

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Blended Component Units

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

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

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

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

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

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 County Board of Supervisors to act as the employer of record for the individual providers for the IHSS program. The duties of the Public Authority include collective bargaining for the individual providers, establishing a registry of providers, investigating the background of providers and providing training to both IHSS providers and consumers. The Authority is reported in governmental fund types.

Discretely Presented Component Unit

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

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 or constitutional provisions. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service for governmental activities payments. At June 30, 2006, the County's governmental activities reported restricted net assets of \$1,115,665 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 \$410,834 and are restricted

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-Wide Financial Statements (Continued)

for the use of Airport and Waste Management activities, including debt service.

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

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

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

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

Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

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

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

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

Refunding Bonds and Recovery Certificates of Participation (COPs) and Debt Prepayment This fund accounts for the debt service transactions handled by the trustee bank for the Orange County Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation and the prepayment of the County's outstanding bonds. This fund was closed in FY 2005-06.

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.

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

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.

The County reports the following major proprietary enterprise funds:

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

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

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 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.

Effective July 1, 2005, the County of Orange changed its method of accounting for the temporary holding of moneys withheld by employee payroll deductions and employer contributions for the payment of employee health maintenance organization and life insurance premiums. This temporary holding of premiums until payment is due is now reported in Internal Service Funds. Prior to this fiscal year, these funds were reported in private-purpose trust funds. The County believes that the new method of accounting more accurately reflects the nature of these funds for the payment of insurance premiums to third party insurance carriers. Additionally, reporting this temporary holding and clearing of moneys for insurance premiums in internal service funds provides better transparency and budgetary control. The effect of this change was to increase net assets in Internal Service Funds by \$1,775.

Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the County's governmental activities, financial statements of Internal Service Funds are consolidated into the governmental activities column when presented at the government-wide level.

Fiduciary Fund Types The County of Orange has a total of 239 trust and agency funds for FY 2005-06. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, investment trust or educational investment trust fund is used. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

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. 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,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Government-Wide Financial Statements (Continued)

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*

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

Revenues that are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are 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, 2006, the County reported \$130,035 of deferred revenue, and \$60,386 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

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.

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision

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

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

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

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

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

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

E. Excess of Expenditures over Appropriations

For FY 2005-06, in the General Fund, Public Protection expenditures in excess of appropriations occurred in the office of the District Attorney. The District Attorney excess of expenditures occurred because the office did not realize all of the intrafund billings that they had projected for the budget. General Fund expenditures did not exceed budgeted appropriations at the legal level of budgetary control.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Investments

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

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

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

G. Inventory of Materials and Supplies

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

H. Prepaid Costs

The County pays for certain types of services in advance such as insurance premiums and rents and recognizes these costs in the period during which services are provided. Applicable fund balances are reserved for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds. At June 30, 2006, the County has prepaid costs of \$284,115 in the Statement of Net Assets, which primarily consist of the County’s Investment Account with the Orange County Employees Retirement System (OCERS) for future pension costs of \$159,090 and \$114,947 for prepayment of the County’s FY 2006-07 portion of the unfunded accrued actuarial liability to OCERS. See Note 3, 9, and 17 for additional information regarding the pension investment asset for the OCERS Pension Plan and the prepayment of the FY 2006-07 retirement costs.

I. Land and Improvements Held for Resale

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

J. Capital Assets

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

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.

K. Self-Insurance

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

L. Property Taxes

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

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

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

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

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due 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, 2006 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 unearned revenue. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County maintains records of disputed property taxes, such as those properties for which the values have been appealed to the local Assessment Appeals Boards. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or the tax bills are corrected. As of June 30, 2006, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.23 percent of the combined beginning secured and unsecured property tax roll charge.

Beginning in FY 2004-05, a sales tax-property tax swap known as the "triple flip" was instituted. The triple flip local government package was part of Proposition 57, a State ballot measure approved by the voters in March 2004. Proposition 57 suspended the one-quarter cent portion of the sales tax dedicated to local government and replaced it with property taxes (the "Countywide Adjustment Amount") equal to the lost sales tax revenue. Since the County's portion of sales tax is pledged to the repayment of the Recovery COPs, legislation was enacted that amended the applicable Government Code provisions, adding the Countywide Adjustment Amount as security for the Recovery COPs. For more information on the Recovery COPs, refer to Note 10, Long-Term Obligations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

In addition, legislation adopted as part of the State's FY 2004-05 budget process and Proposition 1A, approved by voters on November 2, 2004, permanently reduced the Vehicle License Fees (VLF) from 2.00% to 0.65% and swapped county and city VLF revenues for property taxes, equal to the difference between the VLF rate of 2.00% and 0.65% with a revenue-neutral impact. This provided for an allowance of \$54,000 for continuing Orange County's share of intercepted VLF dedicated to the debt service on the Recovery COPs and Recovery Bonds. It also provided for a two-year shift of property taxes from counties, cities, redevelopment agencies, and special districts to school districts to partially reduce the State's General Fund deficit in the amount of \$1,300,000 for each of fiscal years 2004-05 and 2005-06. Additionally, the legislation established new Constitutional restrictions on the State's ability to impose unfunded mandates and limits the State's ability to reduce County revenues in the future.

The following are significant dates on the property tax calendar:

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

M. Compensated Employee Absences

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

N. Statement of Cash Flows

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Indirect Costs

County indirect costs are allocated to benefiting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2005-06 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.

P. Effects of New Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on the FY 2005-06 financial statements:

In November 2003, GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*" This statement establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal periods beginning after December 15, 2004. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The County established a new accounting policy for capital asset impairments, effective this fiscal year and determined there were no capital asset impairments to report.

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1.*" This statement amends the portions of NCGA (National Council on Governmental Accounting) Statement 1, *Governmental Accounting and Financial Reporting Principles*, which guide the preparation of the statistical section and is effective for fiscal periods beginning after June 15, 2005. This amendment adds new information that financial statement users have identified as important and eliminates certain previous requirements. The statistical section presents detailed information to assist users in utilizing the basic financial statements, notes to the basic financial statements and required supplementary information to assess the economic condition of a government. The County has implemented these new reporting requirements.

In December 2004, GASB issued Statement No. 46, "*Net Assets Restricted by Enabling Legislation – an amendment of GASB No. 34.*" This statement imposes limitations on the use of restricted net assets. GASB Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as its citizens, public interest groups, or the judiciary, can compel a government to honor. This statement requires governments to disclose the portions of total net assets that are restricted by enabling legislation. Disclosing the amount of net assets restricted by enabling legislation will allow users of the financial statements to distinguish qualifying restrictions on resource use imposed through a government's own action from other types of net asset restrictions. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2005. The County determined there were no net assets restricted by enabling legislation to report.

In June 2005, GASB issued Statement No. 47, "*Accounting for Termination Benefits.*" This statement provides guidance on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations such as early retirement window programs and involuntary termination benefits, such as severance payments. The statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of GASB Statement No. 45.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements (Continued)

As noted in the following GASB Statement No. 45 discussion, the County intends to implement this statement in FY 2007-08. For all other termination benefits, the statement is effective for fiscal periods beginning after June 15, 2005; therefore, the County implemented those requirements this fiscal year and accrued a \$16 termination benefit liability.

In June 2006, GASB issued Technical Bulletin No. 2006-1, "Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D." This technical bulletin clarifies how state and local governmental entities should report payments received from the federal government under the retiree drug subsidy provisions of Medicare Part D. The law that created the program provides for payments to certain employers and plans that provide prescription drug benefits to persons who otherwise would be eligible to participate in Medicare Part D. The requirements of this bulletin were effective June 2006. In accordance with Technical Bulletin No. 2006-1, the County accrued revenue in the amount of \$750 in the financial statements.

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

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and is effective for fiscal periods beginning after December 15, 2005. The approach followed in this statement reflects differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, stand-alone financial reports of OPEB plans, the public employee retirement systems, or third parties that administer them. This statement also provides requirements for reporting OPEB funds by administrators of multiple-employer OPEB plans that are not a trust fund. The County is currently analyzing the requirements of GASB Statement No. 43 and its Retiree Medical Plan to determine if there will be any impact to the financial statements. If applicable, the County intends to implement the new reporting requirements for the FY 2006-07 financial statements. For additional information, refer to Note 19, Subsequent Events.

In June 2004, GASB issued Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions." This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits and is effective for fiscal periods beginning after December 15, 2006. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The County is currently studying the financial statement impact of the new requirements. The County intends to implement the new reporting requirements as required for the FY 2007-08 financial statements. For additional information, refer to Note 19, Subsequent Events.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements (Continued)

In December 2004, GASB issued Technical Bulletin No. 2004-2, "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.*" This technical bulletin clarifies the requirements of GASB Statements No. 27 and No. 45 for recognition of pension and other postemployment (OPEB) expenditures/expenses and liabilities by cost-sharing employers. The County is already in compliance with respect to OCERS and will implement OPEB accrual requirements (if applicable) with the implementation of GASB Statement No. 45 in the FY 2007-08 financial statements.

In September 2006, GASB issued Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*" This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2006, which requires the County to implement this Statement for the FY 2007-08 financial statements.

In December 2006, GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement 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 and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The County is required to implement the statement for the FY 2008-09 financial statements.

Q. Use of Estimates

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Several asset or liability line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Assets are combined into one line item in the 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/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. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following fund has deficit net assets:

<u>Internal Service Fund</u>	<u>Deficit</u>
Workers' Compensation	<u>\$ 26,235</u>

The deficit in the Workers' Compensation Fund results from accrual of known losses and actuarially-projected Incurred But Not Reported claims (IBNR). Charges to County departments have not provided a sufficient cash flow to entirely fund the IBNR. The deficit has decreased by \$13,056 from the previous fiscal year due to the impact of legislative changes passed in April 2004 and increased charges to participants in the program. The County will continue to review charges to departments in relation to the IBNR and adjust them as deemed appropriate.

3. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled \$5,914,428 as of June 30, 2006. 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 maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

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

A. Deposits

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

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

Total County deposits and investments at fair value as of June 30, 2006 are reported as follows:

Deposits:		
Imprest Cash	\$	1,587
Deposit Overdraft		(85,091)
Total Cash Overdrafts		(83,504)
Investments:		
With Treasurer		5,511,306
With Trustee		486,626
Total Investments		5,997,932
Total Deposits and Investments	\$	5,914,428

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

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

Governmental Funds	\$	1,961,641
Component Unit		152,404
Fiduciary Funds		2,963,484
Proprietary Funds		836,899
Total Deposits and Investments	\$	<u><u>5,914,428</u></u>

B. Investments

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

External Investment Pools

The County Treasurer sponsors two external investment pools: the County Pool, and the Educational Pool. Both pools consist of a Money Market Fund and an Extended Fund. The County Treasurer has a written IPS specifically for the separately managed County and Educational Investment Pools. The IPS is more restrictive than required by California Government Code. The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/P1/F1) as provided by at least two of the following nationally recognized rating agencies: Standard & Poor’s Corporation (S & P), Moody’s Investors Service, Inc. (Moody’s), or Fitch Ratings (Fitch), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank, or the Money Market Fund may invest in U.S. dollar denominated certificates of deposit issued in London, England (Euro CD) (30%); bankers’ acceptances (40%); money market funds (20%); State of California or municipal debt (10%); “AA” or better receivable-backed securities (10%); medium-term notes (30%); repurchase agreements collateralized by securities at 102% of the market value no less frequently than weekly (50%) ; the Money Market Fund may invest in funding agreements (10%); the Money Market Funds may also invest in securities lending agreements and other “eligible securities” as defined under Securities and Exchange Commission (SEC) Rule 2a-7 of the Investment Company Act of 1940 (10%). In addition, no investment may be purchased from an issuer that has been placed on credit watch-negative by any of the three nationally recognized rating agencies, or whose credit rating by any of the three nationally recognized rating agencies is less than the minimum rating required by the IPS for that class of security. All permitted investments are required to comply in every respect with California Government Code Sections 53601, 53601.7 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

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

The County Treasury Oversight Committee, established in December 1995, which consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools and two public members, conducts treasury oversight. On December 5, 2005, Fitch reaffirmed the Pools' ratings of "AAA/V1+." On December 27, 2005, Moody's reaffirmed credit ratings of Aaa and MR1 market risk ratings for the County and Educational Investment Pools. The Pools are not registered with the SEC.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100 percent involuntary participants. At June 30, 2006, the County Pool includes approximately 10.79 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures

As of June 30, 2006, the major classes of the County's deposits and investments consisted of the following:

<u>With Treasurer:</u>	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
<u>County Pool</u>					
U.S. Government Agencies	\$ 929,078	\$ 938,095	Discount, 2.10-5.50%	07/03/06-05/29/09	0.94
Commercial Paper	764,290	766,831	Discount	07/03/06-08/29/06	0.06
Negotiable Certificates of Deposit	596,839	597,000	5.03-5.52%	07/10/06-06/18/07	0.33
Medium-Term Corporate Notes	363,971	364,610	3.50-5.52%	08/15/06-05/08/08	0.56
Municipal Debt	107,765	107,765	5.26%	07/03/06	0.01
Repurchase Agreements	170,000	170,000	5.35%	07/03/06	0.01
Money Market Mutual Funds	18,197	18,197	Variable	07/03/06	0.01
	\$ 2,950,140	\$ 2,962,498			0.45 *
<u>Educational Pool</u>					
U.S. Government Agencies	\$ 601,154	\$ 605,687	Discount, 2.10-5.50%	07/05/06-08/22/06	0.71
Commercial Paper	908,108	913,326	Discount	07/03/06-03/17/07	0.10
Negotiable Certificates of Deposit	514,778	515,000	5.03-5.30%	07/10/06-02/27/07	0.22
Medium-Term Corporate Notes	321,448	321,723	3.50-5.52%	08/15/06-05/08/08	0.39
Repurchase Agreements	70,000	70,000	5.35%	07/03/06	0.01
Money Market Mutual Funds	9,393	9,393	Variable	07/03/06	0.01
	\$ 2,424,881	\$ 2,435,129			0.31 *
<u>Specific Investments</u>					
U.S. Government Agencies	\$ 8,664	\$ 8,710	Discount	07/19/06-11/28/06	0.10
U.S. Treasury Bills	69,295	70,000	4.63-4.91%	07/20/06-11/09/06	0.20
Commercial Paper	23,077	23,250	Discount	07/05/06-03/13/07	0.14
Negotiable Certificates of Deposit	12,382	12,400	5.03-5.53%	08/10/06-02/27/07	0.32
Medium-Term Corporate Note	1,279	1,250	5.58%	05/21/07	0.89
Repurchase Agreements	1,082	1,082	6.18%	08/15/19	13.13
Money Market Mutual Funds	20,506	20,506	Variable	07/03/06	0.01
	\$ 136,285	\$ 137,198			0.28 *
<u>With Trustees:</u>					
<u>Restricted Investments with Trustees</u>					
U.S. Government Agencies	\$ 216,633	\$ 156,282	Discount	11/22/06-09/01/21	11.71
U.S. Treasury Bonds	3,006	2,558	9.00%	11/15/18	12.39
U.S. Treasury Strips	190	54	Discount	11/15/18	12.39
Guaranteed Investment Contracts	239,651	239,651	Variable, 2.71-6.68%	07/01/06-09/01/23	5.23
Money Market Mutual Funds	27,146	27,146	Variable	07/01/06	0.00
	486,626	425,691			7.87 *

* Portfolio weighted average maturity

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

Investment in County of Orange Taxable Pension Obligation Bonds, Series 2006

On January 30, 2006, the Orange County Investment Pool (OCIP) – Money Market Fund purchased all of the County issued Taxable Pension Obligation Bonds, Series 2006 (the 2006 POBs) in the principal amount of \$105,991. For further information, refer to Note 9, Short-Term Obligations. The 2006 POBs were issued in order to prepay a portion of the County's Fiscal Year 2006-07 unfunded accrued actuarial liability to OCERS. The 2006 POBs were issued as convertible capital appreciation bonds, in a variable rate, with a maturity date of June 29, 2007. The terms of the sale of the 2006 POBs from the County to the County Treasurer on behalf of the OCIP were negotiated at arm's length. The obligation of the County to pay principal and interest on the 2006 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2006, the outstanding principal amount of the 2006 POBs is \$105,991 and the accreted interest on the outstanding POBs is \$1,774. The bonds are rated A-1 and P-1 by S & P and Moody's respectively. The County's investment in the 2006 POBs is disclosed herein as Municipal Debt. As a result of a timing difference, the OCIP accreted interest is reported at \$1,774 and the County reports accreted interest of \$2,278.

Interest Rate Risk

The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity of its Money Market Funds to less than 90 days and the Extended Fund to less than 18 months in accordance with the IPS. Of the County's \$2,950,140 and Educational Pool's \$2,424,881 portfolio at June 30, 2006, over 68.26% and 75.34%, respectively of the investments have a maturity of six months or less. Of the remainder, only 13.94% and 8.10% have a maturity of more than 1 year.

As of June 30, 2006, variable-rate notes comprised 15.12% and 12.28% of the County Pool and Educational Pool, respectively. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

At June 30, 2006, the weighted average maturity of the County Pool was 0.45 years and the Educational Pool was 0.31 years. At the same date, the Net Asset Value (NAV) of Money Market Funds for both pools was \$1.00 (in absolute dollar amounts). The average daily investment balance of the County Pool and the Educational Pool amounted to \$2,960,000 and \$2,600,000 with an average effective yield of 4.01% and 4.09%, respectively, for the year ended June 30, 2006.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

Custodial Credit Risk

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

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term debt shall be rated no less than an "A." As of June 30, 2006, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's and F-1 by Fitch.

Concentration of Credit Risk

At June 30, 2006, 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.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (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, 2006 (NR means Not Rated):

<u>Investments</u>	<u>S & P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<u>County Pool</u>				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	2.31%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	1.14%
Freddie Mac Discount Notes	AAA	Aaa	AAA	1.15%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.48%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	10.12%
Freddie Mac Bonds	AAA	Aaa	AAA	9.30%
Commercial Paper	A-1	P-1	F1	25.91%
Negotiable Certificates of Deposit	A-1	P-1	F1	20.23%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	2.36%
Corporate Notes	A	Aa	AA	0.54%
Corporate Notes	AAA	Aaa	AAA	9.43%
Municipal Debt	A-1	P-1	NR	3.65%
Repurchase Agreements	NR	NR	NR	5.76%
Money Market Mutual Funds	AAA	Aaa	AAA	0.62%
Total County Pool				<u>100.00%</u>
<u>Educational Pool</u>				
U.S. Government Agencies				
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	1.69%
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	2.71%
Freddie Mac Discount Notes	AAA	Aaa	AAA	0.67%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	7.93%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	6.40%
Freddie Mac Bonds	AAA	Aaa	AAA	5.39%
Commercial Paper	A-1	P-1	F1	37.45%
Negotiable Certificates of Deposit	A-1	P-1	F1	21.23%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	5.35%
Corporate Notes	AA	Aa	AA	1.02%

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

<u>Investments (Continued)</u>	<u>S & P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
<u>Educational Pool (Continued)</u>				
Corporate Notes	AAA	Aaa	NR	3.98%
Corporate Notes	AAA	Aaa	AAA	2.90%
Repurchase Agreements	NR	NR	NR	2.89%
Money Market Mutual Funds	AAA	Aaa	AAA	0.39%
Total Educational Pool				<u>100.00%</u>
<u>Specific Investments</u>				
U.S. Government Agencies				
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	1.97%
Freddie Discount Notes	AAA	Aaa	AAA	0.72%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	3.66%
U.S. Treasury Bills	NR	NR	NR	50.85%
Commercial Paper	A-1	P-1	F1	16.93%
Negotiable Certificates of Deposit	A-1	P-1	F1	9.09%
Medium-Term Notes	AAA	Aaa	NR	0.94%
Repurchase Agreements	NR	NR	NR	0.79%
Money Market Mutual Funds	AAA	Aaa	AAA	15.05%
Total Specific Investments				<u>100.00%</u>
<u>Restricted Investments with Trustees</u>				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	A-1	NR	F1	2.98%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	41.53%
U.S. Treasury Bonds	AAA	Aaa	AAA	0.62%
U.S. Treasury Strips	AAA	Aaa	AAA	0.04%
Guaranteed Investment Contracts	NR	NR	NR	49.25%
Money Market Mutual Funds	AAA	Aaa	NR	5.58%
Total Restricted Investments with Trustees				<u>100.00%</u>

3. 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, 2006:

Entire Pool

	<u>County Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<u>Statement of Net Assets</u>			
Net assets held for pool participants	\$ 3,554,857	\$ 2,371,515	\$ 5,926,372
Equity of internal pool participants	3,221,100	--	3,221,100
Equity of external pool participants	333,757	2,371,515	2,705,272
Total Net Assets	<u>\$ 3,554,857</u>	<u>\$ 2,371,515</u>	<u>\$ 5,926,372</u>
<u>Statement of Changes in Net Assets</u>			
Net assets as of July 1, 2005	\$ 3,519,081	\$ 2,507,175	\$ 6,026,256
Net change in investments by pool participants	35,776	(135,660)	(99,884)
Net Assets at June 30, 2006	<u>\$ 3,554,857</u>	<u>\$ 2,371,515</u>	<u>\$ 5,926,372</u>

External Pool Portion

	<u>Investment Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<u>Combining Statement of Fiduciary Net Assets</u>			
<u>Assets</u>			
Pooled Cash/Investments	\$ 332,105	\$ 2,359,576	\$ 2,691,681
Receivables: Interest/Dividends	2,040	12,199	14,239
Due from Other Governmental Agencies	2	--	2
Total Assets	<u>334,147</u>	<u>2,371,775</u>	<u>2,705,922</u>
<u>Liabilities</u>			
Due to Other Governmental Agencies	390	260	650
Total Liabilities	<u>390</u>	<u>260</u>	<u>650</u>
<u>Net Assets</u>			
Held in Trust	333,757	2,371,515	2,705,272
Total Net Assets	<u>\$ 333,757</u>	<u>\$ 2,371,515</u>	<u>\$ 2,705,272</u>

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements (Continued)

	<u>Investment Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<u>Combining Statement of Changes in Fiduciary Net Assets</u>			
Additions:			
Contributions to Pooled Investments	\$ 1,238,702	\$ 5,662,428	\$ 6,901,130
Interest and Investment Income	12,106	116,111	128,217
Less: Investment Expense	(204)	(2,666)	(2,870)
Total Additions	<u>1,250,604</u>	<u>5,775,873</u>	<u>7,026,477</u>
Deductions:			
Distributions from Pooled Investments	<u>1,244,792</u>	<u>5,911,533</u>	<u>7,156,325</u>
Total Deductions	<u>1,244,792</u>	<u>5,911,533</u>	<u>7,156,325</u>
Change in Net Assets Held in Trust For External Investment Pool	5,812	(135,660)	(129,848)
Net Assets Held in Trust, Beginning of Year	<u>327,945</u>	<u>2,507,175</u>	<u>2,835,120</u>
Net Assets Held in Trust, End of Year	<u>\$ 333,757</u>	<u>\$ 2,371,515</u>	<u>\$ 2,705,272</u>

4. CHANGES IN CAPITAL ASSETS

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

	Primary Government			Balance June 30, 2006
	Balance July 1, 2005	Increases	Decreases	
Governmental activities:				
Capital assets not depreciated:				
Land	\$ 567,243	\$ 8,472	\$ --	575,715
Construction in progress	427,674	45,523	(77,878)	395,319
Total capital assets not being depreciated	<u>994,917</u>	<u>53,995</u>	<u>(77,878)</u>	<u>971,034</u>
Capital assets, depreciable:				
Structures and Improvements	864,400	16,158	(485)	880,073
Equipment	320,565	20,893	(21,334)	320,124
Infrastructure:				
Flood Channels	877,440	2,638	--	880,078
Roads	87,313	19,028	(3,922)	102,419
Bridges	62,464	201	--	62,665
Trails	32,428	--	--	32,428
Traffic signals	9,933	--	--	9,933
Harbors and Beaches	34,520	--	--	34,520
Capital assets, depreciable	<u>2,289,063</u>	<u>58,918</u>	<u>(25,741)</u>	<u>2,322,240</u>
Less accumulated depreciation for:				
Structures and Improvements	(353,573)	(26,664)	11	(380,226)
Equipment	(216,826)	(22,559)	16,553	(222,832)
Infrastructure:				
Flood Channels	(182,384)	(8,939)	--	(191,323)
Roads	(55,404)	(3,337)	2,311	(56,430)
Bridges	(18,019)	(1,252)	--	(19,271)
Trails	(20,271)	(830)	--	(21,101)
Traffic signals	(6,870)	(591)	--	(7,461)
Harbors and Beaches	(19,887)	(810)	--	(20,697)
Total accumulated depreciation	<u>(873,234)</u>	<u>(64,982)</u>	<u>18,875</u>	<u>(919,341)</u>
Capital assets, depreciable (net)	<u>1,415,829</u>	<u>(6,064)</u>	<u>(6,866)</u>	<u>1,402,899</u>
Governmental activities total capital assets, net	<u>\$ 2,410,746</u>	<u>\$ 47,931</u>	<u>\$ (84,744)</u>	<u>\$ 2,373,933</u>

4. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government			Balance June 30, 2006
	Balance July 1, 2005	Increases	Decreases	
Business-type activities:				
Capital assets not depreciated:				
Land	\$ 34,108	\$ --	\$ --	\$ 34,108
Construction in progress	68,967	17,862	(50,981)	35,848
Total capital assets not being depreciated	103,075	17,862	(50,981)	69,956
Capital assets, depreciable:				
Structures and Improvements	334,026	29,843	(7,093)	356,776
Equipment	50,240	8,455	(2,687)	56,008
Infrastructure	335,421	27,437	--	362,858
Capital assets, depreciable	719,687	65,735	(9,780)	775,642
Less accumulated depreciation for:				
Structures and Improvements	(149,287)	(18,108)	5,494	(161,901)
Equipment	(26,883)	(4,479)	2,116	(29,246)
Infrastructure	(139,184)	(14,453)	--	(153,637)
Total accumulated depreciation	(315,354)	(37,040)	7,610	(344,784)
Capital assets, depreciable (net)	404,333	28,695	(2,170)	430,858
Business-type activities total capital assets, net	\$ 507,408	\$ 46,557	\$ (53,151)	\$ 500,814

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

Government activities:	
General Government	\$ 3,542
Public Protection	32,293
Public Ways and Facilities	8,689
Health and Sanitation	2,900
Public Assistance	5,220
Education	855
Recreation and Cultural Services	6,020
Internal Service Funds' depreciation	
expense allocated to various functions	5,985
Total governmental activities depreciation expense	65,504
Business-type activities:	
Airport	18,515
Waste Management	13,031
Total business-type activities depreciation expense	31,546
Total depreciation expense	\$ 97,050

5. 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:

Accounts Receivable

\$270 of accounts receivable for governmental activities is not expected to be received within the next fiscal year, which consists of \$8 for the Tracking Utility Fees (TUF) Program 10 Map Check. The remaining \$262 is for various invoices and non-sufficient funds checks that remain in the accounts due to statute of limitation constraints.

Deposits Receivable

\$9,968 of deposits receivable for governmental activities is not expected to be received within the next fiscal year, which consists of \$270 in the condemnation deposits with the State for the eminent domain litigation, and \$448 related to the Laguna Canyon Bridge construction. In addition, there is a \$5,508 deposit related to the United States Army Corps of Engineers (USACE) for the Santa Ana River Project, and a \$3,500 deposit related to the USACE for the Upper Newport Bay Ecosystem Restoration Project. The remaining \$242 represents various cash advances, service contracts, and miscellaneous deposits.

Notes Receivable

Of the \$23,526 in notes receivable for governmental activities, \$23,034 is not expected to be received within the next fiscal year. \$20,919 consists of loans to build affordable, low to moderate income, and senior housing. \$1,666 is from the sale of surplus County property. The remaining \$449 is for other various sales and loans.

Loans Receivable

\$1,963 of loans receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$1,883 represents advances to the Dana Point Harbor operators, \$50 provides operating cash for Santa Ana River Prado Dam Property Management, and \$30 used in connection with cases related to narcotics and various special investigations by the Sheriff Department.

Due From Other Governmental Agencies

\$61,278 due from other governmental agencies for governmental activities is not expected to be received within the next fiscal year. This consists primarily of \$61,122 that the State of California owes to the County for various Senate Bill (SB) 90 mandated cost reimbursements for programs and services the State requires the County to provide. The State will begin to reimburse the County for these programs over a 15 year period beginning in FY 2006-07. The State Constitution requires reimbursement for these program costs, and interest will accrue on the reimbursement claims until they are paid. The other \$156 is comprised of various invoices to the State for a variety of County-related activities.

6. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2006 is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General Fund	Roads	\$ 1,614	
	Public Library	27	
	Tobacco Settlement	5,952	
	Flood Control District	5,248	
	Harbors, Beaches, and Parks	3,862	
	Other Public Protection	6,245	
	Other Governmental Funds	17,630	
	Internal Service Funds	1,421	
	Airport	1,728	
	Waste Management	<u>4,712</u>	\$ 48,439
Roads	General Fund	109	
	Flood Control District	684	
	Harbors, Beaches, and Parks	192	
	Other Public Protection	13	
	Other Governmental Funds	13	
	Internal Service Funds	1	
	Airport	<u>35</u>	1,047
Public Library	General Fund	1	
	Internal Service Funds	<u>33</u>	34
Flood Control District	General Fund	101	
	Roads	725	
	Harbors, Beaches, and Parks	290	
	Other Public Protection	10	
	Other Governmental Funds	270	
	Internal Service Funds	1	
	Airport	<u>33</u>	1,430
Harbors, Beaches, and Parks	General Fund	58	
	Roads	86	
	Flood Control District	79	
	Other Public Protection	2	
	Other Governmental Funds	9	
	Internal Service Funds	<u>9</u>	243
Other Public Protection	General Fund	23,416	
	Roads	20	
	Internal Service Funds	9	
	Airport	<u>1</u>	23,446

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

<u>Receivable Fund</u>	<u>Payable Fund</u>		
Other Governmental Funds	General Fund	\$ 8,058	
	Other Public Protection	917	
	Other Governmental Funds	4,519	
	Internal Service Funds	9	
	Airport	2,512	
	Waste Management	1	\$ 16,016
Airport	General Fund	469	
	Internal Service Funds	15	484
Waste Management	General Fund	3	
	Roads	6	
	Flood Control District	32	
	Internal Service Funds	22	63
Internal Service Funds	General Fund	4,749	
	Roads	10	
	Public Library	41	
	Flood Control District	12	
	Harbors, Beaches, and Parks	32	
	Other Public Protection	27	
	Other Governmental Funds	10	
	Internal Service Funds	26	
	Airport	18	
	Waste Management	32	4,957
	Total		<u>\$ 96,159</u>

Due From/To Primary Government and Component Unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component Unit – Children & Families Commission of Orange County	Primary Government – Other Governmental Funds	\$ 40
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	\$ 250
Primary Government – Internal Service Funds	Component Unit – Children & Families Commission of Orange County	\$ 2

7. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from noncancelable operating leases with synthetic fuel corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2006, approximates \$40,163.

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, 2006 are as follows:

<u>Fiscal Year(s) Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2007	\$ 10,664	\$ 33,711
2008	10,345	33,643
2009	10,327	25,227
2010	10,260	20,033
2011	9,723	15,449
	<u>51,319</u>	<u>128,063</u>
2012-2016	29,629	5,702
2017-2021	26,232	1,563
2022-2026	24,983	--
2027-2031	22,389	--
2032-2036	21,024	--
2037-2041	11,458	--
2042-2046	468	--
2047-2051	111	--
	<u>136,294</u>	<u>7,265</u>
 Total future minimum rentals	 <u>\$ 187,613</u>	 <u>\$ 135,328</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$262 (Flood Control District), \$4,023 (Harbors, Beaches, and Parks), \$25,084 (Airport) and \$56 (Waste Management) for the year ended June 30, 2006.

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		
<u>Governmental Funds</u>			
General Fund	Tobacco Settlement	\$ 8	
	Refunding Bonds and Recovery		
	COPS and Debt Prepayment	10,416	
	Harbor, Beaches, and Parks	8,800	
	Other Public Protection	24,403	
	Other Governmental Funds	84,661	
	Internal Service Funds	<u>6,146</u>	\$ 134,434
Tobacco Settlement	General Fund	26,837	
	Other Governmental Funds	<u>5,530</u>	32,367
Refunding Bonds and Recovery	General Fund	472	
COPs and Debt Prepayment	Other Governmental Funds	<u>3,418</u>	3,890
Flood Control District	General Fund	<u>638</u>	638
Other Public Protection	General Fund	17,465	
	Other Governmental Funds	13,889	
	Internal Service Funds	<u>8</u>	31,362
Other Governmental Funds	General Fund	26,166	
	Public Library	529	
	Other Governmental Funds	<u>10,448</u>	37,143
Internal Service Funds	General Fund	<u>326</u>	<u>326</u>
Total Governmental Funds			<u>\$ 240,160</u>
<u>Enterprise Funds</u>			
Waste Management	General Fund	<u>11,435</u>	
Total Enterprise Funds			<u>\$ 11,435</u>

8. INTERFUND TRANSFERS (Continued)

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 of Supervisors. The details of the significant, routine transfers are outlined below:

Routine Transfers

- A total of \$90,768 was transferred out from the General Fund (\$82,009), the Refunding Bonds and Recovery COPs and Debt Prepayment Fund (\$3,418), and Other Governmental Funds (\$5,341) to the debt service funds in connection with debt service payments for the various County debt issues.
- \$26,837 was transferred from the Tobacco Settlement Fund to the General Fund to finance various health care programs. \$5,530 was transferred to Other Governmental Funds for projects at the Theo Lacy Jail.
- \$11,435 in net proceeds and interest earnings from the Importation of Out-of-County Waste Program earned by Waste Management during the current fiscal year was transferred to the General Fund for Recovery COPs Lease Financing as part of the Bankruptcy Recovery Plan.
- As part of the Bankruptcy Recovery Plan, \$6,736 was transferred from the General Fund to the Plan of Adjustment Available Cash Fund in order to make the annual payments to the Option B Pool participants and to distribute available cash.
- \$23,408 was transferred from the General Fund to the Other Public Protection Fund for the annual transfer of Public Safety Sales Tax Excess Revenue.
- \$11,739 was transferred from the Other Public Protection Fund to the General Fund for various programs.
- \$6,114 was transferred from the Emergency Medical Services Fund (EMS) to reimburse the General Fund for EMS services.

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

- \$1,317 was transferred from the General Fund to the Health and Other Self-Insured Employee Benefits ISF Fund for Public Employees Retirement System (PERS) premium reimbursements and individual judges claim reimbursements.
- \$1,104 was transferred from the General Fund to the Workers' Compensation ISF Fund for the workers' compensation estimated administration fees.
- \$8,673 was transferred from the General Fund to the Harbors, Beaches and Parks Capital Fund for additional park maintenance and improvements.
- \$1,847 was transferred from the General Fund to the Community, Health and Welfare Services Fund for the Social Services Agency Santa Ana Regional Center (SARC) lease conveyance agreement.
- \$3,500 was transferred from the General Fund to the Community, Health and Welfare Services Fund for mental health and public health services for the Health Care Agency.
- \$12,754 was transferred from the Other Public Protection Fund to the Criminal Justice Facilities Capital Projects Fund for Sheriff-Coroner Construction facility construction and development.

9. SHORT-TERM OBLIGATIONS

Revenue Bonds Payable

Taxable Pension Obligation Bonds, Series 2006

On January 30, 2006, the County issued Taxable Pension Obligation Bonds, Series (the 2006 POBs) in the principal amount of \$105,991. The 2006 POBs were issued in order to prepay a portion of the County's FY 2006-07 actuarially required contribution related to the amortization of the unfunded accrued actuarial liability to OCERS. In return, the County received a 7.75% discount on the required employer contribution amount. The 2006 POBs were issued as convertible capital appreciation bonds, with a variable rate, with a maturity date of June 29, 2007. The obligation of the County to pay principal and interest on the 2006 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2006, the outstanding principal amount of the 2006 POBs reported in the General Fund is \$105,991 and the accreted interest is \$2,278.

Description	Balance July 1, 2005	Issuances and Discount/ Premium Amortization	Accreted Interest	Balance June 30, 2006	Amounts Due within One Year
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County of Orange

Taxable Pension Obligation Bonds - Series 2006

Date Issued: January 30, 2006

Interest Rate: Variable

Original Amount: \$105,991

Maturing in installments through June 29, 2007 \$ -- \$ 105,991 \$ 2,278 \$ 108,269 \$ 108,269

10. 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 percent of the last equalized assessment property tax roll. At June 30, 2006, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$4,240,462. 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 Recovery

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Recovery COPs and to pay the annual amount of \$800 plus interest due on Option B Pool Participant warrants. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was \$800; that amount has been reduced by the required annual amount of \$800, so that the remaining balance at the end of this fiscal year is \$0.

10. LONG-TERM OBLIGATIONS (Continued)

Bankruptcy Obligations

On August 18, 2005, the County completed a refunding and restructuring of the \$791,530 of bankruptcy related debt. The bankruptcy debt consisted of the Recovery Refunding Bonds - the 1995 Series A (Recovery Bonds) and the 1996 Recovery Certificates of Participation (Recovery COPs), which were both obligations of the County General Fund. The Recovery Bonds were paid with intercepted Motor Vehicle License Fees. The Recovery COPs were paid through diverted revenue sources through 2016 and directly from the General Fund from 2017 through 2026. The outstanding principal as of July 1, 2005 was \$210,705 of Recovery Bonds and \$580,825 of Recovery COPs. The final maturities for the Recovery Bonds and Recovery COPs were June 1, 2015 and July 1, 2026, respectively.

