as defined in the plan document. The Board also has the authority to amend the plan. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers included in the Executive Policy Unit effective June 23, 2006. 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, 2009, the plan has 738 active participants and 19 inactive participants.

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

County of Orange 401(a) Defined Contribution Plan (Continued)

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 3% to 8% 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, 2009, were \$1,068 by the County and zero by the employees. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and 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, 2009, the value of plan assets was \$7,454.

Administrative Cost: There are no separate recordkeeping or administrative fees charged to the participants. The investment management fees for the 401(a) funds managed by Great West Retirement Services are deducted from the earnings each quarter.

Extra-Help Employees Defined Benefits 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. Eligible employees of this plan are not covered by OCERS or Social Security. 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 final 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 plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The Board has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

The plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. This plan subsequently froze benefit accruals effective November 21, 2008. As of June 30, 2009, the plan consists of 94 active plan participants, 249 terminated plan participants entitled to but not yet receiving benefits, and 28 retirees receiving benefits.

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, pursuant to the plan documentation and as may be required by statutory requirements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan.

Investments are reported at fair value as further described in Note 1.E and are fully invested in the County Pool as described in Note 4. The plan has not issued separate stand-alone financial statements.

Funding Policy: Plan participants are required to contribute between 2.5% and 7.5% 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, the County has contributed \$1,437. The annual required contribution is equal to:

- Normal cost
- Minus employer and employee contribution
- Plus 30-year amortization of the Unfunded Actuarial Accrued Liability (UAAL)

The County charges a benefits administration fee to County agencies, which funds 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.

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Employees Defined Benefits Retirement Plan (Continued)

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. The plan's annual pension cost was calculated using the data and assets as of June 30, 2009. The actuarial assets are valued at market value. 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 calculated using the projected unit credit actuarial cost method is (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the UAAL. Based on the actuarial report dated July 1, 2009, interest on the net pension obligation is \$43.

For the fiscal year ended June 30, 2009, the County's annual required contribution was \$242. The actuarial assumptions included (a) 6.5% investment return, net of administrative expenses: (b) The 417(e) lump sum basis used for ERISA-governed plans, including the phase-out of the 30-year treasury rate; the look-back month is November: and (c) RP2000 Mortality Tables projected to 2010 with no collar distinction for males and females. The UAAL is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years. Multiyear trend information about the funding progress is presented in the RSI section following the notes to the basic financial statements.

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 Actuarial Accrued Liability (UAAL) (b=a-c)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (c/d)
6/30/2009	4,923	7,091	2,168	69.4%	N/A ³	N/A

³The plan froze benefits effective November 21, 2008; therefore, there is no covered payroll for future plan years.

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

	<u>06/30/07</u>	<u>06/30/08</u>	<u>06/30/09</u>
Annual Required Contribution	\$ 285	\$ 225	\$ 242
Interest on Net Pension Obligation	49	43	43
Adjustment to Annual Required Contribution	<u>(58)</u>	<u>(51)</u>	<u>(51)</u>
Annual Pension Cost	276	217	234
Contributions Made	<u>(358)</u>	<u>(225)</u>	<u>(242)</u>
Increase/Decrease in Net Pension Obligation	(82)	(8)	(8)
Net Pension Obligation, Beginning of Year	<u>750</u>	<u>668</u>	<u>660</u>
Net Pension Obligation, End of Year	<u>\$ 668</u>	<u>\$ 660</u>	<u>\$ 652</u>

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Employees Defined Benefits Retirement Plan (Continued)

Annual Pension Cost (Continued)

The table below shows the County's required contributions and the percentage contributed for the current fiscal year and each of the two prior fiscal years.

