

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This section of the County’s Comprehensive Annual Financial Report (CAFR) provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2010. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides a clear picture of the County’s overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Total net assets increased by \$138,802, or 3% as compared to last year.
- Long-term debt increased by \$141,570, or 22% during the current fiscal year.
- The County’s governmental funds reported combined ending fund balances of \$1,748,880, an increase of \$2,057, or less than 1% in comparison with the prior year.
- Unreserved fund balance in the General Fund was \$6,443, or less than 1% of total FY 2009-10 expenditures and transfers of \$2,603,746.
- General Fund revenues and transfers ended the year 5% below budget.
- General Fund expenditures and transfers ended the year 8% below budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements presented in the County’s CAFR are divided into three different sections:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

<i>Basic Financial Statements</i>			
Government-wide Financial Statements	Fund Financial Statements		
	Governmental Funds	Proprietary Funds	Fiduciary Funds
Statement of Net Assets	Balance Sheet	Statement of Net Assets	Statement of Fiduciary Net Assets
	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Fund Net Assets	
Statement of Activities	Budgetary Comparison Statement	Statement of Cash Flows	Statement of Changes in Fiduciary Net Assets
Notes to the Basic Financial Statements			

The following table summarizes the major features of the basic financial statements:

	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of Financial Statement	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets Statement of Revenues, Expenses, and Changes in Fund Net Assets Statement of Cash Flows	Statement of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Scope	Entire entity (except fiduciary funds)	Day-to-day operating activities for basic services	Day-to-day operating activities for business-type services	Resources on behalf of others
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements consist of the following two financial statements: the Statement of Net Assets and the Statement of Activities. Both of these statements were prepared using an accounting method and a measurement focus similar to those used by private-sector companies, the accrual basis of accounting and the economic resources measurement focus. The **Statement of Net Assets** provides information regarding all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The **Statement of Activities**, on the other hand, provides information on how the government's net assets changed during the most recent fiscal year regardless of the period when the related cash or cash equivalent is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The Statement of Net Assets and the Statement of Activities distinguish functions of the County that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include (1) general government, (2) public protection, (3) public ways and facilities, (4) health and sanitation, (5) public assistance, (6) education, and (7) recreation and cultural services. The business-type activities of the County include airport, waste management, and compressed natural gas.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations, and therefore, data from these component units are combined with data of the primary government. Financial information for the Children and Families Commission of Orange County, a discretely presented component unit, is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

- **Fund** - a separate accounting entity with a self-balancing set of accounts.
- Focus is on **major funds**.
- Provides information regarding the three major categories of all County funds: **governmental, proprietary, and fiduciary**.

The fund financial statements report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting entity with a self-balancing set of accounts. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental and proprietary fund financial statements is on major funds as determined by the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34 "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*." All of the County funds can be divided into three major categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds - Governmental funds include most of the County's basic services and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements are prepared using the modified accrual basis of accounting and current financial resources measurement focus.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are prepared for the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

In FY 2009-10, an increase of \$61,751 in net assets in the government-wide financial statements was reported, and an increase of \$2,057 in fund balances was reported in the fund financial statements. Refer to the financial analysis of the governmental activities and governmental funds below for details on the factors contributing to these differences.

The County maintains several individual governmental funds organized according to their type (General Fund, Special Revenue, Debt Service, Capital Projects and Permanent Funds). Information is presented separately in the governmental funds' Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is always a major fund, and all other major funds. Information for nonmajor funds is presented in the aggregate in these statements. Individual fund data for each of the nonmajor governmental funds is presented elsewhere in this report. The County adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget.

Proprietary Funds - The County maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Airport, Waste Management, and Compressed Natural Gas. **Internal Service Funds** are used to accumulate and allocate costs internally among the County's various functions such as insurance, transportation, publishing, and information technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport and Waste Management operations, which are both considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

Fiduciary Funds - Fiduciary funds include the **Trust** and **Agency** funds and are used to account for assets held on behalf of outside parties, including other governments. Financial information for fiduciary funds is not reported in the government-wide financial statements because the resources of these funds are not available to support the County's programs. The combining statements for fiduciary funds are included elsewhere in this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. To find a specific note, refer to the Table of Contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the County's financial position. At June 30, 2010, the County's combined net assets (governmental and business-type activities) totaled \$4,794,221, an increase of 3% from FY 2008-09.

The largest component of the County's net assets (65%) was **invested in capital assets, less any related outstanding debt** used to acquire those assets. In FY 2009-10, the County implemented GASB Statement No. 51, "Accounting and Reporting for Intangible Assets," which requires identifiable intangible assets be reported in the statement of net assets. As a result, the County's net assets invested in capital assets net of related debt increased, since capital assets now include land, structures and improvements, equipment, construction in progress, infrastructure, and intangible assets, such as software and software in development. The County's capital assets are used to provide needed services to its citizens. Since the capital assets themselves cannot be used to liquidate

COMPONENTS OF NET ASSETS

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

the associated debt, the resources needed to repay the debt must be provided from other sources. Refer to Note 2, Changes in Accounting Principles, for more information regarding GASB Statement No. 51.

The County's **restricted** net assets total \$1,384,586 which represents 29% of its net assets. Restricted net assets are resources subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation, including those passed by the County itself.

The final component of net assets is **unrestricted net assets**. Unrestricted net assets are resources that the County may use to meet its ongoing obligations to citizens and creditors. As of June 30, 2010, governmental activities showed a \$9,986 deficit in unrestricted net assets, compared to a deficit of \$1,271 in FY 2008-09. The deficit in unrestricted net assets is primarily the result of the County's bankruptcy related debt, and is not a reflection of the County's lack of resources to meet its ongoing obligations to the citizens and creditors. Due to the County's inclusion of intangible assets, unrestricted net assets is shown more positively, since the deficit balance would have been greater had the expenditures for the intangible assets not been capitalized.

The following table presents condensed financial information derived from the government-wide Statement of Net Assets:

NET ASSETS – Primary Government						
June 30, 2010						
	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
ASSETS						
Current and other assets	\$ 2,725,572	\$ 2,773,189	\$ 894,078	\$ 733,000	\$ 3,619,650	\$ 3,506,189
Capital assets	2,634,116	2,523,055	653,768	558,032	3,287,884	3,081,087
Total Assets	5,359,688	5,296,244	1,547,846	1,291,032	6,907,534	6,587,276
LIABILITIES						
Long-term liabilities	1,087,441	1,315,785	466,356	253,060	1,553,797	1,568,845
Other liabilities	472,347	279,866	87,169	83,146	559,516	363,012
Total Liabilities	1,559,788	1,595,651	553,525	336,206	2,113,313	1,931,857
NET ASSETS						
Invested in capital assets, net of related debt	2,560,468	2,445,397	537,375	493,658	3,097,843	2,939,055
Restricted	1,249,418	1,256,467	135,168 *	461,168 *	1,384,586	1,717,635
Unrestricted	(9,986)	(1,271)	321,778 *	-- *	311,792	(1,271)
Total Net Assets	\$ 3,799,900	\$ 3,700,593	\$ 994,321	\$ 954,826	\$ 4,794,221	\$ 4,655,419

* In accordance with GASB 2010-11 Comprehensive Implementation Guide, net assets for business-type activities have been reclassified in the government-wide statements to be consistent with the classification of net assets in the enterprise fund financial statements.

As of June 30, 2010, the County's total assets increased by 5% or \$320,258 during the current fiscal year. Current and other assets increased by \$113,461 (3%) due primarily to an increase in restricted cash and cash equivalents for the unspent bond proceeds from the issuance of the Airport Revenue Bonds, Series 2009A and 2009B. The increase in current and other assets is also attributable to State allocations of Mental Health Services Act (MHSA) funds. The recognition of intangible assets in the statement of net assets was a factor contributing to the total increase in capital assets of \$206,797 (7%). Other significant causes for the increase in capital assets include construction for the Airport Improvement Program (AIP) and the acquisition of property for the Prado Dam project.

Total liabilities for FY 2009-10 increased by 9% or \$181,456. Other liabilities increased by \$196,504 (54%), mostly due to the restructuring of the Teeter program from long-term bonds to a short-term commercial paper program. Long-term liabilities decreased by \$15,048 (1%) due to the restructuring of the Teeter program offset by the issuance of the Airport Revenue Bonds, Series 2009A and 2009B. Refer to Note 10, Short-Term Obligations, for information on the Teeter Plan Obligation Commercial Paper Notes Series A and Note 11, Long-Term Obligations, for information on the Airport Revenue Bonds, Series 2009A and 2009B.