Lease Revenue Refunding Bonds Series 2005

On August 16, 2005, the Orange County Public Financing Authority (OCPFA) issued its \$419,756 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 Recovery COPs, of this \$93,620 was 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. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$25,550. This difference is reported as a deferred amount on refunding of Series 2005 Bonds. The current year amortization amount for the deferred amount on refunding is \$1,065, leaving an ending balance of \$24,485. The refunding resulted in a reduction of debt service payments over the next 12 years by \$969,915 and provided an economic gain of \$538,457. As of June 30, 2006, the outstanding principal amount, including the premium of the Series 2005 Bonds, was \$439,728.

The Series 2005 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 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.

Refunding Recovery Bonds 2005 Series A

On August 18, 2005, the County issued its \$146,006 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 Bonds, were used to refund and defease the outstanding Recovery Bonds and pay costs of issuance for the 2005 Recovery Bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,417. This difference is reported as a deferred amount on refunding of the 2005 Recovery Bonds. The current year amortization amount for the deferred amount on refunding is \$1,042, leaving an ending balance of \$9,375. The refunding resulted in a reduction of debt service payments over the next 10 years by \$234,310 and provided an economic gain of \$150,357. As of June 30, 2006, the outstanding principal amount, including unamortized premium of the 2005 Recovery Bonds, was \$140,795.

10. LONG-TERM OBLIGATIONS (Continued)

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

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, COPs representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the \$33,579 Refunding COPs (Civic Center Parking Facilities Project). The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation. At June 30, 2006, the outstanding principal amount of the Refunding COPs was \$8,092.

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

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

In July 2001, OCDA issued its \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 (NDAPP Refunding Bonds). A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140 of the \$27,072 outstanding NDAPP Bonds. As of June 30, 2006, the outstanding principal amount of the current interest NDAPP Bonds was \$291, the accreted interest on the capital appreciation NDAPP Bonds was \$52 for the year then ended, and the outstanding principal amount of the NDAPP Refunding Bonds was \$24,143.

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

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

The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2002, between the OCPFA and the County, and other amounts held by the Trustee in the funds and accounts established under the Indenture (other than the rebate fund), except as otherwise provided in the Indenture. As of June 30, 2006, the outstanding principal amount of the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002 was \$68,846.

10. LONG-TERM OBLIGATIONS (Continued)

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

Tax Allocation Revenue 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 are secured by a pledge of tax revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. As of June 30, 2006, the outstanding principal amount of the SAHP Bonds was \$37,095.

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

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of \$209,840 and Series 1994B in the aggregate principal amount of \$110,200 (Series 1994 Pension Bonds). The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994A Pension Bonds). As of June 30, 2006, the outstanding principal amount of the Series 1994A, 1996A and 1997A Pension Bonds were \$0, \$55,656 and \$44,058, respectively.

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

Teeter Plan Revenue Bonds, Series 1995A through E

In June 1995, the Orange County Special Financing Authority (the Authority) issued in the principal amount of \$155,000 in taxable (1995 Series A - \$32,400) and tax-exempt (1995 Series B through E - \$122,600) Teeter Plan Revenue Bonds (Teeter Bonds). The Teeter Bonds are limited obligations of the Authority payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program, to be received by the Authority, the County and a trustee. The outstanding principal balance of the Teeter Bonds as of June 30, 2006 was \$123,725.

Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project)

In April 2001, the OCPFA issued, in the principal amount of \$10,330, Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project), to (1) finance the acquisition and installation of certain telecommunications equipment for general governmental purposes, (2) fund a debt service reserve fund, (3) pay capitalized interest on bonds, and (4) pay costs related to the issuance of bonds. The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to an equipment lease, and other amounts held by the Trustee in the funds established under the Indenture. As of June 30, 2006, the outstanding principal amount of the Lease Revenue Bonds was \$4,774.

10. LONG-TERM OBLIGATIONS (Continued)

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

Airport Revenue Refunding Bonds, Series 1997 and 2003

In July 1987, the County issued in the principal amount of \$242,440 of Airport Revenue Bonds, Series 1987 (1987 Bonds) to finance the construction of new facilities at John Wayne Airport. In July 1993, the County issued in the principal amount of \$79,755 of Revenue Bonds to partially refund the 1987 Bonds. In April 1997, the County completed a forward refunding of the majority of outstanding 1987 Bonds. The principal amount of the refunding was \$135,050. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410. On May 29, 2003, the County issued in the principal amount of \$48,680 of Revenue Bonds (2003 Bonds), the proceeds of which, together with certain monies deposited with the Trustee, refunded and defeased the 1993 Bonds. The outstanding principal amount of 1997 and 2003 Bonds as of June 30, 2006 was \$121,403. All Airport Bonds are secured on a parity basis by a pledge of net revenues of the Airport Enterprise Fund.

Waste Management System Refunding Revenue Bonds, Series 1997

In November 1997, the OCPFA issued in the principal amount of \$77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The Waste Management System Bonds are secured by a pledge of (1) the net operating revenues; (2) all money, securities and funds in the Waste Management Enterprise Fund that are required to be held or set aside therein for any purpose other than the payment of operating expenses pursuant to the terms of the sublease, but excluding any such money, securities and funds in the (i) closure account or any other fund or account required pursuant to state or federal law to be held in trust, (ii) environmental account in an amount not exceeding \$50,000, (iii) post-closure reserve account, or (iv) that were borrowed or received to pay capital costs and excluding any deposits or net incremental solid waste system revenues or any deposits that are required to be made in the rebate account; and (3) to the extent permitted by and in accordance with the procedures established under any applicable law, any rights of the County under any approvals, licenses and permits relating to the System. The outstanding principal balance of these bonds as of June 30, 2006 was \$47,243.

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, 2006, \$647,335 of legally defeased debt remains outstanding.

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2005-06

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2006 were as follows:

Description	Balance July 1, 2005	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2006	Amounts Due within One Year
<u>Governmental Funds:</u>					
<u>County of Orange Refunding</u>					
<u>Recovery Bonds - Series 1995 A:</u>					
Date Issued: June 1, 1995					
Interest Rate: 5.0% to 6.50%					
Original Amount: \$278,790					
Maturing in installments through June 1, 2015.	\$ 210,705	\$ --	\$ (210,705)	\$ --	\$ --
<u>County of Orange</u>					
<u>Refunding Recovery Bonds - Series 2005A:</u>					
Date Issued: August 18, 2005 to refund and defease the outstanding Refunding Recovery Bonds - Series 1995A					
Interest Rate: 3.00% to 5.00%					
Original Amount: \$146,006					
Maturing in installments through June 1, 2015.	--	155,170	(14,375)	140,795	12,443
Deferred Amount on Refunding	--	(9,375)	--	(9,375)	(1,042)
<u>Orange County Public Facilities Corporation,</u>					
<u>1996 Recovery Certificates of Participation -</u>					
<u>Series 1996 A:</u>					
Date Issued: June 12, 1996					
Interest Rate: 4.20% to 6.00%					
Original Amount: \$760,800					
Maturing in installments through July 1, 2026.	580,825	--	(580,825)	--	--
<u>Orange County Public Financing Authority</u>					
<u>Lease Revenue Refunding Bonds, Series 2005:</u>					
Date Issued: August 16, 2005 to refund and defease the 1996 Recovery Certificates of Participation - Series 1996A.					
Interest Rate: 3.00% to 5.75%					
Original Amount: \$419,756					
Maturing in installments through July 1, 2017.	--	439,728	--	439,728	47,072
Deferred Amount on Refunding	--	(24,485)	--	(24,485)	(2,129)

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2005-06 (Continued)

Description	Balance July 1, 2005	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2006	Amounts Due within One Year
<u>Orange County Public Facilities Corporation, Refunding Certificates of Participation: (Civic Center Parking Facilities Project)</u>					
Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior December 22, 1987 bond issue					
Interest Rate: CIB - 4.40% to 6.75%					
Interest Rate: CAB - 6.85% to 7.05%					
Original Amount: CIB - \$24,495					
Original Amount: CAB - \$9,084					
Maturing in installments through December 1, 2018.					
	\$ 9,084	\$ --	\$ (992)	\$ 8,092	\$ 927
<u>Orange County Financing Authority Tax Allocation Revenue Bonds - Series 1992 A: (Neighborhood Development and Preservation Project)</u>					
Date Issued: June 1, 1992 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior June 1, 1989 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.50% to 6.50%					
Interest Rate: CAB - 6.50% to 6.55%					
Original Amount: CIB - \$27,150					
Original Amount: CAB - \$932					
Maturing in installments through September 1, 2022.					
	600	--	(309)	291	290
<u>Orange County Development Agency Tax Allocation Refunding Bonds - Series 2001: (Neighborhood Development and Preservation Project)</u>					
Date Issued: July 11, 2001					
To refund prior June 1, 1992 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.00% to 5.50%					
Original Amount: \$26,160					
Maturing in installments through September 1, 2022.					
	24,440	(7)	(290)	24,143	312
Deferred Amount on Refunding	(987)	55	--	(932)	(55)

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2005-06 (Continued)

Description	Balance July 1, 2005	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2006	Amounts Due within One Year
<u>Orange County Public Financing Authority</u>					
<u>Juvenile Justice Center Facility Lease Revenue</u>					
<u>Refunding Bonds - Series 2002</u>					
Date issued: May 1, 2002, and delivered April 24, 2002, to refund the outstanding Refunding Certificates of Participation.					
Interest Rate: 3.00% to 5.50%					
Original Amount: \$80,285					
Maturing in installments through June 1, 2019.	\$ 72,712	\$ 4	\$ (3,870)	\$ 68,846	\$ 3,990
Deferred Amount on Refunding	(3,062)	219	--	(2,843)	(219)
<u>Orange County Development Agency</u>					
<u>Santa Ana Heights Project Area 2003</u>					
<u>Tax Allocation Refunding Bonds:</u>					
Date Issued: November 13, 2003 to refund prior August 1, 1993 bond issue					
Interest Rate: 2.00% to 5.25%					
Original Amount: \$38,465					
Maturing in installments through September 1, 2023.	38,467	(31)	(1,341)	37,095	1,416
Deferred Amount on Refunding	(1,695)	92	--	(1,603)	(92)
<u>County of Orange</u>					
<u>Taxable Refunding Pension</u>					
<u>Obligation Bonds - Series 1996 A:</u>					
Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB)					
Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB)					
To refund prior September 1, 1994 bond issue.					
Interest Rate: CIB - 7.47% to 7.72%					
Interest Rate: CAB - 8.09% to 8.26%					
Original Amount: CIB - \$81,680					
Original Amount: CAB - \$40,000					
Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB).	64,652	--	(8,996)	55,656	6,100

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2005-06 (Continued)

Description	Balance July 1, 2005	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2006	Amounts Due within One Year
<u>County of Orange</u>					
<u>Taxable Refunding Pension</u>					
<u>Obligation Bonds - Series 1997 A:</u>					
Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB)					
Date Issued: January 14, 1997 - Capital Appreciation Bonds (CAB)					
To refund a substantial portion of the September 1, 1994 bond issue.					
Interest Rate: CIB - 5.71% to 7.36%					
Interest Rate: CAB - 7.33% to 7.96%					
Original Amount: CIB - \$71,605					
Original Amount: CAB - \$65,318					
Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB).					
	\$ 47,120	\$ --	\$ (3,062)	\$ 44,058	\$ 3,723
<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					
Maturing in installments through December 15, 2008.					
	6,245	--	(1,471)	4,774	1,530
Subtotal - Governmental Funds	1,172,831	561,370	(826,236)	907,965	74,266

10. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2005-06 (Continued)

<u>Description</u>	<u>Balance July 1, 2005</u>	<u>Issuances and Discount/ Premium Amortization</u>	<u>Retirements</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due within One Year</u>
<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 Maturing in installments through July 1, 2012.					
	\$ 83,665	\$ (130)	\$ (9,020)	\$ 74,515	\$ 9,625
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(1,225)	476	--	(749)	(220)
<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 Maturing in installments through July 1, 2018.					
	49,854	(486)	(2,480)	46,888	3,018
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	(8,750)	1,252	--	(7,498)	(1,192)
<u>Orange County Public Financing Authority</u>					
<u>Waste Management System Refunding Revenue</u>					
<u>Bonds - Series 1997:</u>					
Date Issued: November 18, 1997 to refund \$77,445 of the OCPFC 1988 Certificate of Participation (Solid Waste Management System) Interest Rate: 4.375% to 5.75% Original Amount: \$77,300 Maturing in installments through December 1, 2013.					
	51,931	(172)	(4,515)	47,244	4,919
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(2,545)	573	--	(1,972)	(527)
Subtotal - Enterprise Funds	172,930	1,513	(16,015)	158,428	15,623
Total	\$ 1,345,761	\$ 562,883	\$ (842,251)	\$ 1,066,393	\$ 89,889