**Orange County Defined Benefit Retirement Plan
County Contributions**

<u>Year Ended</u>	<u>County Contribution</u>	<u>Total Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/2007	\$ 358	\$ 285	126%
6/30/2008	225	225	100%
6/30/2009	242	242	100%

Extra-Help Defined Contribution Plan

Plan Description: On March 1, 2002, the Board adopted a Defined Contribution Plan to replace the Defined Benefit Retirement Plan for new employees hired on or after March 1, 2002, and supplements the benefits of the Extra-Help Defined Benefit Retirement Plan for employees hired prior to March 1, 2002. Eligible employees of this plan are not covered by OCERS or Social Security. 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. The Board has the authority to amend the Plan. As of June 30, 2009, there were 2,799 active participants and 343 inactive 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 457 Defined Contribution 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 the Stable Value Fund offered through Great West Retirement Services which is designed to protect principal and maximize earnings. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. There is no additional contribution made by the County. Total employee contributions for the year ended June 30, 2009, were \$969 by the employees and zero by the County. As of June 30, 2009, the value of plan assets was \$3,887.

Administrative Cost: There are no separate recordkeeping or administrative fees charged to the participants. The investment management fee charged by Great West Retirement Services for the Stable Value Fund is deducted from the interest earnings each quarter as a percentage of the interest rate credited.

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered retirement funds, condensed financial statements are presented below as of and for the year ended June 30, 2009:

	<u>Total</u>	<u>Extra-Help Defined Benefit Retirement Plan</u>	<u>Extra-Help Defined Contribution Plan</u>	<u>401(a) Defined Contribution Plan</u>
<u>Statements of Net Assets</u>				
Pooled Cash/Investments	\$ 4,915	\$ 4,915	\$ --	\$ --
Restricted Cash and Investments with Trustee	11,341	--	3,887	7,454
Receivables:				
Interest/Dividends	14	14	--	--
Due from Other Governmental Agencies	652	652	--	--
Total Net Assets Held in Trust	<u>\$ 16,922</u>	<u>\$ 5,581</u>	<u>\$ 3,887</u>	<u>\$ 7,454</u>

	<u>Total</u>	<u>Extra-Help Defined Benefit Retirement Plan</u>	<u>Extra-Help Defined Contribution Plan</u>	<u>401(a) Defined Contribution Plan</u>
<u>Statements of Changes in Net Assets</u>				
Additions:				
Contributions to Pension Trust:				
Employer	\$ 1,310	\$ 242	\$ --	\$ 1,068
Employee	1,052	83	969	--
Interest and Investment Income	(157)	116	153	(426)
Less: Investment Expense	(4)	(4)	--	--
Total Additions	<u>2,201</u>	<u>437</u>	<u>1,122</u>	<u>642</u>
Deductions:				
Benefits Paid to Participants	776	117	436	223
Refunds of Prior Contributions	627	627	--	--
Total Deductions	<u>1,403</u>	<u>744</u>	<u>436</u>	<u>223</u>
Change in Net Assets Held in Trust for Employee's Retirement	798	(307)	686	419
Net Assets Held in Trust at July 1, 2008	<u>16,124</u>	<u>5,888</u>	<u>3,201</u>	<u>7,035</u>
Net Assets Held in Trust at June 30, 2009	<u>\$ 16,922</u>	<u>\$ 5,581</u>	<u>\$ 3,887</u>	<u>\$ 7,454</u>

19. POSTEMPLOYMENT HEALTH CARE BENEFITS

County of Orange Retiree Medical Plan

Plan Description: The County of Orange Third Amended Retiree Medical Plan (the Retiree Medical Plan) is a single employer defined benefit Other Postemployment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the Board. The Board is also the authority for amending the Plan. The Retiree Medical Plan is not required by the County Employees Retirement Law of 1937 ("CERL") – the statute governing County employee retirement benefits. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums. The Retiree Medical Plan specifically states that it does not create any vested right to the benefits.