The following table provides summarized data of the government-wide Statement of Activities:

CHANGES IN NET ASSETS – Primary Government						
For the Year Ended June 30, 2010						
	Governmental Activities		Business-Type Activities		Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES						
Program Revenues:						
Charges for Services	\$ 508,632	\$ 531,250	\$ 209,227	\$ 218,551	\$ 717,859	\$ 749,801
Operating Grants and Contributions	1,741,762	1,641,501	1,432	171	1,743,194	1,641,672
Capital Grants and Contributions	16,828	94,031	8,077	7,466	24,905	101,497
General Revenues:						
Property Taxes	475,988	456,924	--	--	475,988	456,924
Property Taxes in Lieu of Motor Vehicle License Fees	229,635	232,760	--	--	229,635	232,760
Other Taxes	93,024	94,184	--	--	93,024	94,184
Grants and Contributions not Restricted to Specific Programs	10,299	27,637	--	--	10,299	27,637
State Allocation of Vehicle Motor License Fees	46,697	50,390	--	--	46,697	50,390
Other General Revenues	70,037	63,021	8,864	18,118	78,901	81,139
Total Revenues	3,192,902	3,191,698	227,600	244,306	3,420,502	3,436,004
EXPENSES						
General Government	165,489	268,092	--	--	165,489	268,092
Public Protection	1,160,823	1,230,894	--	--	1,160,823	1,230,894
Public Ways and Facilities	120,135	108,748	--	--	120,135	108,748
Health and Sanitation	578,983	593,331	--	--	578,983	593,331
Public Assistance	931,469	898,668	--	--	931,469	898,668
Education	41,009	41,265	--	--	41,009	41,265
Recreation and Cultural Services	90,649	81,896	--	--	90,649	81,896
Interest on Long-Term Debt	53,782	59,751	--	--	53,782	59,751
Airport	--	--	92,068	91,959	92,068	91,959
Waste Management	--	--	84,754	79,374	84,754	79,374
Compressed Natural Gas	--	--	95	--	95	--
Total Expenses	3,142,339	3,282,645	176,917	171,333	3,319,256	3,453,978
Excess/(Deficit) before Transfers	50,563	(90,947)	50,683	72,973	101,246	(17,974)
Transfers	11,188	14,129	(11,188)	(14,129)	--	--
Increase/(Decrease) in Net Assets	61,751	(76,818)	39,495	58,844	101,246	(17,974)
Net Assets - Beginning of the Year, as Restated	3,738,149	3,777,411	954,826	895,982	4,692,975	4,673,393
Net Assets - End of the Year	\$ 3,799,900	\$ 3,700,593	\$ 994,321	\$ 954,826	\$ 4,794,221	\$ 4,655,419

As of June 30, 2010, the County's net assets increased by \$101,246 during the current fiscal year. Revenues for the year totaled \$3,420,502, a decrease of \$15,502 from the previous year, and expenses totaled \$3,319,256, a decrease of \$134,722 from last year's total expenses.

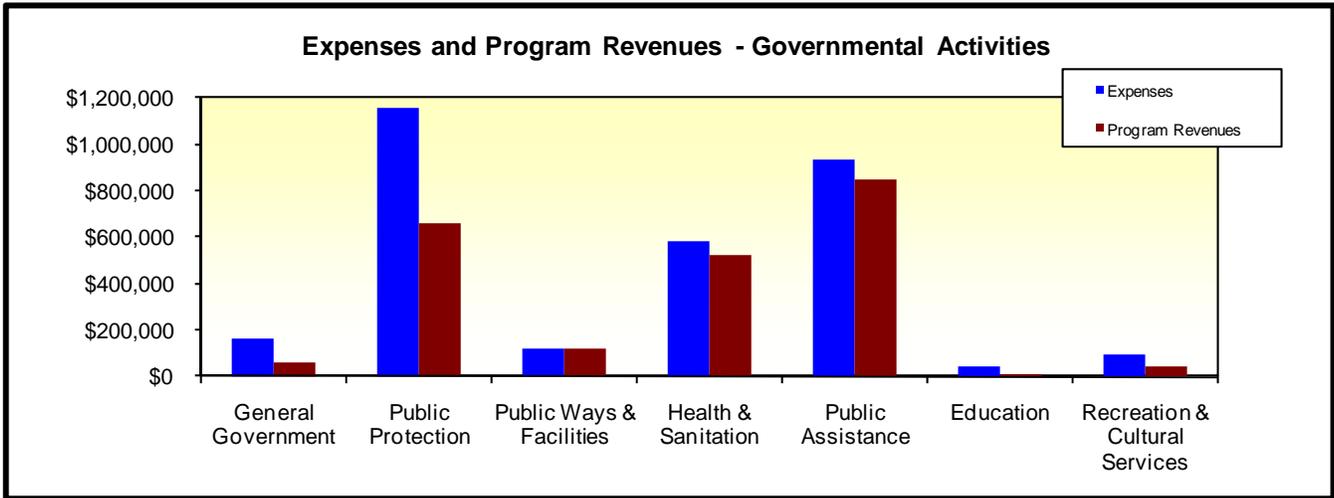
Governmental Activities

The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating grants and contributions comprised the largest revenue source for the County followed by charges for services. Operating grants and contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as State and Federal revenues for public assistance and for health care. In the governmental funds, expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. As expenditures increase, revenues increase proportionately. Charges for services are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples of the types of services that fall under this category include engineering services provided to cities under contract, park and recreation fees, and law enforcement services provided to governmental agencies under contract.

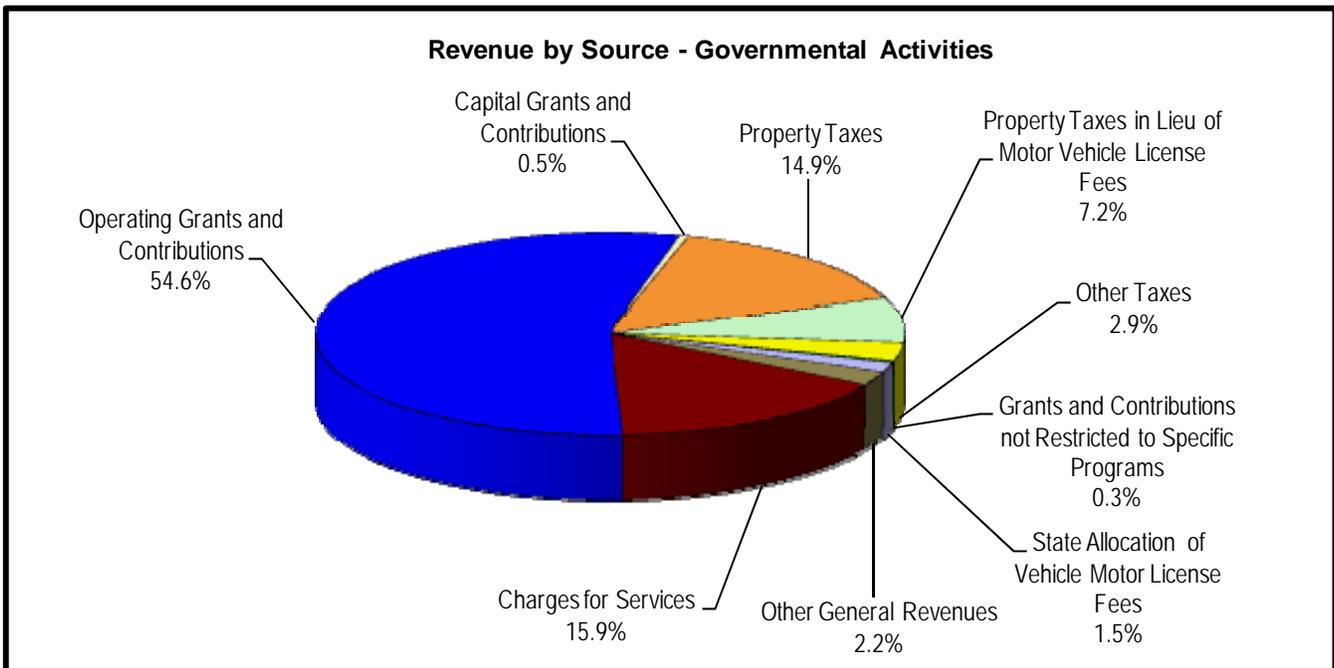
At the end of FY 2009-10, total revenues for governmental activities, including transfers from the business-type activities were \$3,204,090, a decrease of \$1,737 from the previous year. Expenses totaled \$3,142,339, a decrease of \$140,306 from the prior year. Governmental activities increased the County's net assets by \$61,751, accounting for a majority of the total increase in the net assets of the County. In addition to the effects of expenditure-driven grants, key elements of the increase are as follows:

- Operating grants and contributions increased by \$100,261 due primarily to an increase in State revenues for MHSA and Proposition 1B – Local Street and Road Improvement funds, interest earnings on investments held by trustee, and federal revenues for the Coverage Initiative, economic stimulus funding for the Workforce Investment Act, and the Section 8 – Housing Choice Voucher program. The increase in revenue was partially offset by a decline in State allocations of Proposition 172 Public Safety Sales Tax revenues and Realignment revenues.
- Property tax revenues increased by \$19,064 due to the increase in the annual property tax allocation of \$35,000 received by the County for FY 2009-10 as a result of State legislation enacted in 2009.
- Capital grants and contributions decreased by \$77,203, due mostly to the donation of road infrastructure from cities to the County recorded in FY 2008-09, as well as a decline in State reimbursements for construction expenditures for the Santa Ana River Mainstem Project.
- Charges for services decreased by \$22,618 due primarily to an overall decrease in supplemental property tax administration fees, charges for election services, and traffic school and bail fees.
- Grants and contributions not restricted to specific programs decreased by \$17,338 primarily due to a decrease in the amount of claims filed with the State for SB 90 mandated cost reimbursements.
- An overall decrease in salaries and employees benefits (S&EB) of \$82,519 in most functions resulting from higher vacancy factors, reduction of overtime, furloughs, layoffs, efforts to control annual leave payouts, as well as attrition.
- A decrease of \$102,603 in general government due primarily to a decline in expenses related to the restructuring of the Teeter Plan in FY 2008-09 from long-term bonds to a commercial paper program and to a deferral of deliverables for the HR/Payroll application upgrade to FY 2010-11.
- A decrease of \$70,071 in public protection as a result of a decline in S&EB of \$54,004 and an overall decrease in professional services.
- A decrease of \$14,348 in health and sanitation due primarily to a reduction in S&EB of \$12,133.
- An increase of \$32,801 in public assistance resulting from an increase in caseloads for California Works Opportunities and Responsibility to Kids (CaWORKs) program, and an increase in professional services for the Workforce Investment Act, the Housing and Economic Recovery Act - Neighborhood Stabilization Program, the Shelter Plus Care program, and the Section 8 – Housing Choice Voucher program.

The following chart presents a comparison of expenses by function and the associated program revenues for governmental activities:

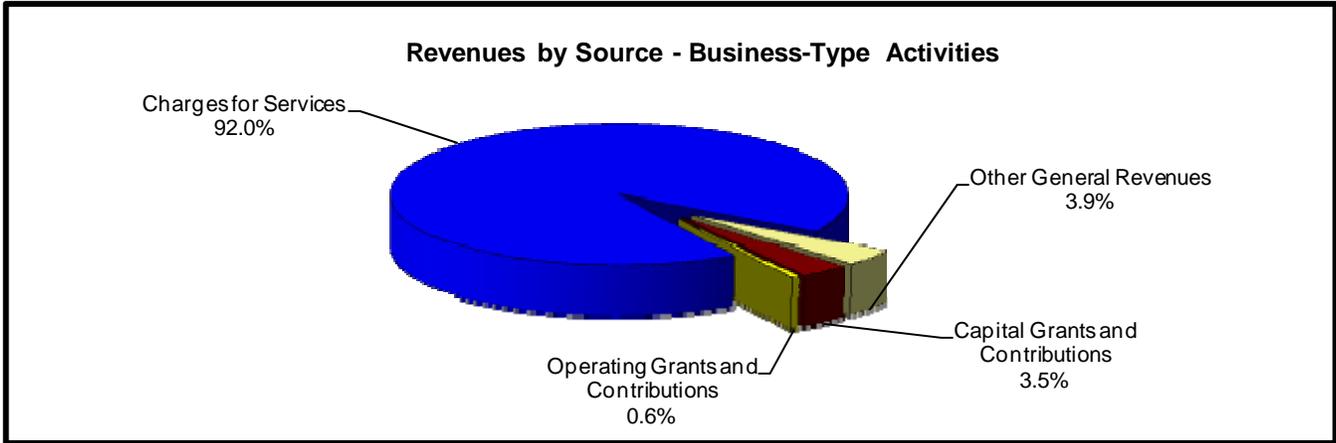


The chart below presents the percentage of total revenues by source for governmental activities:



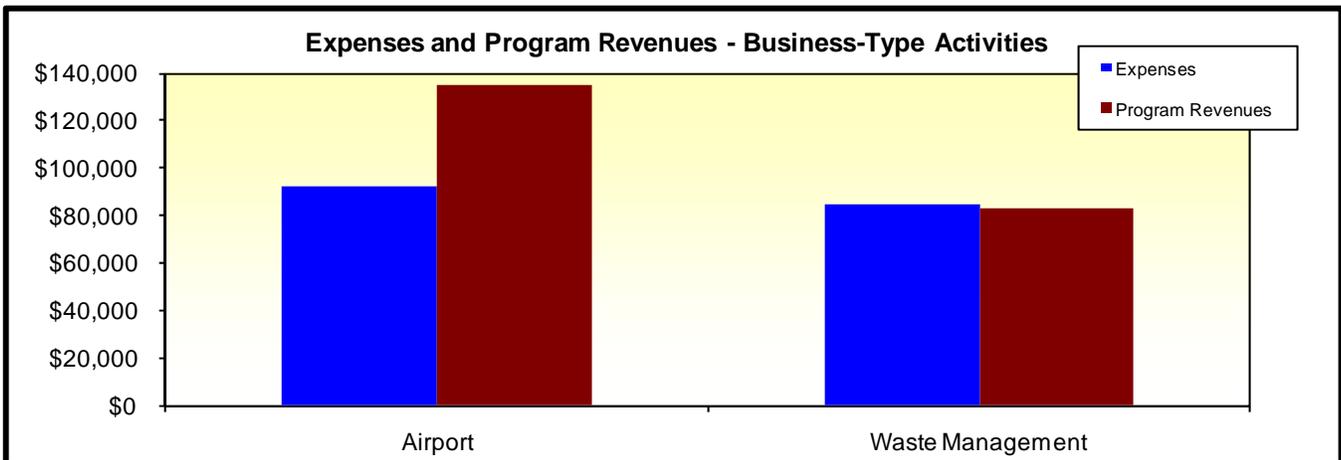
Business-Type Activities

The County has three business-type activities: Airport, Waste Management, and Compressed Natural Gas. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported charges for services as their largest source of revenues.



At the end of FY 2009-10, the business-type activities' total revenues exceeded expenses resulting in an increase in net assets of \$39,495, compared to the prior year's increase of \$58,844. Revenues totaled \$227,600, a decrease of \$16,706 from the previous fiscal year, which is primarily attributable to a decrease of \$9,324 in charges for services due to a decline in the amount of disposal fees collected for waste and recycling and importation of refuse in the current year versus prior year, as well as a decrease in other general revenues of \$9,254 due to a decrease in interest revenue resulting from declining investment yields in the county's investment pool. Expenses, including transfers to governmental activities, totaled \$188,105, representing an increase of \$2,643 from the previous year. Waste Management experienced a \$5,380 increase in expenses due primarily to an increase in landfill site closure/postclosure care costs. Additionally, there was an increase in contributions to other non-County governmental agencies resulting from the cooperative agreement with the City of Brea for the extension of operation and expansion of the Olinda Alpha Landfill. Partially offsetting this increase was a decrease in expenses for equipment maintenance due to FY 2008-09 equipment upgrades to meet new gas system maintenance and regulatory compliance requirements, as well as a decrease in transfers to other funds. Program revenues financed the majority of expenses recorded for the business-type activities. Other factors concerning the finances of the County's two major enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds."

The following chart displays expenses and the associated program revenues by function for the business-type activities (major enterprise funds):



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Funds

Governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information may be useful in evaluating the County's near-term financing requirements.

In particular, unreserved fund balance may serve as a valuable measure of the government's resources that are available for spending at the end of the fiscal year. This amount is available for spending at the discretion of the County's Board of Supervisors (the Board) in order to achieve the established function of the respective funds. Other than the General Fund, all other County funds are restricted for the particular purpose for which each fund was established. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes, and debt service funds are restricted for payment of principal and interest on general long-term debt.

Commitments by the County related to executorial contracts for goods or services are recorded and established as reservations of fund balances in the governmental funds.

At June 30, 2010, the County's governmental funds reported total fund balances of \$1,748,880 which is an increase of \$2,057 in comparison with the prior year. Of the total fund balances for the governmental funds, \$1,154,945 (66%) constitutes unreserved fund balances.

A significant amount of these unreserved fund balances are designated by the Board for the following uses in the next fiscal year and are deemed to be restrictions, commitments, or limitations, which affect the availability of fund resources in the next fiscal year:

Funds	Planned Uses of Unreserved Fund Balances
General Fund	- Re-budgeted capital projects, information systems projects and upgrades, and increases to reserves.
Roads	- Construction and maintenance of roadways, and for specialized engineering services to other governmental units and the public.
Flood Control District	- 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.
OC Parks	- 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.
Other Public Protection	- Safety and law enforcement activities such as automated fingerprint identification systems, investigation teams and child support information.
Teeter Plan Obligation Commercial Paper Program Note	- Financing activities related to the Teeter Plan Commercial Paper Notes Program including the transfer of excess penalty to the General Fund.
Other Governmental	- Construction of various capital projects including affordable housing, for accounting of revenues received and reserved for future incorporation agreements, mental health services, and operational contingencies.

The remaining fund balances are reserved. Reserved fund balances primarily represent assets that are not available for spending or assets with restrictions imposed by parties outside the County.