10. 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>	
2007	\$ 76,960	\$ 51,714	\$ 16,880	\$ 8,728	\$ 154,282
2008	84,836	48,150	17,795	7,813	158,594
2009	73,046	45,382	18,790	6,815	144,033
2010	81,339	42,624	19,810	5,793	149,566
2011	78,610	43,295	20,895	4,709	147,509
2012-2016	404,422	215,487	58,365	9,061	687,335
2017-2021	101,476	95,925	12,690	1,290	211,381
2022-2026	12,403	3,805	--	--	16,208
Total	913,092	546,382	165,225	44,209	1,668,908
Add: Premium	34,112	--	3,422	--	37,534
Less: Deferred amount on refunding	(39,239)	--	(10,219)	--	(49,458)
Principal payable, net	<u>\$ 907,965</u>	<u>\$ 546,382</u>	<u>\$ 158,428</u>	<u>\$ 44,209</u>	<u>\$ 1,656,984</u>

10. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2006 were as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and COPs payable:					
Revenue bonds	\$ 261,180	\$ 419,756	\$ (7,281)	\$ 673,655	\$ 54,015
Certificates of participation	589,909	--	(581,817)	8,092	927
Pension obligation bonds	111,772	--	(12,058)	99,714	9,823
Recovery bonds	210,705	146,006	(225,080)	131,631	12,195
Add: Premium on bonds payable	5,009	29,290	(187)	34,112	843
Less: Deferred amount on refunding	(5,744)	(35,968)	2,473	(39,239)	(3,537)
Total bonds & COPs payable	<u>1,172,831</u>	<u>559,084</u>	<u>(823,950)</u>	<u>907,965</u>	<u>74,266</u>
Interest on capital appreciation bonds	85,873	12,793	--	98,666	--
Other long-term liabilities:					
Compensated employee absences payable	148,561	122,271	(126,014)	144,818	78,266
Arbitrage rebate payable	138	12	(91)	59	--
Pool participant claims	800	--	(800)	--	--
Capital lease obligations payable	106,189	396	(5,039)	101,546	4,849
Insurance claims payable	134,511	94,320	(89,182)	139,649	51,250
Net pension obligation	760	260	(270)	750	--
Total other long-term liabilities	<u>390,959</u>	<u>217,259</u>	<u>(221,396)</u>	<u>386,822</u>	<u>134,365</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 1,649,663</u>	<u>\$ 789,136</u>	<u>\$ (1,045,346)</u>	<u>\$ 1,393,453</u>	<u>\$ 208,631</u>
Business-type Activities:					
Bonds Payable:					
Revenue bonds	\$ 181,240	\$ --	\$ (16,015)	\$ 165,225	\$ 16,880
Add: Premium on bonds payable	4,210	--	(788)	3,422	682
Less: Deferred amount on refunding	(12,520)	--	2,301	(10,219)	(1,939)
Total revenue bonds payable, net	<u>172,930</u>	<u>--</u>	<u>(14,502)</u>	<u>158,428</u>	<u>15,623</u>
Other long-term liabilities:					
Compensated employee absences payable	4,670	3,302	(3,715)	4,257	2,063
Arbitrage rebate payable	148	64	--	212	--
Landfill site closure/postclosure liabilities	178,297	10,487	(11,527)	177,257	937
Total other long term liabilities	<u>183,115</u>	<u>13,853</u>	<u>(15,242)</u>	<u>181,726</u>	<u>3,000</u>
Total Business-type Activities Long-term Liabilites	<u>\$ 356,045</u>	<u>\$ 13,853</u>	<u>\$ (29,744)</u>	<u>\$ 340,154</u>	<u>\$ 18,623</u>

10. LONG-TERM OBLIGATIONS (Continued)

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2006 is \$144,818 compared with \$148,561 at June 30, 2005. Employees are entitled to paid annual leave, comp 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 holders within each district. Accordingly, such obligations are not included in the accompanying basic financial statements.

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

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

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

Special assessment district and community facilities district bonds outstanding as of June 30, 2006, amounted to \$784,055.

11. CONDUIT DEBT OBLIGATIONS

From 1980 through 2006 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 are obligated in any manner for the repayment of the bonds and in no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements.

As of June 30, 2006, there were 81 series of bonds outstanding, with an aggregate principal amount payable of \$1,005,648.

12. LEASES

Commitments Under Operating Leases

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

<u>Fiscal Year Ending June 30</u>	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
2007	\$ 20,386	\$ 25,157	\$ 45,543
2008	15,508	23,077	38,585
2009	8,497	20,713	29,210
2010	4,476	18,568	23,044
2011	3,220	14,306	17,526
2012-2016	44	28,727	28,771
2017-2021	--	1,064	1,064
Total	<u>\$ 52,131</u>	<u>\$ 131,612</u>	<u>\$ 183,743</u>

Total rent expenditures for operating leases incurred for FY 2005-06 was \$46,787.

Capital Leases

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

Land	\$ 24,047
Equipment	2,669
Less: Accumulated Depreciation	(1,762)
Structures & Improvements	101,738
Less: Accumulated Depreciation	(16,901)
Total	<u>\$ 109,791</u>

12. LEASES (Continued)

Capital Leases (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, 2006:

<u>Fiscal Year Ending June 30</u>		
2007	\$	13,210
2008		13,428
2009		13,696
2010		12,241
2011		11,176
2012-2016		47,870
2017-2021		45,992
2022-2026		26,793
2027		490
Total minimum lease payments		184,896
Less: amount representing interest		(83,350)
Present value of net minimum lease payments	\$	101,546

13. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require the Integrated Waste Management Department (IWMD) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, IWMD 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.

IWMD owns or operates the following waste disposal sites:

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

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

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

The total landfill closure and postclosure care liability at June 30, 2006 was \$177,257. The total liability represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date (41.19%), less actual costs disbursed related to both closure and postclosure of Santiago Canyon and Coyote Canyon landfills. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$162,478 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in FY 2005-06 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2067. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board's regulations, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD, on an annual basis, sets aside cash for the FRB, Olinda Alpha, and Prima Deshecha landfills into escrow funds held by the County. As of June 30, 2006, \$98,632 has been set aside for closure and postclosure care costs and is included in the accompanying Proprietary Funds' Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. The State mandated formula under which these contributions are computed would provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure and postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

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

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2006, 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	\$ 3,603
South County Courthouse Design	2,586
Central Garage - Construct Seismic Retrofit	2,358
Emergency Communications Bureau	1,455
	10,002
Roads	
Laguna Canyon Road - State Route 73 to Interstate 405	17,766
Warner Avenue Bridge - Over Santa Ana River	3,931
Foothill Circulation Phasing Plan - Alton-Irvine Boulevard to Foothill Transportation Corridor	1,598
	23,295
Flood Control District	
Acquisition of Parcel No. R3101	22,050
Building 2301 N Glassell St	5,328
Building 2245 N Glassell St	4,992
Land 222 E Bristol Ln	4,218
Building 222 E Bristol Ln	3,182
Land 2301 N Glassell St	2,072
Land 2245 N Glassell St	2,808
	44,650
Harbors, Beaches and Parks	
O'Neill Park Sewer Conversion	5,764
Laguna Coast Wilderness Park Interpretive Center	1,022
	6,786
Other Governmental Funds	
Vehicles for the Transportation Internal Service Fund	3,159
Santa Ana Heights Redevelopment Sewer Improvements	2,733
	5,892
Business-Type Activities:	
Integrated Waste Management	
Excavation and Ground Water Protection	4,251
Environmental Services - Phase 8 Forward	2,249
	6,500
Total commitments	\$ 97,125

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

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, which is considered by the U.S. Army Corps of Engineers (COE) 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.

As of June 30, 2006, the OCFCD expended \$320,000 on the Project. The COE's estimated combined cost for all Project components has been increased from last year's estimate of \$1,400,000 to \$1,700,000, primarily due to the increased cost for acquisition of real property rights for the Prado Dam Project. OCFCD's cost share for Prado Dam Project acquisitions, relocations (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction has increased from \$206,000 to \$276,000. The OCFCD and COE are also evaluating relocation/protection options for the Santa Ana River Interceptor (SARI) sewage line, which runs through Prado Dam and under the SAR in portions of the SAR Canyon. OCFCD's cost share for this probable additional Project requirement has not yet been determined; however, total estimated costs for the entire relocation/protection task are estimated at about \$67,000.

The construction of Seven Oaks Dam and most channel improvements in Riverside, San Bernardino and Orange counties have been completed; however, the COE has been constructing minor modifications to the Seven Oaks Dam invert structure and tunnel. 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 has continued and is currently scheduled for completion in late 2007 or early 2008. Landscaping along the SAR in Orange County is underway and is expected to be completed in 2007. 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; and some dike construction is scheduled to start in 2007. 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. Since approval of the PCA in February 2003, 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). To date, the OCFCD has submitted \$187,000 in claims, and received \$122,000 in reimbursements. An additional \$38,000 in claims have been or are in the process of being prepared for submittal to the DWR. Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid, with the remaining 10% paid after an audit by the State Controller's Office. The County does not accrue these claim amounts as revenue due to the typical lengthy review and audit time periods after claim submission and uncertainty on the availability of funding for audits and reimbursements.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

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

15. SELF-INSURANCE

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

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

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets; errors and omissions; civil rights claims; and natural disasters. Tort liability is also self-funded, up to \$5,000. Commercial insurance is purchased for property and other risk exposures. Excess liability insurance provides up to an additional \$40,000 in liability coverage. There have never been verdicts or settlements that exceeded the self-insurance threshold. Accordingly, no verdicts or settlements have been paid under the excess insurance policy.

Independent actuarial studies are secured 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, and allocated 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 4% to reflect anticipated future investment earnings.

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

The County also has an Unemployment Insurance ISF, which covers all employees, and County Preferred Provider Organization (PPO) Health Plans and Self-Insured Benefits ISFs, which provide health, dental and salary continuance for a portion of its employees. The County pays through the State of California the standard unemployment benefits.

The County's PPO Plans have a lifetime coverage maximum of \$1,000 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.

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

15. SELF-INSURANCE (Continued)

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

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 2004-05	\$ 95,762	\$ 17,717	\$ 14,355	\$ 127,834
Claims and Changes in Estimates	28,001	17,672	56,341	102,014
Claim Payments	(26,782)	(8,722)	(59,833)	(95,337)
Unpaid Claims, End of FY 2004-05	\$ 96,981	\$ 26,667	\$ 10,863	\$ 134,511
Claims and Changes in Estimates	34,050	10,052	50,218	94,320
Claim Payments	(25,911)	(12,535)	(50,736)	(89,182)
Unpaid Claims, End of FY 2005-06	<u>\$ 105,120</u>	<u>\$ 24,184</u>	<u>\$ 10,345</u>	<u>\$ 139,649</u>

16. ESTIMATED LIABILITY FOR OTHER 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 probable loss to the County, any such loss would be accrued in the accompanying financial statements.

In addition to the accrued liabilities for self-insurance claims incurred but not reported in Note 15, 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. The County is also subject to audits by federal and state agencies to determine if expenditures of grant monies received from these agencies are in compliance with the respective grant provisions. Although the aggregate amount asserted in such lawsuits, claims, or potential audit findings 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.

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

At some of these refuse disposal stations that the County no longer owns, methane gas has been detected on the property. The Local Enforcement Agency (LEA), the entity that regulates landfills, has directed the current property owners to develop corrective action plans and propose long-term landfill gas remediation plans at the

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

Refuse Disposal Stations (Continued)

sites. Many of these sites are currently owned by different cities within the County. These cities are in the process of implementing the landfill gas mitigations required by the LEA. The cities have notified the County that it is their position that the County is responsible for control of the landfill gas on the sites. The County cannot estimate the cost to control the landfill gas; however, the costs could be substantial. At this time no amount has been accrued. It is possible that the County could incur significant costs if the courts rule against the County. Listed below are those refuse disposal stations that the County no longer owns or operates with pending litigation, potential claims or regulatory actions against the County.