In order to be eligible to receive the Grant upon retirement, the employee must have completed at least 10 years of continuous County service (although exceptions for disability retirements exist), be enrolled in a County sponsored health plan and/or Medicare, qualify as a retiree as defined by the Retiree Medical Plan and be able to receive a monthly benefit payment from the Orange County Employees Retirement System (OCERS). To qualify as a retiree as defined by the Retiree Medical Plan, the employee upon retirement must be at least 50 years of age or have at least 20 years of service for a safety member of OCERS or at least 30 years of service for a general member of OCERS.

The monthly Grant amount is determined by a formula that multiplies a base number by the number of years of qualifying County employment up to a maximum of 25 years. The base number for calendar year 2008 was \$17.17 (absolute dollars) per year of County service, and the maximum monthly Grant was \$429.25 (absolute dollars). The base number for calendar year 2009 is \$17.69 (absolute dollars) per year of County service, and the maximum monthly Grant is \$442.25 (absolute dollars). The amount of the Grant is netted against the monthly health plan premium and/or reimburses Medicare premiums paid by the retiree for retiree and dependent coverage with the retiree obligated to pay the remaining balance. Any grant in excess of the monthly health plan and/or Medicare premium payable is forfeited.

The Grant is reduced by 50% once the retiree becomes Medicare A and B eligible. Retirees who were age 65 or Medicare A and B eligible on the effective date are not subject to the Medicare reduction. The Grant is also reduced by 7.5% for each year of age prior to age 60 and increased by 7.5% for each year of age after age 60 up to age 70 for current employees retiring after the effective date. The effective date varies by labor agreement. Safety employees and disability retirements are exempt from the age adjustment.

The base number for the Grant is adjusted annually based on a formula defined in the Retiree Medical Plan document with a maximum increase/decrease of 3%. Surviving dependents of a deceased employee or retiree eligible for the Grant are entitled to receive 50% of the Grant that the employee/retiree was eligible to receive.

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The qualifying hours of service for calculation of the lump sum payment is frozen and the effective date varies by labor agreement. The frozen lump sum payment is equal to 1% of the employee's final average hourly pay (as defined in the plan) multiplied by the employee's qualifying hours of service (as defined) since the Retiree Medical Plan's effective date.

Employees represented by the American Federation of State, County and Municipal Employees (AFSCME) who retired before September 30, 2005 are not subject to the Medicare reduction or age adjustment to the Grant. The base number for these retirees is adjusted annually with a maximum increase/decrease of 5%. AFSCME employees who were employed on or after September 30, 2005 are not eligible for the Grant or the lump sum payment. They may participate in the County-offered health plans at their own cost if they meet the minimum plan requirements.

Employees represented by the Association of Orange County Deputy Sheriffs (AOCDS) who were hired on or after October 12, 2007 are not eligible for the Grant or lump sum payment. Service hour accruals for the Grant and lump sum calculations for employees represented by AOCDS who were hired before October 12, 2007 were frozen. A Defined Contribution Plan (Health Reimbursement Arrangement) was established to replace the Grant for new employees, and to supplement the frozen grants for current employees.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

Effective January 1, 2008, health insurance premium rates were separately pooled for the active and retired employees except for employees represented by the AOCDS. Effective July 1, 2008, retiree health insurance premium rates for retired employees enrolled in the AOCDS health plans will be 10% higher than active employees.

Funding Policy: The County implemented an employer contribution in an amount equal to the Annual Required Contribution (ARC) for the affected labor groups except AOCDS. In order to more adequately fund benefits under the Retiree Medical Plan, on June 19, 2007, the Board adopted the County of Orange Retiree Medical Trust (Trust) effective July 2, 2007. The Trust is an Internal Revenue Code section 115 trust. In addition, the County and OCERS have entered into agreements for OCERS to establish an Internal Revenue Code section 401(h) account, invest monies of the 401(h) account and the Trust and to act as paying agent for benefits under the Retiree Medical Plan (except for the lump sum payment).