Comparative Analysis of Changes in Fund Balances

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net change in fund balances for the governmental funds for the current and previous fiscal years:

GOVERNMENTAL FUNDS						
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES						
For the Year Ended June 30, 2010						
	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General Fund	\$ 2,583,986	\$ 2,677,046	\$ 2,603,746	\$ 2,703,975	\$ (19,760)	\$ (26,929)
Roads	99,578	57,373	73,783	72,155	25,795	(14,782)
Flood Control District	110,382	128,178	142,983	127,282	(32,601)	896
OC Parks	97,223	108,113	87,686	94,154	9,537	13,959
Other Public Protection	59,260	70,933	68,909	152,902	(9,649)	(81,969)
Teeter Plan Obligation Commercial Paper Program Note	35,113	153,375	23,120	168,478	11,993	(15,103)
Other Governmental	598,100	755,720	581,358	950,456	16,742	(194,736)
Total	\$ 3,583,642	\$ 3,950,738	\$ 3,581,585	\$ 4,269,402	\$ 2,057	\$ (318,664)

In addition to the effects of expenditure-driven grants, the following information provides explanations for the significant changes in fund balance:

General Fund

The General Fund is the chief operating fund of the County. At the end of FY 2009-10, expenditures exceeded revenues resulting in a decrease in fund balances of \$19,760 compared to last year's decrease in fund balances of \$26,929. Revenues decreased by \$93,060 and expenditures decreased by \$100,229 resulting in a net change in fund balances of \$7,169 from the prior year. The following is a brief summary of the primary factors which contributed to the increase in the net change in fund balances for the General Fund in FY 2009-10:

- The decline in revenues of \$93,060 is due primarily to (1) a decline of \$24,079 in intergovernmental revenues resulting from decreases in Proposition 172 Public Safety Sales Tax revenues, Realignment revenues, and motor vehicle license fees offset by an increase in State and Federal allocations for CalWORKs and Aid to Families with Dependent Children – Foster Care (AFDC-FC) due to an increase in caseloads, (2) a decline of \$22,911 in charges for services for decreases in supplemental property tax administration fees, candidate statements and election recount services, traffic school fees and bail, and delayed reimbursement of court security services, and (3) a decline of \$67,541 in special revenue transfers to the General Fund of various purpose-restricted revenues such as excess public safety sales tax, tobacco settlement funds, realignment reserves, Substance Abuse and Crime Prevention Act (SACPA) funds, State Criminal Alien Assistance Program (SCAAP) funds, and drawdown of bond proceeds for construction expenditures related to the Cogeneration Plant project at the Central Utility Facility, partly offset by MHSA funds, and Sheriff-Coroner construction and facility development funds. The decrease in revenues was offset by a \$22,632 increase in taxes caused mainly by the additional \$35,000 received by the County as a result of State legislation enacted in 2009 which increases the County's annual property tax allocation.
- The decline in expenditures of \$100,229 is due primarily to (1) a decline in S&EB of \$57,129 in all functions, most notably public protection (\$42,934) and health and sanitation (\$8,388), as a result of cost saving measures, which include higher vacancy factors, reduction of overtime, furloughs, layoffs, efforts to control annual leave payouts, as well as attrition (2) a decline of \$9,377 in health and sanitation due to Health Care Agency's delayed startup for MHSA human service contracts and OC Watersheds completion of the Upper Newport Bay Ecosystem Restoration project in FY 2008-09, and postponement of current capital projects, and (3) a decline of \$23,567 in capital outlay as a result of the completion of the Cogeneration Plant project at the Central Utility Facility in November 2009, as well as the deferral and cancellation of various other projects.

Roads

This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. At the end of FY 2009-10, fund balances increased by \$25,795 compared to last year's decrease in fund balances of \$14,782. Revenues increased by \$42,205 as result of an increase in intergovernmental revenues of \$43,626 due primarily to receipt of the County's share of the State's allocation of Proposition 1B general obligation bonds to fund transportation projects that will benefit motorists throughout the County. Expenditures increased by \$1,628 as a result of an increase in capital outlay of \$4,619 primarily due to the Moulton Parkway and Ortega Highway widening projects offset by a decrease in public ways and facilities expenditures of \$2,992 for professional services resulting from delays in awarding the southerly segment of the Alton Parkway project, as well as other budgeted projects.

Flood Control District

This fund accounts for the planning, construction, and operation of flood control and water conservation works, such as dams, basins, and trunk channels, and for the retardation, conservation, and controlled discharge of storm waters. At the end of FY 2009-10, there was a decrease in fund balances of \$32,601 compared to last year's increase in fund balances of \$896. Revenues decreased by \$17,796 as a result of a decrease in use of money and property (\$5,575) due to declining interest yields in the County's Investment Pool and a decrease in other revenues (\$16,578) due to the sale of Katella Yard in FY 2008-09. These decreases in revenue were partly offset by an increase in intergovernmental revenues (\$6,596) due to reimbursements from the California Department of Water Resources for construction expenditures related to the San Juan Creek Channel and the Santa Ana River Mainstem Project. Expenditures increased by \$15,701 due primarily to an increase in capital outlay (\$11,212) for the acquisition of land and the relocation of tenants for the Prado Dam Project, and an increase in public protection expenditures (\$4,769) mainly due to Santa Ana River construction projects.

OC Parks

This fund accounts for the development of aquatic recreational facilities and the acquisition, operation, and maintenance of County beaches, inland regional park recreational facilities, and community park sites in the unincorporated areas. At the end of FY 2009-10, there was a \$9,537 increase in fund balances compared to last year's increase of \$13,959 in fund balances. Revenue decreased by \$10,890 as a result of a decrease in use of money and property (\$2,713) due to declining interest yields in the County's Investment Pool, a decrease in intergovernmental revenues (\$3,312) due to a decline in State grants for construction, and a reduction of transfers (\$2,565) from other funds to support park capital projects. Expenditures decreased by \$6,468 as a result of a decline in capital outlay (\$4,609) due to the completion of maintenance dredging projects for the Newport Dunes Marina and Dana Point Harbor in FY 2008-09 and the delay and deferral of other FY 2009-10 budgeted capital projects, as well as a decrease in transfers (\$5,125) to other funds due to a one-time transfer to the General Fund for the purchase of the Chestnut Avenue Complex in FY 2008-09. The decrease in expenditures was partly offset by an increase in expenditures for recreation and cultural services (\$3,265) due to an increase in salaries and employees benefits resulting from an increase in the number of regular positions, the completion of capital improvement and facility maintenance projects for various parks, including Irvine Ranch Historic Park and Yorba Regional Park, and a construction payment to the City of Orange to relocate the Cannon Pump Station for the Santiago Creek Bike Trail.

Other Public Protection

This group of funds is used to account for safety and law enforcement activities. Revenues consist primarily of Federal and State grants. At the end of FY 2009-10, there was a much smaller decrease in fund balances of \$9,649 compared to last year's significant decrease in fund balances of \$81,969. Revenues decreased by \$11,673, which is attributable to (1) a decline in license, permits, and franchises (\$3,239) due to a decline in demand for building permits caused by the County's current economic situation, (2) a decrease in use of money and property (\$4,048) related to lower cash balances earning interest, and declining interest yields in the County's Investment Pool, (3) a decrease in intergovernmental revenues (\$3,821) primarily due to the State's elimination of funding for SACPA and the deferral of federally funded grant projects to FY 2010-11, partly offset by increased revenues for Federal Asset Forfeitures and receipt of the Youthful Offender Block Grant for development and implementation of the Juvenile Justice Development Plan for non-707(b) juvenile offenders, and (4) a decrease in other revenues (\$1,816) resulting from lower jail commissary revenues and recording of revenues in FY 2008-09 for the Dana Point water tank site installation of Motorola equipment. The decrease in revenue was partially offset by an increase in fines, forfeitures, and penalties (\$3,014) for receipt of Proposition 64 – Consumer Protection settlement revenues. Expenditures

decreased by \$83,993 mainly due to a decline in transfers (\$70,661) to other funds for allocation of SACPA revenues, public safety sales tax revenues, and SCAAP revenues, as well as a decline in capital outlay (\$10,087) resulting from the acquisition of the new Regional Narcotics Suppression Program building in FY 2008-09 and the deferral of various 800 MHz equipment purchases, radio site development projects, and equipment replacement and maintenance projects to future periods.

Teeter Plan Obligation Commercial Paper Program Note

This fund accounts for the activities related to the Teeter Program, the funding for which was restructured in 2008 from long-term bonds to a commercial paper (CP) program. At the end of FY 2009-10, there was an increase in fund balances of \$11,993 compared to last year's decrease in fund balances of \$15,103. Revenues decreased by \$118,262, which is attributable to a decrease of \$118,258 in transfers from other funds caused by the transfer of residual balances in the Orange County Special Financing Authority Debt Service Fund in FY 2008-09. Expenditures decreased by \$145,358 due to a decrease of \$102,024 in transfers to other funds due to the FY 2008-09 transfer of funds to the Orange County Special Financing Authority Debt Service Fund to retire the Teeter Plan Revenue Bonds, Series 1995A through E, and a decrease of \$43,081 in general government expenditures as a result of the establishment of the teeter tax loss reserves in the Tax Loss Reserve Fund in FY 2008-09.