- *Sparkes Pit/Rains Disposal Station #18*, City of Anaheim – Potential Litigation
- *Forster Refuse Disposal Station #17*, Private Owner – Potential Litigation
- *Cannery Street Refuse Disposal Station #16*, City of Huntington Beach – Notice of Intent to Sue
- *San Joaquin Refuse Disposal Station #13*, University of California, Irvine – Actively Negotiating Resolution
- *La Veta Refuse Disposal Station #2*, City of Orange – Potential Litigation

Coyote Canyon Landfill #24 The County of Orange operated Coyote Canyon Landfill on property owned by The Irvine Company pursuant to a lease agreement originally approved in 1963. The landfill ceased operations in 1990. The County continues to occupy the property under the holdover provisions of the lease. The Irvine Company reserved all rights to landfill gas at the site and contracted with a landfill gas developer to convert landfill gas to electricity. The Irvine Company contends that, despite its ownership of landfill gas rights, the County, and not The Irvine Company, is responsible for all regulatory control of landfill gas at the Landfill and any potential future liabilities that may relate to landfill gas. The County disputes these assertions. On December 30, 2003, The Irvine Company initiated litigation seeking declaratory relief. On June 27, 2006, by a unanimous vote, the Board approved a proposed contingent settlement. The settlement requires that certain events occur, including the negotiation and finalization of ancillary agreements, before the litigation is dismissed. To allow time for the contingencies to be resolved, the Court stayed the litigation until January 30, 2007.

On November 21, 2006 the Board of Supervisors approved a series of agreements implementing the obligations created by the Settlement Agreement. These agreements are on file with the Clerk of the Board of Supervisors. Under the Settlement Agreement and the various subsequent agreements implementing the Settlement Agreement, fee title to the Coyote Canyon Landfill will be conveyed to and accepted by the County of Orange and The Irvine Company will assign to the County all of The Irvine Company's rights and obligations in agreements related to the Coyote Canyon Landfill including but not limited to agreements concerning the landfill gas generated at the Coyote Canyon Landfill. As a result of these agreements The Irvine Company will have no further interests in the Coyote Canyon Landfill and no further interest in or obligations concerning the landfill gas at the Coyote Canyon Landfill. The County and The Irvine Company have agreed to secure a pollution liability policy of insurance from AIG in the amount of \$50,000 with a \$100 deductible per pollution incident with both the County and The Irvine Company as named insureds (Coyote Canyon Pollution Liability Policy). This policy will have a 10 year term and the full premium will be paid within 30 days of the policy being bound. The Irvine Company and the County have also entered into an Indemnity and Release Agreement under which the County agrees to indemnify and hold harmless The Irvine Company for any liability related to the County's landfill operations at the Coyote Landfill not covered by the Coyote Canyon Pollution Liability Policy.

It is anticipated that the transfer of the Coyote Canyon Landfill to the County will be completed before December 31, 2006. The pollution liability policy will be effective as of the date that the fee interest in the Coyote Canyon Landfill is conveyed to the County. The litigation will be dismissed with prejudice once the Coyote Canyon Landfill is conveyed to the County.

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

Barratt American Incorporated, et al. v. County of Orange (Orange County Superior Court Consolidated cases No. 814037 and 01CC04025) Plaintiff alleges the County overcharged for building permit and inspection fees from 1999 through 2001 (and continuing) and impermissibly accumulated a surplus in the Building and Safety special revenue fund. The fund is used to account for building and safety permit fees; much of which plaintiff alleges was subsequently spent on impermissible items. The Complaint seeks a variety of forms of relief, including injunctive, declaratory and monetary damages.

The trial court ruled that the County failed to meet its burden of proof that \$4,500 of \$18,000 originally challenged by plaintiff was spent appropriately. The court ruled that the County reduce future building permit and plan check fees by that amount. The court awarded the plaintiff \$1,218 in attorney fees; and this award has been accrued as a liability in the government-wide financial statements. The judgment is now final and the County appealed the judgment. The plaintiff also appealed portions of the judgment. Briefing is complete. Oral argument is scheduled to take place on January 2, 2007

On July 1, 2003, plaintiff filed a new complaint (Orange County Superior Court Case (OCSC) No. 03CC00235) against the County seeking various forms of relief regarding the building permit fee ordinance enacted by the Board of Supervisors in March 2003. Plaintiff's complaint was served in July 2003; the County has filed its answer. This lawsuit is related to the pending litigation in OCSC cases 04CC00664 and 05CC00278, and it addresses many of the same legal and factual issues that are the subject of the pending appeal in OCSC Consolidated cases No. 814037 and 01CC04025. Litigation in this case has been stayed pending the outcome of the appeal.

On October 1, 2004, plaintiff filed another complaint (Orange County Superior Court Case No. 04CC001664) against the County for declaratory relief, validation and Petition for Mandate challenging Orange County Ordinance 04-007, setting fees for building permits and plan reviews. The County denies the allegations and intends to defend itself in court against the complaint. This lawsuit is related to the pending litigation in OCSC cases No. 03CC00235 and 05CC00278, and it addresses many of the same legal and factual issues that are the subject of the pending appeal in OCSC Consolidated cases No. 814037 and 01CC04025. Litigation in this case has been stayed pending the outcome of the appeal.

Plaintiff filed another complaint (Orange County Superior Court Case No. 04CC00278) against the County for declaratory relief, validation and Petition for Mandate challenging Orange County's 2005 Ordinance setting fees for building permits and plan reviews. The County has filed its answer and discovery has commenced. This lawsuit is related to the pending litigation in OCSC cases No. 03CC00235 and 04CC00664, and it addresses many of the same legal and factual issues that are the subject of the pending appeal in OCSC Consolidated cases No. 814037 and 01CC04025. Litigation in this case has been stayed pending the outcome of the appeal.

William B. Bunker, etc., et al. v. County of Orange This action has been settled and the County is in the process of completing the terms of the settlement. In this action, Plaintiff contended that the County violated the statute requiring the Assessment Appeals Board (AAB) to hear and finally determine applications for change in property tax assessments within two years. According to the statute, if the applications are not finally determined by the AAB within two years, the taxpayers' opinions of value as stated in their applications must be adopted. Plaintiff sought an order on behalf of himself and all similarly situated taxpayers whose applications were not finally determined within two years requiring that the County give notice to each of these taxpayers that they have overpaid their taxes. The taxpayers would then have one year to file a claim for property tax refunds pursuant to Revenue and Taxation Code section 2635.

The case is now settled. Pursuant to the settlement, taxpayers who were potentially entitled to receive notice under section 2635 were given notice of the class action; only 430 claims were filed. The County, along with the Claims Administrator, has processed these claims. The Claims Administrator determined that approximately 270 of these claims were valid. On or about August 2, 2006, the taxpayers who had valid claims were mailed notice that they may file a claim for refund. These taxpayers have one year from the date

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

William B. Bunker, etc., et al. v. County of Orange (Continued)

of the notice to file a claim for tax refund with the County. Assuming that each of these taxpayers actually file a claim for refund, the refunds will total over \$1,700. In addition, the interest on the refunds could be more than double the amounts of the refunds. However, the refund and interest amounts would be borne by the various taxing entities in the same proportion that property tax revenues are distributed. The County would ultimately be responsible for approximately 10% of the potential total refund and interest amount. The actual amount of the liability is not known at this time, however an estimated \$340 liability has been accrued in the financial statements.

Potential Fire Station Claims Certain fire stations previously owned by the County were transferred to the Orange County Fire Authority (OCFA) in connection with OCFA's formation in March 1995. As part of the joint powers agreement forming 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 contacted the County regarding potential claims against the County arising out of possible contamination from motor vehicle fuels that leaked from underground storage tank systems at nine fire stations. OCFA claims are currently tolled until February 2007 under tolling agreements with the County. In addition, an abutting landowner at one of the stations has threatened litigation alleging that contamination from leaking storage tank systems has migrated to the abutting property.

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

Smith v. County of Orange, et al. (Orange County Superior Court Case No. 05CC00053) This action is a class action lawsuit filed by a few named foster children through their Guardian Ad Litem on behalf of the foster children and all those similarly situated and by certain foster parents on behalf of themselves and all those similarly situated. The action was filed on March 8, 2005 and the County was served with the Complaint on May 25, 2005. The Complaint alleges that certain foster children in the County have been assessed as developmentally disabled, and as a result are "dually aligned" or "dual agency" children, and thus are a recipient of the foster children program as well as a client for the State Regional Centers for the developmentally disabled. Plaintiffs further allege that as a result of the foster children being dually aligned, the rate of monetary support to be paid to the foster parent Plaintiffs is greater than the regular foster care monetary rate.

The Complaint alleges that the Foster Parent Plaintiffs have been receiving payments at a lower rate than they are entitled. The Complaint contains four different causes of action for underpayment, writ of mandate, declaratory and injunctive relief. The ultimate relief sought is to compel the payment of the difference in the rate for dually aligned children and the regular foster care monetary rate.

The County denies that it has any liability in this matter or that it breached any alleged duty. However, at this preliminary stage of litigation, the County is unable to estimate potential liability in this matter. The amount of such liability, if any, depends upon whether the Court determines the County breached a duty owing to the Plaintiffs, if the Court certifies the class, and if so, the number of potential class members. It also depends on whether the Court finds the foster children Plaintiffs have standing, whether the statute of limitations has run as to the foster parent Plaintiffs, and whether Plaintiffs need to exhaust their administrative remedies.

The action has been coordinated with other similar actions pending against various counties throughout the State. The court granted the counties joint demurrer and dismissed the counties from the action. Plaintiff may appeal the court ruling on the demurrer.

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

Butler v. County of Los Angeles, et al. (Los Angeles Superior Court Case No. BC329695) This is a class action lawsuit with the same charging allegations and theories of liability as the *Smith v. County of Orange* case detailed in the above paragraphs. However in this case, the foster children and their foster parents are seeking to have a defendant class certified as well as the Plaintiff class. Plaintiffs are seeking to have each of the 58 counties in California certified as the defendant class. The County of Orange, although named as a defendant, has not been formally served with the complaint in this matter.

The County denies that it has any liability in this matter or that it breached any alleged duty. However, at this preliminary stage of litigation, the County is unable to estimate potential liability in this matter. The amount of such liability, if any, depends upon the same factors discussed above with respect to the *Smith v. County of Orange* action.

American Manufacturers Mutual Insurance Company v. County of Orange (Orange County Superior Court Case No. 06CC06260) On May 22, 2006, the County was served with a lawsuit by American Manufacturers Mutual Insurance Company. The complaint alleges causes of action for breach of contract, subrogation, indemnification and declaratory relief against the County for failure to pay retention on the Superior Court remodel projects. The complaint specifically alleges a violation of the prompt pay statute. The prayer in the Complaint alleges damages totaling \$1,430 plus a claim for prompt pay violations which, if proven, would include an award for attorney's fees and interest. The County has answered the complaint and the case is processing with discovery. This case was settled for \$785 in November 2006.

Margaret Reed v. County of Orange (USDC, Central District of California, Case No. SACV05-1103CJC) Margaret Reed (Reed) is a Deputy Sheriff employed by the County of Orange (County). She filed this action against the County on behalf of herself and "those similarly situated" alleging that the County owes her and other similarly situated deputies compensable regular and overtime pay. In her First Amended Complaint (Complaint) she alleges that the County violated the Fair Labor Standards Act, 29 U.S. C. Section 201 *et seq.* (FLSA) and is requesting that this action be certified as a "collective action." She is seeking an unspecified amount of damages.

The County denies that it is has any liability in this matter, or that it breached any alleged duty. However, at this preliminary stage of the litigation, County is unable to estimate potential liability in this matter. The amount of such liability, if any, depends upon whether the Court determines the County breached a duty owing to the Plaintiffs, if the Court allows the collective action, and if so, the number of potential plaintiffs.

Potential Litigation over Retiree Medical Plan Benefits and Retiree Health Insurance On September 12 and 25 and October 24, 2006, the County Board of Supervisors 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. Published reports and statements before the Board of Supervisors suggest that retirees may bring litigation to challenge the changes to the Retiree Medical Plan and Retiree Health Premium methodology.

No claim or litigation has been filed against the County and the County is unable to assess the likelihood of success of such litigation if it is ever initiated. However, should litigation be brought against the County and prove successful, the resulting County liability could result in a major financial impact on the County.

Medicare Investigation The County's Health Care Agency (HCA) is currently under investigation by federal authorities for potential civil fraud and False Claims Act violation in connection with its Medicare billings for mental health services. The investigation is being directed by the United States Attorney's Office for the

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

Medicare Investigation (Continued)

Central District of California, working in conjunction with Office of the Inspector General for the Department of Health and Human Services. The County believes that the investigation focuses on HCA's Medicare billing practices from 1990 through 1999, and that the investigators believe that HCA may have made numerous false claims on its Medicare bills during that period and may have submitted false claims for physician services that were not rendered by physicians.

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

17. 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 and employees of certain cities and special districts within the County participate. OCERS is governed by the Board of Retirement (the "OCERS Board"), which is independent of the County Board of Supervisors. 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 of Supervisors, three members plus one alternate are elected from active County employees, one member is elected from retirees, and the County Treasurer-Tax Collector is a statutory member.