The County is currently setting aside contributions of 0.6% for AFSCME, 4.5% for AOCDS, 2.4% for Probation Department safety personnel and 2.5% of payroll for all other labor groups, which is the estimated ARC for those groups. The County intends to continue contributing the full ARC each year, assuming the Retiree Medical Plan remains in effect and as currently structured. Funds were initially deposited into the Trust in December 2007 with subsequent deposits made throughout each fiscal year. The Board has appointed the County Chief Financial Officer as the trustee for the Trust. The costs to administer the Trust are paid from the Trust.

Actuarial Methods and Assumptions: In preparation for the GASB Statement No. 43 and Statement No. 45 requirements, the County contracted with an outside actuarial consultant, Bartel Associates, LLC (Bartel) to prepare an actuarial valuation in conformance with the new GASB statements. In December 2008, the County received a June 30, 2007 Valuation for fiscal years 2007-08 and 2008-09 for the Retiree Medical Plan (the Report). Among the actuarial methods and assumptions used in the Report are:

- The entry age normal actuarial cost method
- Closed period amortization of the UAAL over 30 years as a level percentage of payroll (30 years for fiscal year 2007/08 and 29 years for 2008/09)
- A 7.75% long-term expected rate of return on funds held in the Trust
- A 3.5% per annum payroll increase assumption
- The assumed annual increases in the monthly grant of 3% for non-AFSCME employees and 5% for AFSCME employees through calendar year 2016. The healthcare trend was assumed to be greater than the annual increase to the Grant through 2016. Therefore, it is the Grant annual increase rather than the healthcare trend that affects the projected benefits and the UAAL. For 2017 +, a healthcare trend of 4.5% was used for AFSCME employees since the trend is lower than the 5% annual adjustment. For non-AFSCME employees, an annual 3% increase is used for the entire 30 year amortization period.
- There are an estimated 25,258 participants in the plan of which 18,362 are employees, 18 are deferred retirees, and 6,878 are retirees.

Annual OPEB Cost and Net OPEB Obligation/Asset: The County's annual OPEB cost is calculated based on the ARC, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of time not to exceed 30 years. Also the County elected to compute the Net OPEB Obligation (NOO) at transition retroactively. The following table shows the components of the County's annual OPEB cost, the amount actually contributed to the Trust, and changes in the County's net OPEB obligation for the current and prior fiscal year:

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Annual OPEB Cost and Net OPEB Obligation/Asset (Continued)

	2007-08	2008-09
Annual Required Contribution	\$ 30,654	\$ 25,900
Interest on Net OPEB Obligation	2,420	(3,599)
Amortization on Net OPEB Obligation	(1,893)	2,866
Annual OPEB Cost	31,181	25,167
Contribution made	(108,853)	(36,047)
Increase/Decrease in Net OPEB Obligation	(77,672)	(10,880)
Net OPEB Obligation, Beginning of year	31,230	(46,442)
Net OPEB Obligation/(Asset), End of year	\$ (46,442)	\$ (57,322)

The County's annual OPEB Cost, the percentage of annual OPEB cost Contribution to the plan, and the net OPEB obligation for FY 2008-09 and the preceding year were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2008	\$ 31,181	349%	\$ (46,442)
6/30/2009	25,167	143%	(57,322)

Funded Status and Funding Progress: The funded status of the OPEB Plan as of June 30, 2007 is as follows:

Actuarial Accrued Liability (AAL)	\$ 408,322
Actuarial Value of Plan Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 408,322
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%
Covered Payroll	1,157,642
UAAL as Percentage of Covered Payroll	35.3%

The above noted actuarial accrued liability was based on the June 30, 2007 actuarial valuation. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial valuations contained in the Report involve estimates of the values of reported amounts and assumptions about the probability of events far into the future and will be subject to continual revision as they reflect a long-term perspective. Assumptions used in the Report also include techniques designed to reduce short-term volatility in AAL and the actuarial value of assets. Current estimates of the funded status and trend information about the funding progress and the employer contributions are presented in the Required Supplemental Information following the notes to the basic financial statements.