Other Governmental Funds

At the end of FY 2009-10, there was an increase in fund balances of \$16,742 compared to last year's considerable decrease in fund balances of \$194,736. Expenditures decreased by \$369,098, primarily due to a decrease in transfers of \$232,749 to other funds as a result of the residual equity transfer in FY 2008-09 of the Special Assessment Districts, Community Facilities District and Service Areas Capital Projects Fund to the Service Areas, Lighting, Maintenance and Assessment Districts Special Revenue Fund as part of the consolidation process to combine similar activities and the transfer of residual balances in FY 2008-09 of the Orange County Special Financing Authority to the Teeter Plan Obligation Commercial Paper Program Note Fund. In addition, principal retirement decreased by \$116,401 primarily due to the retirement of the Teeter Plan Revenue Bonds, Series 1995A through E, in FY 2008-09. Revenues decreased by \$157,620 due primarily to a decrease in transfers of \$223,947 from other funds, which is attributable to the FY 2008-09 residual transfer of equity from the Special Assessment Districts, Community Facilities District and Service Areas Capital Projects Fund to the Service Areas, Lighting, Maintenance and Assessment Districts Special Revenue Fund and the FY 2008-09 transfer from the Teeter Plan Obligation Commercial Paper Program Note Fund to the Orange County Special Financing Authority Debt Service Fund for the aforementioned debt retirement. The decline in revenue was partially offset by an increase in use of money and property of \$38,797 as a result of the current year increase in the fair market value of investments held by trustee for debt service related to the Pension Obligation Bonds versus prior year's decline and an increase in intergovernmental revenues of \$53,224 from receipt of MHSA funding for prevention, education, and intervention allocations for prior and current fiscal years, one-time federal economic stimulus funding for the Workforce Investment Act, and an increase in federal funding for the Section 8 – Housing Choice Voucher program.

The following chart shows the fund balances for governmental funds for the current and previous fiscal year:

COMPARATIVE FUND BALANCE					
Governmental Funds *					
June 30, 2010 and 2009					
	2010		2009		Increase/(Decrease) %
General Fund	\$	268,284	\$	288,044	(7)%
Roads		125,903		100,108	26 %
Flood Control District		280,722		313,323	(10)%
OC Parks		144,952		135,415	7 %
Other Public Protection		105,922		115,571	(8)%
Teeter Plan Obligation Commercial Paper Program Note		(3,110)		(15,103)	79 %
Other Governmental Funds		826,207		809,465	2 %
Total	\$	1,748,880	\$	1,746,823	--

Proprietary Funds

The proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management, which are considered to be major funds of the County, and Compressed Natural Gas, a new nonmajor fund of the County. Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Comparative Analysis of Changes in Fund Net Assets

The following table presents the enterprise funds' actual revenues and other financing sources, expenses and transfers, and changes in fund net assets for the current and previous fiscal year:

ENTERPRISE FUNDS						
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS						
For the Year Ended June 30, 2010						
	Revenues, Contributions and Transfers		Expenses, Special Items and Transfers		Change in Fund Net Assets	
	2010	2009	2010	2009	2010	2009
Airport	\$ 137,177	\$ 139,907	\$ 88,799	\$ 93,290	\$ 48,378	\$ 46,617
Waste Management	89,671	105,720	94,688	92,883	(5,017)	12,837
Compressed Natural Gas	680	--	95	--	585	--
Total	\$ 227,528	\$ 245,627	\$ 183,582	\$ 186,173	\$ 43,946	\$ 59,454

Airport

This fund accounts for major construction and self-supporting aviation related activities rendered at John Wayne Airport, Orange County (JWA). At the end of FY 2009-10, there was an increase in fund net assets of \$48,378, compared to the prior year increase of \$46,617. Revenues decreased by \$2,730 and expenses decreased by \$4,491 as a result of a decline in interest revenue and interest expense, respectively. In accordance with FASB Statement No. 62, "Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants," the interest expense net of related interest revenue of the Airport Revenue Bonds, Series 2009A and 2009B, were capitalized since the bonds represent tax-exempt borrowings restricted for specific construction projects.

Waste Management

This fund is used to account 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. At the end of FY 2009-10, there was a decrease in fund net assets of \$5,017, compared to the prior year increase of \$12,837. Revenues declined by \$16,049, which is primarily due to a decrease in charges for services as a result of a decline in the amount of gate tipping fees collected, and a decrease in interest revenue resulting from declining investment yields. Expenses increased by \$1,805 primarily due to an increase in landfill site closure/postclosure care costs and an increase in taxes and other fees as a result of the cooperative agreement with the City of Brea to expand the Olinda Alpha Landfill and extend operations. The increase in expenses was mostly offset by a decrease in services and supplies due to FY 2008-09 expenses for equipment upgrades to meet new gas system maintenance and regulatory compliance requirements and a mitigation payment to the Puente Hills Landfill Native Habitat Preserve Authority to restore 15 acres of coastal sage scrub to compensate for the lost coastal sage scrub as a result of the expansion of the Olinda Alpha Landfill.

Compressed Natural Gas (CNG)

This fund was established in FY 2009-10 and accounts for the operation and maintenance of the CNG facility. Revenues consist primarily of compressed natural gas sales to both the County and the public.

For further comparative analysis of changes in Fund Net Assets, please see the Business-Type Activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors involved in the variances between: 1) the Original Budget and the Final Amended Budget; and 2) the Final Amended Budget and the Actual Amounts for the General Fund. In addition to the effects of expenditure-driven grants, the following information provides explanations for significant variances. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

Original Revenue Budget vs. Final Amended Revenue Budget

The following provides a summary of the primary factors attributable to the increase or decrease in the General Fund final amended budget revenues compared to the original budget revenues:

Taxes

- A decrease of \$9,158 due to a decline in secured property tax, supplemental property tax, and property taxes in-lieu of motor vehicle license fees, primarily due to a 1.23% decrease in the Local Assessed Roll of Values over the prior year, including a decrease in the Secured Roll of 1.4%.

Fines, Forfeitures, and Penalties

- A decrease of \$1,138 in Trial Courts due to declines in Court statutory fines, fees, and penalties from vehicle code fines, general Court fines, and Court fees from traffic school bail.
- A decrease of \$6,437 resulting from the timing lag in collections of delinquent property tax penalties and costs.

Intergovernmental

- A decrease of \$10,935 in the Health Care Agency primarily due to timing of State payments, projected shortfalls in Realignment revenues, and timing of eligible expenditures and delays in start-up of new contracts resulting in reduced drawdown of funds in the current fiscal year.
- An overall decrease of \$3,146 in Sheriff-Coroner primarily due to a decline in Proposition 172 Public Safety Sales Tax revenues, which was significantly offset by increased funding from various Federal grants, including the 2009 Homeland Security Grant Program, the 2009 Paul Coverdell Forensic Science Improvement Program Grant, the 2009 Operation Stonegarden Grant, and the 2009 Urban Areas Security Initiative grant.
- Partially offsetting the above mentioned decreases, there was an overall increase of \$5,671 in social service programs, primarily due to an increase in federally funded caseloads.

Other

- A decrease of \$17,650 in the County Accounting and Personnel System (CAPS) Program and Data Systems Development due to a change in the funding source for the costs associated with various Information Technology projects.

Transfers In

- An increase of \$19,924 in the County Accounting and Personnel System (CAPS) Program and Data Systems Development due to a change in the funding source for the costs associated with various Information Technology projects.
- An increase of \$5,340 in District Attorney to offset shortfalls in Proposition 172 – Public Safety Sales Tax revenues with transfers from various sources, including *Other Governmental* and *Other Public Protection* major special revenue funds.
- An increase of \$8,564 in the Health Care Agency to offset State reductions to the annual Managed Care allocation with transfers from the *Health Care Programs* special revenue fund and to transfer unanticipated allocation of grant funds recognized in the *Health Care Programs* special revenue fund.
- An increase of \$19,271 in Sheriff-Coroner to offset shortfalls in Proposition 172 – Public Safety Sales Tax revenues with transfers from various sources, including the *Other Governmental* and *Other Public Protection* major special revenue funds.

Original Expenditure Budget vs. Final Amended Expenditure Budget

The following provides a brief summary of the primary factors attributable to the increase in the General Fund final amended budget expenditures compared to the original budget expenditures:

Registrar of Voters

- A \$4,902 increase in appropriations to cover projected costs of the November 17, 2009, Special 72nd Assembly Primary, the January 12, 2010, General Election, the February 2, 2010, Special Recall Election for the City of Mission Viejo, and the June 8, 2010, Primary Election.