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 "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 on an annual basis as of December 31 of each year, which is the end of the OCERS fiscal year.

OCERS issues a stand-alone annual financial report 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, 2005, entities paying into the OCERS include the County of Orange, Orange County Transportation Authority, Orange County Sanitation District, University of California Irvine Medical Center, City of San Juan Capistrano, Transportation Corridor Agencies, Orange County Vector Control District, Orange County Department of Education, Orange County Cemetery District, Orange County Public Law Library, Orange County Fire Authority, City of Rancho Santa Margarita, Children and Families Commission of Orange County, OCERS, Orange County Local Agency Formation Commission and Orange County Superior Court. The County payments represent approximately 80% of the payments into OCERS.

17. 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 County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement Law.

Funding Policy In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with 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. 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' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2005-06, employer's contributions, as a percentage of covered payrolls, were 16.27% for General members, 38.89% for Safety-Law Enforcement members and 14.80% 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 of Supervisors as of June 28, 2002 and now earn benefits under a 3% at 50 benefits formula. In the 1997 Ventura decision of the Southern 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 (such as overtime and extra pay categories). Orange County employee contributions under current contracts are calculated only on base salary, which excludes other additional items of compensation.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General Members who work for the County of Orange (approximately 13,000) became Plan I or Plan J members. The benefit formula beginning July 1, 2005 is 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General Members, which expire in June 2007, the employee associations agreed that current employees will pay the costs of the difference between retirement benefits at the prior formulas and the new 2.7% at age 55 formula. However, members of the American Federation of State, County and Municipal Employees (approximately 860 employees) did not elect the 2.7% at age 55 retirement formula and remain at the previous benefit formulas. These previous benefit formulas 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.

The Pension Liability or Asset at transition was calculated in accordance with the provisions of GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," and was zero at transition and the effective date.

17. 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. Among the actuarial assumptions currently used in valuing the plan are (i) an investment return assumption of 7.75%, (ii) a policy to amortize OCERS UAAL as of December 31, 2004 over a 30-year period, (iii) amortizing any increases or decreases in UAAL that arise in the future years due to actuarial gains or losses over a period of 15 years, (iv) all amortizations conducted on a level percent of pay basis and (v) a 3.5% inflation assumption. Actuarial assumptions are subject to change.

Actuarially, based on OCERS' assumptions, OCERS currently has an UAAL. The UAAL for OCERS is an estimate based on a series of assumptions that operate on demographic data of OCERS' membership. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in OCERS are to fund the accrued costs attributable to active, vested terminated and retired employees. This determination of underfunding rests on actuarial assumptions regarding expected return on invested assets, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, the post-employment life expectancies of retirees and beneficiaries, salary increases, contributions to OCERS, inflation, and other factors. The UAAL is paid by all participating agencies, including the County, and amortized, over a period of years (as described below). The County previously funded a portion of the UAAL attributable to the County with the proceeds of taxable pension obligation bonds. For further information regarding the pension obligation bonds, refer to the "Actuarial and Funding Status" section on the next page; Note 9, Short-Term Obligations; and Note 10, Long-Term Obligations.

When measuring assets for determining the UAAL, many pension plans, including OCERS, "smooth" market value gains and losses to reduce volatility. If in the period for which an actuarial valuation is prepared the actual investment return on OCERS' assets is lower or higher than the actuarial assumed rate of return, then 20% of the shortfall or excess is recognized in each of the succeeding fiscal years, resulting in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

December 31, 2004 Actuarial Valuation (Revised) In 2004, OCERS retained the Segal Company as its actuary to complete an actuarial valuation of OCERS (the 2004 Valuation) as of December 31, 2004. OCERS' prior actuarial valuation, as of December 31, 2003, was completed on July 16, 2004 by Towers Perrin and determined the UAAL to be \$1,309,334. The revised Valuation calculated the UAAL as of December 31, 2004 to be \$2,158,151.

The \$848,817 increase in the UAAL was attributable to a number of factors including the following:

- Differences between the 2004 Valuation and the prior actuary's valuation system and procedures.
- Changes in assumptions, including salary scale, withdrawal and retirement assumptions, based upon the December 31, 2004 triennial experience study of the County.
- Benefit changes including the adoption of a 2.7% at age 55 formula for the County, Orange County Superior Court and Orange County Fire Authority general members; 2.5% at age 55 for the Orange County Sanitation District; and 3% at age 50 for the County's safety officers.

The 2004 Valuation determined that the ratio of the valuation assets to actuarial accrued liabilities decreased from 78.5% as of December 31, 2003 to 70.85% as of December 31, 2004. The 2004 Valuation estimated that the UAAL and funding ratio, without the changes in actuarial assumptions, procedures and methodologies used in their valuation, would have been \$1,761,000 and 74.9%, respectively.

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

December 31, 2004 Actuarial Valuation (Revised) (Continued)

The average aggregate employer contribution rate for the County in the 2004 Valuation increased from 18.92% of payroll beginning July 1, 2005 to 24.29% beginning July 1, 2006, and employee rates, some of which are contributed by the County under existing bargaining agreements also increased. Employer and employee rates are expressed as a percentage of payroll.

December 31, 2005 Actuarial Valuation OCERS December 31, 2005 actuarial valuation (the 2005 Valuation) was completed by Segal Company. The 2005 Valuation calculated UAAL as of December 31, 2005 as \$2,303,010, increased from \$2,158,151 as of December 31, 2004. The ratio of the valuation value of assets to actuarial accrued liabilities in the 2005 Valuation is 71.53%. The aggregate employer contribution rate in the 2005 Valuation increased slightly from 24.29% of payroll to 24.30% of payroll beginning July 1, 2007. Employee rates, some of which are contributed by the County under existing bargaining agreements, will also decrease slightly from that in the 2004 Valuation, primarily due to changes in membership demographics.

Actuarial and Funding Status The table below presents OCERS actual investment returns for the past five years. Average returns for OCERS over the past ten years have been 9.35% per year.

**Orange County Employees Retirement System
 Historical Investment Returns
 (Market Value)**

<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
(3.22%)	(5.46%)	19.84%	11.40%	8.83%

Source: Orange County Employees' Retirement System Comprehensive Annual Financial Report 2005

The table below shows the changes in OCERS net plan assets for the past three calendar years. The County contributions represent approximately 80% of total employer contributions.

**Orange County Employees Retirement System
 Changes in Net Assets**

	Years Ended December 31		
	2003	2004	2005
Contributions Received:			
Employer Contributions	\$ 124,243	\$ 194,430	\$ 226,130
Employee Contributions	81,581	81,931	107,544
Net Investment Gains	788,036	568,027	460,431
Net Securities Lending Income and Other Income	1,050	973	1,549
Participant Benefits	(210,273)	(230,684)	(257,929)
Withdrawals and Refunds	(6,412)	(7,845)	(6,999)
Administrative Expenses	(8,848)	(9,463)	(9,953)
Increases in Plan Net Assets	\$ 769,377	\$ 597,369	\$ 520,773

Source: Orange County Employees' Retirement System Comprehensive Annual Financial Report 2005

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial and Funding Status (Continued)

The following table shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and two indicators of funding progress for OCERS, the funding ratio and the ratio of UAAL to annual payroll. As of December 31, 2005, OCERS' actuarial valuation of assets still reflected the deferral of approximately \$124,576 in net gains due to the recognition of gains and losses on an actuarial basis over a five-year "smoothing" period. Approximately 80% of the OCERS unfunded liability is allocable to the County.

**Orange County Employee's Retirement System
Schedule of Funding Progress for Years Ended December 31**

Actuarial Valuation as of December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Underfunded AAL as a Percentage of Covered Payroll ⁽⁴⁾
2001	\$ 4,586,844	\$ 4,843,899	\$ 257,055	94.69%	\$ 1,122,763	22.89%
2002	4,695,675	5,673,754	978,079	82.76%	1,242,348	78.73%
2003	4,790,099	6,099,433	1,309,334	78.53%	1,243,964	105.25%
2004 ⁽⁵⁾	5,245,821	7,403,972	2,158,151	70.85%	1,257,085	171.68%
2005	5,786,617	8,089,627	2,303,010	71.53%	1,276,764	180.38%

- (1) Commonly referred to as UAAL - actuarial value of assets minus actuarial accrued liability
- (2) Actuarial value of assets divided by actuarial accrued liability
- (3) Annual payroll against which UAAL amortized
- (4) UAAL divided by covered payroll
- (5) Effective with the 2004 plan year, the actuarial valuation of plan assets was changed to a 5-year smoothing methodology based on market value rather than a rolling 5-year modified book value

Source: Orange County Employees' Retirement System Comprehensive Annual Financial Report 2005

In September 1994, the County issued \$320,000 of pension obligation bonds, of which \$318,000 in proceeds were paid to OCERS. For accounting purposes, 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, 2006, \$159,090 of such proceeds remain available for future credits to the County's pension obligations.

The County made two prepayments of pension costs to realize prepayment discount savings offered by OCERS. A cash payment of \$88,270 was made in July 2005 for 50% of the FY 2005-06 pension costs. The pension cost discount savings were 3% of \$91,000 or \$2,730. On January 30, 2006, the County issued its \$105,991 Taxable Pension Obligation Bonds, Series 2006 (the 2006 POBs). The County issued the 2006 POBs along with a cash payment of \$9,106 for a total prepayment of \$114,947 following OCERS decision to grant a 7.75% discount to the County FY 2006-07 contributions pre-paid to OCERS prior to January 31, 2006. The 2006 POBs mature on June 29, 2007. See Note 9, Short-Term Obligations, and Note 3, Deposits and Investments, for details.

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial and Funding Status (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 Employees’ Retirement System
 County Contributions**

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/04	\$ 114,847	\$ 33,309	\$ 148,156	100%
06/30/05	175,119	7,158	182,277	100%
06/30/06	201,251	11,596	212,847	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 County established the County of Orange 401(a) Plan for the benefit of eligible employees, which included members of the Board of Supervisors, certain executive managers, administrative managers included in the Executive Policy Unit, attorneys represented by the Orange County Attorney’s Association and certain other employee classifications as defined in the plan document. The plan was closed to the attorneys effective June 24, 2005. 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, 2006, the plan has 753 active participants and 27 inactive participants.

Funding Policy This plan is a defined contribution plan funded entirely by employer contributions. County contributions to the plan vary according to employee classification and range from 3% to 6% of bi-weekly compensation. Additional County contributions equal to 1.5% of compensation are made on behalf of certain employees electing not to participate in OCERS. Total contributions for the year ended June 30, 2006 were \$685 by the County and zero by the employees. A third-party custodian holds all plan assets in trust. Plan participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2006, the value of plan assets was \$5,224.

Extra-Help Employees

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

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Defined Benefit Retirement Plan

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

The plan was closed to new participants as of February 28, 2002. As of June 30, 2006, the plan consists of 203 active plan participants, 267 terminated plan participants entitled to but not yet receiving benefits, and 18 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, as required by statutory or contractual agreements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan. The employee contributions are recognized when due, pursuant to the plan documentation.

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

Funding Policy Plan participants are required to contribute between 2.5 and 7.5 percent of their annual covered compensation based upon their attained age as of January 1 of each calendar year. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, the County has contributed \$612. The annual required contribution is equal to:

- Normal cost
- Minus employer and employee contribution
- Plus 30-year amortization of the 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.

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Defined Benefit 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, 2005.

The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the unfunded actuarial liability. Based on the actuarial report dated July 1, 2005, interest on the net pension obligation is \$42.

For the fiscal year ended June 30, 2006, the County's annual required contribution was \$270. The required contribution was determined as part of the July 2006 actuarial valuation report, which used the projected unit credit actuarial cost method. The actuarial assumptions included (a) 6.5% investment return, net of administrative expenses, (b) RP2000 Mortality Tables projected to 2010 with no collar distinction for males and females (previously the 1983 Group Annuity Mortality table for males and females), and (c) projected annual salary increases of 4% a year (used to project future payroll only). Both (a) and (c) include a 3.0% annual inflation component. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years.