County of Orange Health Reimbursement Arrangement (HRA)

Plan Description: On October 23, 2007, the Board approved and adopted a Memorandum of Understanding (MOU) agreement with the AOCDS. The MOU restructured the Retiree Medical Plan and established a Defined Contribution Plan (Health Reimbursement Arrangement) to replace the Retiree Medical Plan for new employees, and to supplement the current employees' frozen service hour accruals for the Grant.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Health Reimbursement Arrangement (HRA) (Continued)

Plan Description (Continued)

On June 17, 2008, the Board approved the County of Orange Health Reimbursement Arrangement Plan (HRA) with an effective date of October 12, 2007. The HRA Plan is not required by California Public Employees' Retirement Law (CERL). The plan is intended for funding the reimbursement accounts of eligible employees on a pre-tax basis and reimbursing the eligible unreimbursed and substantiated qualified medical expenses of retired participants.

The plan is intended to comply with the requirements of sections 105 and 106 of the Code, and meets the requirements of a health reimbursement arrangement as defined under Internal Revenue Service (IRS) Notice 2002-45. The contributions made to reimbursement accounts, any investment gains and qualified medical expenses reimbursed under this plan are intended to be eligible for exclusion from the gross income of eligible employees, participants and retired participants (including the spouses and dependents of each) under Code §105(b). The Plan may be amended by the Employer or the Plan Administrator to comply with federal, state, or local laws, statues, regulations, or guidelines. Reimbursement of qualified medical expenses was deferred until the selection and implementation of the third party administrator. Administration of the HRA by the third party administrator began in August 2009. As of June 30, 2009, there were 2,022 participants in the plan.

Funding Policy: Employer and mandatory employee contributions were effective October 12, 2007. All contributions to the plan are deemed to be employer contributions whether made directly by the employer or as a mandatory contribution pursuant to the MOU. The County contributes 3.0% of compensation each pay period. Employees in the plan are required to contribute 2.0% of compensation each pay period. The contributions are maintained in a County trust fund. Total contributions for the year ending June 30, 2009 were \$7,782.

Condensed Financial Statements:

Separate GAAP-basis reports are not currently available for the defined benefit and contribution plans. In lieu of separately issued financial statements for the County administered postemployment health care benefit trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2009:

Statements of Net Assets

	Total	Retiree Medical Plan	Health Reimbursement Arrangement Plan
Pooled Cash/Investments	\$ 17,703	\$ 5,482	\$ 12,221
Restricted Cash and Investments with Trustee	73,426	73,426	-
Interest Receivable	55	21	34
Due from Other Governmental Agencies	986	735	251
Total Net Assets Held in Trust	<u>\$ 92,170</u>	<u>\$ 79,664</u>	<u>\$ 12,506</u>

Statements of Changes in Net Assets

	Total	Retiree Medical Plan	Health Reimbursement Arrangement Plan
Additions:			
Contributions to Retiree Medical Trust:			
Employer	\$ 43,829	\$ 36,047	\$ 7,782
Interest and Investment Income (Loss)	(10,740)	(10,921)	181
Less: Investment Expense	(533)	(525)	(8)
Total Additions	<u>32,556</u>	<u>24,601</u>	<u>7,955</u>
Deductions:			
Benefits Paid to Participants	24,654	24,654	-
Total Deductions	<u>24,654</u>	<u>24,654</u>	<u>-</u>
Change in Net Assets Held in Trust (Loss)	7,902	(53)	7,955
Net Assets Held in Trust at July 1, 2008	84,268	79,717	4,551
Net Assets Held in Trust at June 30, 2009	<u>\$ 92,170</u>	<u>\$ 79,664</u>	<u>\$ 12,506</u>

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2009:

2009-2010 Tax and Revenue Anticipation Notes: On July 1, 2009, the County issued its 2009-2010 Tax and Revenue Anticipation Notes (the "Notes") in the aggregate principal amount of \$150,000 to finance the seasonal cash flow requirements of the County during the fiscal year ending June 30, 2010. The Notes are secured by a pledge of certain general fund monies and will mature on June 30, 2010.