District Attorney

- An increase of \$4,136 in appropriations needed to support fraud investigation for auto insurance, workers' compensation insurance, life and annuity insurance, and program integrity efforts related to the In-Home Supportive Services program, as well as vertical prosecution of violent crimes against women.

Probation

- A decrease of \$6,638 in appropriations due to cost savings measures, which include reducing ongoing salary expenditures through layoffs and attrition, closely controlling the use of overtime, and monitoring office and professional service expenditures.

Public Defender

- A decrease of \$3,219 in appropriations resulting from efforts to save on salaries and benefits by not filling vacant positions over an extended period of time.

Sheriff-Coroner

- A \$17,890 increase in appropriations to support terrorism prevention, forensic science, and border security issues with funding for overtime, training, equipment purchases, information technology, and professional/specialized services.

Health Care Agency

- A decrease of \$6,140 in appropriations due primarily to delayed start-up of newly funded human service contracts, savings in health insurance costs, and cost containment measures, which were partially offset by an increase in transfers out to the MHSA Housing fund created in December 2009 to track revenues and expenditures related to a new Behavioral Health Services program in accordance with the MHSA. The increase in transfers-out from the General Fund is completely offset by a transfers-in from the MHSA Housing fund.

Aid to Families with Dependent Children - Foster Care

- A decrease of \$8,723 in appropriations due to lower than budgeted caseloads in the Wraparound program.

California Works Opportunities and Responsibility to Kids

- An increase of \$11,482 in appropriations due considerable growth in caseloads, which is a result of the current state of the economy and high unemployment.

Final Amended Revenue Budget vs. Actual Revenue Amounts

The following information provides a summary of the primary factors that caused the variance in the General Fund actual revenues compared to the final amended budget revenues:

Charges for Services

- A \$2,067 positive variance in the Miscellaneous Agency due to County-Wide Cost Allocation Plan (CWCAP) revenues in excess of estimates.
- A \$2,157 negative variance in OC Community Resources due to lower than budgeted city billing revenue for OC Animal Care services.

- A \$1,915 negative variance in District Attorney is a result of lower than budgeted drawdown from the DA Consumer Protection Fund due to lower than estimated expenditures for the White Collar Crime Prosecution Team.
- A \$2,409 negative variance in Sheriff-Coroner due to prior period overtime adjustments, vacancy credits, and reduced cost applies, which affect charges for Law Enforcement services.
- A \$3,414 negative variance in OC Public Works due primarily to current economic conditions, which have led to a lower demand for services to both internal and external customers.
- A \$2,314 negative variance in Trial Courts caused by the decline in distribution of traffic school fees and a traffic school bail revenues.
- A \$3,927 negative variance in the County General Fund due to lower property tax administration fees than budgeted.

Intergovernmental Revenues

- A \$7,081 negative variance in OC Watersheds due to delays and withdrawals of projects targeted to receive Proposition 50 California River Parkways Grant Program funding.
- A \$6,514 negative variance in the Health Care Agency is a result of lower Realignment revenues due to reduced State-wide sales tax and vehicle license fee receipts, which was partially offset by greater than anticipated federal program revenues for the Coverage Initiative, which provides medical care for indigent adults.
- A \$13,644 negative variance in Sheriff-Coroner is largely due to delayed reimbursement of claims filed for the Homeland Security grant, as well as other Federal grants.
- A \$13,694 negative variance in SSA is a result of lower than budgeted claimable expenditures for federal funding due primarily to cost containment measures, which include savings from a greater number of vacant positions and implementation of a child care temporary waiver program.

Transfers In

- An \$8,443 negative variance in District Attorney due to reductions in expenditures and higher than anticipated Proposition 172 Public Safety Sales Tax revenues resulting in a reduction of actual transfers in from special revenue funds.
- A \$49,769 negative variance in Health Care Agency was due primarily to delays in projects and start-up of contracted services resulting in a reduction of actual transfers from special revenue funds.
- A \$7,813 negative variance in SSA due to reductions in directly funded Wraparound Program service contracts and other expenditures resulting in reduced transfers from the SSA Wraparound fund.

Final Amended Expenditure Budget vs. Actual Expenditure Amounts

The following provides a summary of the primary factors causing the significant variance in the General Fund actual expenditures as compared to the final amended budget expenditures:

Capital Projects

- A \$10,784 positive variance due to the cancellation of capital projects and deferral of capital project to FY 2010-11.

District Attorney

- A \$12,700 positive variance resulting from the implementation of several expenditure reduction measures which include layoffs, furloughs, pay cuts, and eliminating positions, as well as introducing a variety of initiatives aimed at reducing the use of resources in prosecuting certain types of cases in order to meet revenue shortfalls.

Probation

- A \$12,879 positive variance resulting from the implementation of cost containment measures which include closely controlling use of overtime, layoffs, elimination of positions, and reducing office and professional service expenditures, utilities, and building alterations and improvements.

Sheriff-Coroner

- A \$23,162 positive variance resulting from cost saving measures to reduce overtime and service and supply, as well as deferral of Homeland Security Grant equipment purchases to FY 2010-11.

OC Watersheds

- An \$11,578 positive variance is primarily due to the delay of capital projects and projects involving contributions to others.

Health Care Agency

- A \$48,350 positive variance resulting from cost saving strategies, and delayed start-up of human service contracts and deferral of projects for the MHSA.

Social Services Agency

- A \$19,931 positive variance due to cost containment measures which include maintaining a greater number of vacant positions, delayed information technology and facilities projects, sustained reductions to contracts, and the implementation of a temporary child care waiver program.

Capital Assets

At June 30, 2010, the County's capital assets for both the governmental and business-type activities amounted to \$3,287,884 net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, equipment, intangible assets, infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), software in development and construction in progress. The total increase in the County's investment in capital assets for the current year was 5.4%.

Capital assets for the governmental and business-type activities are presented below to illustrate changes:

CAPITAL ASSETS (Net of Depreciation) June 30, 2010							
	Governmental		Business-Type		Total		Increase
	Activities		Activities				(Decrease)
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Land	\$ 689,544	\$ 644,822	\$ 38,083	\$ 38,083	\$ 727,627	\$ 682,905	6.5 %
Structures and Improvements	552,433	526,052	158,002	157,891	710,435	683,943	3.9 %
Equipment	84,494	95,242	34,726	34,943	119,220	130,185	(8.4)%
Software	991	790	--	--	991	790	25.4 %
Infrastructure	879,015	876,244	225,050	184,096	1,104,065	1,060,340	4.1 %
Software in Development	55,992	36,766	--	--	55,992	36,766	52.3 %
Construction in Progress	371,647	380,695	197,907	143,019	569,554	523,714	8.8 %
Total	\$ 2,634,116	\$ 2,560,611	\$ 653,768	\$ 558,032	\$ 3,287,884	\$ 3,118,643	5.4 %

The following lists the significant expenditures for capital assets in FY 2009-10:

General Fund

- \$3,732 for the Cogeneration Plant at the Central Utilities Facility.
- \$3,704 for the construction on floors 4 and 5 of the multi-phased floor by floor heating, ventilation, and air conditioning remodel and the Americans with Disability Act upgrade of restrooms and courtrooms at the Central Justice Center.

Roads

- \$6,871 for the Ortega Highway Widening Project.
- \$1,847 for the widening of Irvine Avenue from University to Bristol Street.
- \$2,063 for the widening of Moulton Parkway from El Pacifico to Santa Maria Avenue.

Flood Control District

- \$42,270 for the acquisition of property and relocation of tenants in the flood plain or in the right-of-way construction area for the Prado Dam project.
- \$10,793 for the San Juan Creek Channel improvement project.
- \$5,241 for construction of the compressed natural gas fueling station located at 2023 Collins Avenue.
- \$5,025 for the construction of a new pump and pump house at the Los Alamitos Pump Station.
- \$1,648 for the San Diego Creek mitigation project.

Other Governmental Funds

- \$3,117 for the Central Jail Complex – Consolidated Maintenance Project to ensure the ongoing safe operation of these facilities.

Airport

- \$48,426 for the Terminal C gate expansion.
- \$27,515 for the design of the new Parking Structure C.
- \$2,910 for the construction of the new South Remain Overnight (RON) airplane parking.
- \$20,857 for the design and construction of the Central Plant.
- \$2,558 to upgrade the controls on the baggage system and fix baggage belt merges.
- \$2,007 for the design and construction of the Terminal C automated baggage handling system.

Waste Management

- \$2,213 for the construction of administration and crew quarters Green Building at the Prima Deshecha Landfill.

Additional information on the County's capital assets can be found in Note 5, Changes in Capital Assets.