**Orange County Defined Benefit Retirement Plan
 Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/01	\$ 3,419	\$ 4,149 *	\$ 730	82.4%	\$ 19,676	3.70%
06/30/02	4,121	7,035	2,914	58.6%	24,192	12.00%
06/30/03	4,655	8,137 *	3,482	57.2%	25,160 **	13.80%
06/30/04	4,707	8,124	3,417	57.9%	9,306	36.70%
06/30/05	4,387	7,329 ***	2,942	59.9%	6,112	48.10%
06/30/06	4,612	7,222 ****	2,610	63.9%	5,318	49.10%

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

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

*** June 30, 2005 Actuarial Accrued Liability based on June 30, 2004 valuation results rolled forward one year

**** June 30, 2006 Actuarial Accrued Liability based on June 30, 2005 valuation results rolled forward one year

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

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

	<u>06/30/04</u>	<u>06/30/05</u>	<u>06/30/06</u>
Annual required contribution	\$ 336	\$ 342	\$ 270
Interest on net pension obligation	24	42	42
Adjustment to annual required contribution	(30)	(53)	(52)
Annual pension cost	<u>330</u>	<u>331</u>	<u>260</u>
Contributions made	-	(342)	(270)
Increase/Decrease in net pension obligation	<u>330</u>	<u>(11)</u>	<u>(10)</u>
Net pension obligation, beginning of year	441	771	760
Net pension obligation, end of year	<u><u>\$ 771</u></u>	<u><u>\$ 760</u></u>	<u><u>\$ 750</u></u>

Schedule of Employer Contributions

Year Ended <u>June 30</u>	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2001	\$ 73	0 %	\$ 101
2002	65	0 %	166
2003	277	0 %	441
2004	336	0 %	771
2005	342	100 %	760
2006	270	100 %	750

Extra-Help Defined Contribution Plan

Plan Description On March 1, 2002, the County adopted a Defined Contribution Plan to replace the Defined Benefit Retirement Plan for extra-help employees and part-time employees working less than 20 hours per week. This plan is a tax-deferred retirement plan, established in accordance with Internal Revenue Code sections 457 and 3121 and is intended to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS. As of June 30, 2006, there were 1,953 active participants and 212 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.

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Contribution Plan (Continued)

Plan Description (Continued)

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

Funding Policy Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in a stable value fund offered through GWFS Equities, Inc., which is designed to protect principal and maximize earnings. There is no additional contribution made by the County. Total employee contributions for the year ended June 30, 2006 were \$631 by the employees and zero by the County.

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

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered pension trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2006:

	<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>Statement of Net Assets</u>				
Pooled Cash/Investments	\$ 4,569	\$ 4,569	\$ --	\$ --
Restricted Cash and Investments with Trustee	7,375	--	2,151	5,224
Receivables:				
Interest/Dividends	28	28	--	--
Due from Other Governmental Agencies	750	750	--	--
Total Net Assets Held in Trust	<u>\$ 12,722</u>	<u>\$ 5,347</u>	<u>\$ 2,151</u>	<u>\$ 5,224</u>

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Condensed Financial Statements (Continued)

	<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>Statement of Changes in Net Assets</u>				
Additions:				
Contributions to Pension Trust:				
Employer	\$ 954	\$ 270	\$ --	\$ 684
Employee	981	351	630	--
Interest and Investment Income	557	165	76	316
Less: Investment Expense	(4)	(4)	--	--
Total Additions	<u>2,488</u>	<u>782</u>	<u>706</u>	<u>1,000</u>
Deductions:				
Benefits Paid to Participants	551	61	260	230
Refunds of Prior Contributions	521	521	--	--
Total Deductions	<u>1,072</u>	<u>582</u>	<u>260</u>	<u>230</u>
Change in Net Assets Held in Trust For:				
Employee's Retirement	1,416	200	446	770
Net Assets Held in Trust at July 1, 2005	<u>11,306</u>	<u>5,147</u>	<u>1,705</u>	<u>4,454</u>
Net Assets Held in Trust at June 30, 2006	<u>\$ 12,722</u>	<u>\$ 5,347</u>	<u>\$ 2,151</u>	<u>\$ 5,224</u>

18. POSTEMPLOYMENT HEALTH CARE BENEFITS

Plan Description On August 1, 1993, the County Board of Supervisors approved the County of Orange Retiree Medical Plan (the Medical Plan) to assist career employees in maintaining health insurance coverage following retirement from County service. The Medical Plan is not required by the Retirement Law.

Under the Medical Plan, eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly health plan and/or Medicare premiums. The monthly Grant amount is determined by a formula which 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 2006 is \$15.99 (in absolute dollars) per year of County service, and the maximum monthly Grant is \$399.75 (absolute dollars). The base number is adjusted annually based on a formula defined in the Plan document, with a maximum increase/decrease of 5%.

In order to be eligible to receive the Grant upon retirement, the employee must be at least 50 years of age, have completed at least 10 years of County service (although exceptions for disability retirements exist), be enrolled in a County Sponsored health plan and/or Medicare and be able to receive a monthly benefit payment from OCERS. The amount of the Grant is netted against the monthly health plan and/or Medicare premium payable 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 to the Medical Plan. 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.

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Plan Description (Continued)

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

Funding Policy To date, the County has paid Medical Plan liabilities on a "pay as you go" basis, and has not established a permanent funding (reserve) policy for the Medical Plan. Funds used to pay FY 2005-06 Medical Plan benefits are derived from two sources: first, County contributions, including a portion of employee contributions described below; and second, certain funds set aside in OCERS. The source of the funds within OCERS is certain investment earnings that exceed the assumed actuarial rate of return. Due to several years of realized gains on OCERS' assets of less than the assumed actuarial rate of return, excess reserves have been depleted and a fund set aside for interim funding of the Medical Plan, the Retiree Member Benefit Reserve (RMBR), is being used for that purpose. According to OCERS, excess reserves are not expected to be available for payment of Medical Plan benefits for the immediate future.

In August 2004, the County and OCERS approved an amended and restated Additional Retiree Benefit Account (ARBA) agreement (the "ARBA Agreement") which, among other things, revised the funding of the Medical Plan in cases when excess reserves from OCERS are not available. Under the ARBA Agreement, if the funding level for RMBR is less than the projected two years' funding level and there are no excess reserves in OCERS, the County will increase its OCERS contributions to the lesser of the amount required to bring RMBR to a two year funding level or 1% of General Fund payroll. Since RMBR is not currently funded at the two year level, the County began paying \$470, 1% of payroll, to OCERS on July 1, 2005. Current projections show that the current funding sources will fall short of meeting long term funding requirements. For FY 2005-06, the Plan contributed \$17,533 in Retiree Medical Grants for retiree health premiums.

As part of County agreements with employees and bargaining units, employees contribute 1% of their salary towards retiree healthcare costs. Currently, 0.75% of the 1% employee payment is used to pay Grants.

Actuarial Valuation (Unaudited) In November 2005, the County received a June 30, 2005 actuarial valuation for County of Orange Retiree Healthcare Plan (the "Report") from an outside consultant, Bartel Associates, LLC. The Report is based upon data as of June 30, 2005 and includes County employees and employees of other governmental entities who use the County's benefits system. The Report is intended to determine retiree healthcare plan benefit obligations as of June 30, 2005 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45). The County is required and intends to report in conformity with GASB 45 beginning with fiscal year 2007-08. In addition to liabilities for the Grant and lump sum payments under the Medical Plan, the Report includes liabilities for the value of the implied "subsidy" provided to retirees by extending medical benefits to retirees at the same rate charged to active employees. Among the actuarial methods and assumptions used in the Report are: (i) the Entry Age Normal actuarial cost method, (ii) amortizing the unfunded accrued actuarial liability over 30 years as a level percentage of payroll, (iii) a 4.25% long-term expected rate of return on County funds, (iv) a 4.00% per annum payroll increase assumption, and (v) assumed increases in the monthly Plan Grant of 2.06% in 2006 and 5.00% for 2007 and beyond. The Report estimates the actuarial accrued liability (the liability or obligation for benefits earned or allocated to past service at the valuation date calculated using the selected actuarial methods and assumptions) at approximately \$1,418,692, which due to the current "pay-as-you-go" funding, is virtually all unfunded. The Report also determined that the Annual Required Contribution (ARC), the normal cost (value of benefits expected to be earned or allocated to the fiscal years) plus a 30-year level percentage of pay amortization of the unfunded liability for FY 2005-06 would be \$125,666.

18. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Valuation (Unaudited) (Continued)

Based on the Report, retiree medical benefit liabilities are as follows (Unaudited):

	Number	Actuarial Liability for Past Service
Current Retirees	5,720	\$ 475,971
Active Employees	18,269	942,721
Total	23,989	\$ 1,418,692

	Lump Sum	Retiree Medical Grant	Implied Subsidy	Total
Actuarial Accrued Liability	\$ 434	\$ 1,044,416	\$ 373,842	\$ 1,418,692
Plan Assets	--	--	--	--
Unfunded Actuarial Accrued Liability	\$ 434	\$ 1,044,416	\$ 373,842	\$ 1,418,692

If the County were to have implemented GASB Statement No. 45 for FY 2005-06, the Annual Required Contribution (ARC) determined by the Report, which includes the employer normal cost plus a 30-year amortization of the unfunded actuarial accrued liability, would have been as follows (Unaudited):

	Lump Sum	Retiree Medical Grant	Implied Subsidy	Total
Employer Normal Cost	\$ (1,430)	\$ 51,698	\$ 25,414	\$ 75,682
Unfunded Actuarial Accrued Liability Amortization	15	36,798	13,171	49,984
Annual Required Contribution	\$ (1,415)	\$ 88,496	\$ 38,585	\$ 125,666

19. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2006:

Labor Agreements During the month of September, the Board of Supervisors approved labor agreements with the Orange County Employees Association (OCEA), the Service Employees International Union (SEIU), the Orange County Managers Association (OCMA) and the Orange County Attorneys Association (OCAA). The County also amended its Personnel and Salary Resolution with respect to certain unrepresented employees. On October 24, 2006, the County approved a labor agreement with International Union of Operating Engineers (IUOE). The agreements provide for a general salary increase of 4.75% (4.50% for OCMA) effective June 23, 2006, monies available for market adjustments for certain classifications of employees, additional pension cost payments by employees and a restructuring of the Retiree Medical Plan, discussed in Note 18. The increased salary costs are reflected in the financial statements. The restructured Retiree Medical Plan generally will:

- Pool current employees and retirees separately for medical insurance premiums, effective January 2008.
- Reduce the Grant by 50%, once the retiree becomes Medicare eligible. Retirees currently age 65 on September 12, 2006 or September 26, 2006, respectively, will receive no reduction. Current retirees age 64 or younger will receive a 50% reduction once Medicare eligible, but no sooner than 1 year.

19. SUBSEQUENT EVENTS (Continued)

Labor Agreements (Continued)

- Reduce the Grant by 7.5% for each year prior to age 60 and increase it by 7.5% for each year of age after age 60 up to age 70, for current employees retiring after the Board of Supervisors approval of the restructured plan.
- Establish a Retiree Medical Plan Trust to administer the benefits, effective January 1, 2007.
- Phase out the lump sum benefit.
- Fund the entire cost of the Restructured Retiree Medical Plan, effective June 23, 2006.

The Restructured Medical Plan is expected to significantly reduce the estimated \$1,418,692 unaudited UAAL and lower the ARC. The extent of the UAAL and ARC reductions will depend on a number of factors, including but not limited to, the result of ongoing negotiations between the County and other bargaining units. In addition, effective September 30, 2005, employees represented by the American Federation of State, County and Municipal Employees ceased participation in the Medical Plan and agreed to separate current employees from retirees for health premium purposes, effective January 1, 2007.

Orange County Public Finance Authority Lease Revenue Bonds, Series 2006 On October 19, 2006, the Orange County Public Financing Authority (OCPFA) issued its Lease Revenue Bonds, Series 2006 in the principal amount of \$32,700, with an original issue premium of \$2,140. The Lease Revenue Bonds 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, including a premium for bond insurance.

The Lease Revenue Bonds are limited obligations of OCPFA payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of certain rental payments (Base Rental Payments) to be made by the County pursuant to, and as defined in, the Lease. Pursuant to a Master Site Lease, dated as of October 1, 2006 (the Site Lease), between the County and the OCPFA, the County will lease to OCPFA certain real property of the County and all improvements thereon (collectively, the Leased Facilities). Pursuant to a Master Facilities Lease, dated as of October 1, 2006 (the Lease), by and between the County and OCPFA, the County will lease back the Leased Facilities from OCPFA.

Recovery Refinancing Tax Analysis Among the County covenants in connection with issuance of the Series 2005 Bonds and 2005 Recovery Bonds, the County must annually complete an analysis of the balances and expenditures associated with certain monies available (under applicable federal law) to the General Fund. To the extent excess balances exist, the County must invest such excess in non-Alternative Minimum Tax (AMT) tax exempt securities. For more information on the bonds, refer to Note 10, Long-Term Obligations. Such excess amounts, including interest, must remain invested until the subsequent year's calculation is completed and may only be expended if, and to the extent, the County's actual low point cash balance is less than that projected on the date of the initial calculation. In November 2006, the County invested the amount of \$21,000 in non-AMT tax-exempt securities.