Teeter Plan Obligation Commercial Paper Program Notes Series A: On July 14, 2009, the County redeemed \$100,000 of its \$178,300 Teeter Plan Obligation Commercial Paper Notes Series A (the "CP") outstanding at June 30, 2009. The remaining CP outstanding after redemption was \$78,300. The CP notes replaced a prior Teeter Program debt that had a June 30, 2008 balance of \$123,725. Also, on July 14, 2009 the County issued an additional \$132,675 in CP for a new outstanding balance of \$210,975. The additional CP issued financed the purchase of delinquent property tax receivables associated with the Teeter Plan. Proceeds of this purchase paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll.

Airport Revenue Bonds, Series 2009A and 2009B: On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009 Bonds) in the aggregate principal amount of \$233,115, with an original issue net premium of \$287. The 2009 Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C and two new commuter/regional holdrooms at the north and south ends of the extended Terminal.

The 2009 Bonds are limited obligations of the Airport payable from, and secured by, Airport net revenues and available Passenger Facility Charge revenues.

Award the Contract for the Airport Terminal C Project: On July 21, 2009, the Board awarded and executed the construction contract in the amount of \$102,309 for the Terminal C project to the lowest responsible and responsive bidder. The Terminal C project is a major element of the AIP and consists of the construction of a new Terminal C building and interior renovations of the existing Terminals A and B.

Award the Contract for the Airport Parking Structure C Project: On July 21, 2009, the Board awarded and executed the construction contract in the amount of \$34,171 for the Parking Structure C project to the lowest responsible and responsive bidder. The Parking Structure C project is a another component of the AIP and consists of the construction of a new parking structure to replace the former Parking Structure B1 that was deconstructed to make way for Terminal C.

Internal Borrowing for Information Technology Projects: On October 6, 2009, the Board authorized the borrowing of up to \$22,000 in FY 2009-10 from the OCW&R Solid Waste Enterprise Fund to pay for costs associated with the upgrades of various information technology projects including the Assessment Tax System (ATS), Property Tax Management System (PTMS), County Accounting and Personnel System Human Resources/Payroll (CAPS-HR), and CAPS Budget Reporting and Analysis Support System (BRASS) converting to Performance Budgeting (PB) system (collectively, the "Projects"). The use of the internal borrowing will allow completion of the Projects and provide a cost-effective repayment plan; whereby, the General Fund will repay principal and accrued interest to the OCW&R Solid Waste Enterprise Fund over a five year period.

20. SUBSEQUENT EVENTS (Continued)

State Legislation and Budgetary Impact on the County: In July 2009, the California State Legislature passed a series of bills amending the FY 2009-10 state budget to address a \$24 billion shortfall. This legislation authorized the State of California to borrow and/or shift revenues from local governments for FY 2009-10. The County's affected revenues include property taxes, redevelopment agency tax increments, Proposition 42 transportation funds and highway user taxes (HUTA). The borrowing from the County in FY 2009-10 is estimated at \$65,000 for property taxes, \$8,500 for Proposition 42 and \$9,000 for HUTA. The property tax borrowing is not expected to impact operations due to the County's participation in the statewide securitization of the Proposition 1A receivables. The redevelopment revenue shift is a permanent reallocation of \$8,800 of FY 2009-10 redevelopment property tax revenue from the County's redevelopment agencies to fund K-12 schools that serve redevelopment project areas. The revenue shift will reduce the overall resources available to implement projects within the redevelopment area. In response, the California Redevelopment Association has filed a lawsuit challenging the constitutionality of State's actions.