Commitments for Capital Expenditures

At the end of FY 2009-10, significant commitments for capital expenditures included the following:

- \$388,000 for the Santa Ana River Mainstem Project.
- \$82,332 for the Terminal C gate expansion at John Wayne Airport.
- \$13,494 for the design of the new Parking Structure C.
- \$11,940 for the Foothill Circulation Project – Alton Parkway to Irvine Boulevard.
- \$11,588 for the design and construction of the Terminal C automated baggage handling system.
- \$9,236 for the design and construction of the Central Plant.
- \$7,686 for the construction of a new pump and pump house at the Los Alamitos Pump Station.
- \$7,496 for the Westminster Channel Improvement project from Hoover Street to Beach Boulevard.
- \$6,858 for the Alton Parkway Road extension project from Irvine Boulevard to Commercentre Drive.
- \$6,797 for the Katella Avenue Smart Street improvement project.
- \$6,554 for the Ortega Highway from Antonio Parkway to Central entrance project.

Additional information on the County's commitments for capital expenditures can be found in Note 15, Construction and Other Significant Commitments.

Long-Term Debt

At June 30, 2010, the County had a total debt obligation outstanding of \$794,791, excluding capital lease obligations, compensated absences and other liabilities. During the year, the County's outstanding bond obligations increased by 22%, which is attributable to the increase in debt issuances for business-type activities of \$232,928 in revenue bonds. This increase in debt was offset by the retirement of \$92,609 of bond obligations, including \$63,280 of bankruptcy related debt. The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized assessment property tax roll. However, this does not affect the financing of any of the County's planned facilities or services because as of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds,

certificates of participation (COPs), and other forms of debt not covered by the general obligation bonded debt limitation.

The following table summarizes the County's outstanding bonds at June 30, 2010:

LONG-TERM DEBT BOND OBLIGATIONS								
June 30, 2010								
	Governmental		Business-Type		Total		Increase (Decrease)	
	Activities		Activities					
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>% Change</u>	
Revenue Bonds	\$ 356,525	\$ 415,725	\$ 292,234	\$ 67,604	\$ 648,759	\$ 483,329	34 %	
Certificates of Participation	4,758	5,502	--	--	4,758	5,502	(14)%	
Pension Obligation Bonds	59,331	69,711	--	--	59,331	69,711	(15)%	
Recovery Bonds	79,806	93,606	--	--	79,806	93,606	(15)%	
Add: Premium on Bonds Payable	29,627	32,661	1,180	1,798	30,807	34,459	(11)%	
Less: Deferred Amount on Refunding	(25,093)	(28,630)	(3,577)	(4,756)	(28,670)	(33,386)	(14)%	
Total	\$ 504,954	\$ 588,575	\$ 289,837	\$ 64,646	\$ 794,791	\$ 653,221	22 %	

Additional information on the County's long-term debt activity can be found in Note 11, Long-Term Obligations.

Bond Ratings

The County issuer ratings increased from Aa2 to Aa1 from Moody's Investors Service and maintained its rating of AA- from Standard & Poor's (S&P); currently Fitch Ratings does not provide issuer ratings. The Orange County Development Agency (OCDA) 2003 Santa Ana Heights (SAH) Bonds are AAA insured from Fitch Ratings and S&P with a municipal bond insurance policy, but are not currently rated (NR indicates not rated).

In FY 2009-10, the following changes occurred in the County's underlying debt ratings as compared to the previous year:

- Increased Moody's Rating from Aa3 to Aa2 and Fitch Rating from AA- to AA for the 2005 Refunding Recovery Bonds.
- Increased Moody's Rating from A1 to Aa3 and Fitch Rating from AA- to AA for the 2005 Lease Revenue Bonds.
- Increased Moody's Rating from A1 to Aa3 for the 1991 Parking COPs.
- Increased Moody's Rating from A2 to A1 for the 1991 OCDA Neighborhood Development and Preservation Project Tax Allocation Refunding Bonds.
- Increased Moody's Rating from A1 to Aa3 and Fitch Rating from AA- to AA for the 2002 & 2006 Lease Revenue Bonds.
- Increased Moody's Rating from Aa2 to Aa1 and Fitch Rating from AA- to AA for the 1996 & 1997 Pension Obligation Bonds.
- Issued Airport 2009A and 2009B Revenue Bonds with an AA- rating from S&P, Aa3 from Moody's, and AA- from Fitch Ratings.

The County maintains the following long-term underlying debt ratings:

LONG-TERM DEBT RATINGS			
June 30, 2010			
	Standard and Poor's	Moody's	Fitch
2005A Refunding Recovery Bonds	A+	Aa2	AA
2005 Lease Revenue Bonds	A+	Aa3	AA
1991 Parking COPs	NR	Aa3	WD
OCDA 2001 Neighborhood Development and Preservation			
Project Tax Allocation Refunding Bonds	A	A1	WD
2002 Lease Revenue Bonds	A+	Aa3	AA
2006 Lease Revenue Bonds	A+	Aa3	AA
OCDA 2003 SAH Tax Allocation Revenue Bonds	NR	WD	WD
1996A Pension Obligation Bonds	NR	Aa1	AA
1997A Pension Obligation Bonds	NR	Aa1	AA
Airport 2003 Revenue Refunding Bonds	AA-	Aa3	AA-
Airport 2009A Revenue Bonds	AA-	Aa3	AA-
Airport 2009B Revenue Bonds	AA-	Aa3	AA-
Integrated Waste Management Department 1997 Revenue Refunding Bonds	NR	A1	A+

OTHER POTENTIALLY SIGNIFICANT MATTERS

The County's management has determined that the following are significant matters that have a potential impact on the County's financial position or changes in financial position:

Governmental Activities

State Legislation and Budget

The FY 2010-11 State budget is \$86,600,000, which includes a reserve of \$1,300,000. In balancing the budget, the legislature closed less than half of the \$17,900,000 deficit with expenditure reductions. The remaining balancing actions include \$3,300,000 in State revenue enhancement, \$5,400,000 in new federal revenue, and \$2,700,000 in one-time loans and transfers.

The State budget places a constitutional amendment to build State reserves on the ballot in 2012, the Budget Stabilization Fund (BSF), also referred to as the Rainy Day Fund. This would amend the 2004 voter-approved Budget Stabilization Act as follows:

- Increases the threshold from five percent to ten percent of overall annual General Fund (GF) revenues, which must be achieved before the contribution from the GF to the BSF ceases.
- Requires the state to always contribute three percent of GF revenues to the rainy day fund, except in years when the State deficit is large enough to use the fund.
- Creates the Supplemental Budget Stabilization Account which can only be used to pay for one-time capital outlay and debt service obligations.

Funds would be restricted from being transferred from the Budget Stabilization Fund to the GF under certain conditions.

On November 2, 2010, voters approved Propositions 22, 25, and 26, which will affect future budgets:

- Proposition 22 prohibits the State from borrowing or taking funds used for transportation, redevelopment, or local government projects, and services.

- Proposition 25 allows the State budget to be approved with a simple majority vote of the legislature. Tax increases and certain fees protected under Proposition 26 (November 2010) still require a two-thirds vote of the legislature.
- Proposition 26 requires that certain State and local fees be approved by two-thirds vote of the legislature.

County departments have completed their initial review of the State budget and estimate the following impacts:

Health and Human Services

Overall this budget includes cuts and policy changes that result in reduction in eligibility and/or reduced service levels for health and social programs.

Assembly Bill (AB) 3632 – The governor line-item vetoed \$132,900 of funding to pay counties for unreimbursed costs from FY 2004-05 through FY 2008-09 for complying with the AB 3632 mandate (Handicapped and Disabled Students I and II, and Seriously Emotionally Disturbed Pupils programs). In addition, the governor suspended the mandate on counties for FY 2010-11. With the suspension of the mandate, school districts will be required to ensure that special education students receive required mental health services. Impacts assessment for the County is complicated due to the notification of suspension three months into the fiscal year. The County, school districts, and other stakeholders are meeting to identify the appropriate set of actions to minimize negative impacts. The Health Care Agency (HCA) has 75 full time equivalents (FTEs) and \$18,000 budgeted for this program. The Social Services Agency has \$4,600 budgeted to support an average caseload of 213 placements.

The AB 3632 program provides mental health services to children who qualify for special education services and have emotional problems that impact their ability to benefit from their education. These services include assessment, individual and family therapy, and medication management. The County provides services to about 1,200 school children in Orange County, who will be affected by the elimination of funding. As of November 8, 2010, HCA will not accept new referrals for the program and existing AB 3632 clients will be transitioned to services provided by the school district as soon as appropriate for individual clients, with this transition to be complete by December 31, 2010, unless pay for service agreements can be negotiated with the school districts.

The County is committed to working with school districts, Special Education Local Plan Areas (SELPA), and the County Department of Education to ensure a smooth transition of services for children and families. HCA has met with school districts and has offered to continue providing these services on a contracted basis. To date, no school district has expressed a desire to contract with the County.

The County is owed \$55,000 by the State for AB 3632 services provided in prior years dating back to the late 1990's. The cost of services provided to students by the County from July to December 2010 is estimated at \$9,000.

Eleven counties, Contra Costa, Fresno, Humboldt, Los Angeles, Monterey, Sacramento, San Diego, Santa Clara, Solano, Tulare, and Yolo, have been given the authority to participate in a lawsuit to be filed in Sacramento Superior Court regarding the suspension of the AB 3632 mandate. Essentially, these 11 counties believe that unless a mandate is affirmatively suspended by the legislature, a county's remedy under the Constitution and Government Code where no money is appropriated to perform the mandate is to seek relief from the mandate in Sacramento Superior Court. There is no money to perform the mandate. However, since no governor has tried to suspend a mandate during the line item veto process, these counties feel it is unknown for certain whether the governor's declared suspension of the mandate meets the requirement that a mandate be suspended by the legislature.

HCA is currently of the opinion that the governor acted under legislative powers conferred upon him when he suspended the mandate, and as such, the mandate has been validly suspended and no court action is necessary.

Immunization Assistance Program – The governor line-item vetoed \$18,000 in funding for the Infectious Disease Branch's Immunization Program. The County estimates funding loss of \$109 impacting community clinics and \$284 for the California Immunization Registry program. HCA has five FTEs and \$393 budgeted for these programs.

Medi-Cal Administration – The budget includes a decrease of \$43,900 in Statewide County Administration funding for Medi-Cal. The specific impacts to the County are unclear as there are other components of the Medi-Cal allocation which are still unknown. Once the Social Services Agency (SSA) receives the final State allocation notification, specific impacts can be identified.

In-Home Supportive Services (IHSS) – The budget includes a 3.6 percent across the board reduction to the hours assessed for IHSS recipients. The reduction will take effect 90 days after enactment of the budget and will remain in effect until June 30, 2012. SSA's Net County Cost (NCC) is estimated to be reduced by \$568.

Administration of Justice

Juvenile Parole - Shifts the responsibility for the supervision of juveniles released from the State Department of Juvenile Justice to county probation departments. The level of service to be provided is at the discretion of county probation departments. The additional supervision services will require the addition of two or more deputy probation officers. The State will fund \$15 per year per parolee. There is no NCC impact to the Probation Department so long as State funding continues.

Other Programs

Highway User Tax Account (HUTA) – For the months of July 2010 to March 2011, the State budget identifies potential deferrals of HUTA apportionments. Any deferred amounts will be paid on or within two business days of April 28, 2011.

Election Reimbursements – The budget includes funding to reimburse counties for the May 19, 2009, special election. Orange County's estimate of reimbursement due is \$4,900.

Cash Flow Management

In July 2010, the County of Orange issued \$150,000 in Tax and Revenue Anticipation Notes (TRANS) to finance seasonal cash flow requirements during FY 2010-11. The proceeds from the TRANS cover anticipated cash deficits resulting from the uneven flow of revenues. County General Fund expenditures occur in relatively level amounts throughout the year, while receipts follow an uneven pattern. Secured property tax installments, which represent the largest component of general purpose revenues, are primarily received in December and April of each year. Additionally, the late adoption of the final State budget as well as the State's cash deferral policy (ABX8 5) resulted in delays to the reimbursement of many health and human service programs administered by counties. The County will repay the TRANS borrowing by June 30, 2011, from available cash balances within the General Fund.

Long-Term Financial Planning

Property Tax Management System Upgrade

The County's property tax assessment, collection and allocation system processes approximately \$6,000,000 annually in property taxes and special assessments for the county, cities, school districts and special districts within the County. The current system was developed in the late 1980s in an obsolete programming language. Maintenance of the system requires specialized knowledge that is hard to obtain. Under direction from the Board to rewrite the system and to respond to the Grand Jury's recommendation to replace the mainframe with an open system platform, the Auditor-Controller, Clerk of the Board, and Treasurer-Tax Collector embarked on a multi-year phased implementation of the new Property Tax Management System (PTMS).

In January 2006, a contract was awarded to Sierra Systems to conduct a needs assessment and to document the requirements of the new PTMS. This project also included documenting the business rules, identifying areas for improvement, and creating a blueprint for implementation. The needs assessment project was completed in July 2007 at a cost of \$1,600.

On July 15, 2008, the Board approved the contract with Tata Consultancy Services (TCS) to develop and implement the new PTMS based on the requirements specifications documented during the needs assessment. During the fiscal year, the TCS contract was amended for modification to the scope and project timeline. The contract timeline was extended to December 31, 2011, at a total cost not to exceed \$7,602.

PTMS is being developed in three tiers which will result in periodic movement of data between the Assessment Tax System (ATS) and PTMS while in transition stages. The project is scheduled to be completed in FY 2010-11. The total estimated cost for the project at this time is \$14,113, with cumulative expenditures of \$7,025 spent as of June 30, 2010.

Assessment Tax Systems (ATS) Re-Engineering

The Assessor Department is mandated under the provisions of the California State Constitution and the Revenue and Taxation Code to discover and value all tangible properties in the County of Orange and produce the Rolls of Values. The assessed value for the 2010 annual roll was over \$416,000,000, which impacts the billing and collection of over \$6,000,000 in tax revenue and special assessments to support the operations of the schools, cities, special districts, and the County.

The Assessment Tax Systems (ATS) is a mainframe application that has been used by the Assessor Department since 1987. The vendor support for the programming language (IDEAL) for the current ATS is being phased out. Starting in 2006, under the approval of the Board as a Strategic Initiative, a project to re-engineer the Assessor ATS was initiated. The new ATS will adopt current open systems platform and work flow technologies to enhance the user interface and strengthen the effectiveness and efficiency of the valuation and assessment work products.

The Assessor Department assembled a project team of in-house managers and subject matter experts, ACS contract staff, and outside vendors to complete this work. The project is scheduled to be completed in FY 2010-2011. The total estimated cost for the project at this time is \$24,100.

Renewal of Information Technology Services Contract

The County's ten year contract with its information technology service provider is scheduled to expire on June 30, 2011. The current contract is valued at \$250,000. The County is currently developing a sourcing strategy and approach to meet its future information technology needs.

Airport Improvement Program

The Airport is currently implementing the AIP that will create additional terminal area capacity in the form of new aircraft gates, holdrooms, concessions, passenger/baggage screening capabilities, and more parking. It will also help redistribute traffic between Terminal A, B and C, thus achieving a balanced operation throughout the terminal complex. A key objective of the AIP is to ensure that the new facilities are designed and developed in a way that creates a single, seamless environment for passengers.

The AIP includes the construction of a new multi-level 282,000 square foot terminal building (Terminal C), two new commuter/regional hold rooms that will each accommodate four regional aircraft at ground level, a South Remain-Over-Night (South RON) aircraft parking area, demolition of the former Parking Structure B1 to make room for Terminal C, a new parking structure (Parking Structure C) and improvements to the existing Terminals A and B. In July 2009, the Board awarded contracts for the construction of Terminal C and Parking Structure C. The new terminal and parking structure are scheduled to be completed and opened by late 2011. In 2009, the South RON aircraft parking area, a major enabling project, was completed.

Pursuant to the comprehensive financial program approved by the Board in December 2005 (and updated in mid-2007), the Airport has begun to implement the financing plan for the AIP, which is estimated to cost approximately \$543,000. The capital costs are to be funded from various sources, including: (1) Airport revenues; (2) FAA AIP grants; (3) Transportation Security Administration (TSA) grants; (4) Passenger Facility Charge (PFC) revenues; (5) airport revenue bonds; and (6) future subordinated debt. In July 2009, the County issued \$233,115 in Airport Revenue Bonds, Series 2009A and 2009B, to finance a portion of the AIP. Refer to Note 11, Long-term Obligations, for additional information on the bonds.

As is the case with any substantial capital improvement program, the Airport anticipates encountering many challenges in balancing the current level of operation and high standards for customer service with the substantial construction activity. For additional details on the AIP, refer to Airport's website at <http://www.ocair.com>.

Funding Progress of the County's Retirement System (System)

The funded ratio of the System is a measure of the ability of the System to make obligated payments to current retirees and future retirees. The funded ratio (actuarial value of plan assets divided by actuarial accrued liability) dropped from 82.76% in 2002 to 70.85 % in 2004. Since 2004, the funded ratio increased to 74.08% in 2007 before dropping to 68.77% as of December 31, 2009 (69.11% for County of Orange rate groups). The decline in funding status is caused by multiple factors, including OCERS market losses of 20.71% in 2008, changes in actuarial assumptions, changes in methodology, and enhancement of retirement benefits. A schedule of funding progress for OCERS is included in the Required Supplemental Information (RSI) section.

On November 4, 2008, the voters in Orange County approved Measure J, which requires voter approval for any future pension benefit enhancements. The County carefully monitors the activities at OCERS and regularly provides input to OCERS management, as well as providing input at OCERS Board meetings as deemed appropriate.

Requests for Information

We hope that the preceding information provided a general overview of the County's overall financial status. For questions or comments concerning information contained in this report, please contact the Auditor-Controller's Office, County of Orange, 12 Civic Center Plaza, Santa Ana, CA 92702 or you can access our website at <http://egov.ocgov.com/ocgov/Auditor-Controller - David Sundstrom>.