1. BANKRUPTCY RECOVERY

Background

On December 6, 1994, the County of Orange (the "County") filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the County investment pool (the "Pool"). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1,600,000. This loss was recorded on the County's books and records for Fiscal Year (FY) 1994-1995 with approximately \$600,000 allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes (the "Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

The Recovery Statutes were subsequently challenged by a local taxpayer on December 18, 1996, when the County was named as one of the defendants in the "White Complaint." The White Complaint sought a judicial declaration that, among other things, the County's bankruptcy Recovery Statutes are unconstitutional and violate State law. On August 8, 1997, the County's demurrer to the White Complaint was sustained without leave to amend. By order dated October 22, 1997, the court dismissed the action. On April 4, 2001, the Court of Appeal affirmed the trial court decision and on June 27, 2001, the California Supreme Court denied review of the case. The Supreme Court's denial of review renders the trial court's order granting the County's demurrer final and unappealable.

The recovery plan, including the Modified Second Amended Plan of Adjustment (the "Plan"), provides that the legislatively redirected revenues from the Recovery Statutes, or other County monies in an equivalent amount, together with certain other County revenues will be used to satisfy the principal and interest payments on the Plan of Adjustment Certificates of Participation (the "Plan COPs") and to amortize deficiencies in Class B-11, B-12 and B-13 County-Administered Account Claims, as defined in the Plan. County-Administered Account Claims consist of investment losses in County-Administered accounts such as Unapportioned Property Taxes, but do not include investment losses for funds invested by outside entities investing with the County Treasurer. The Plan COPs in the amount of \$760,800, and Refunding Recovery Bonds (the "Recovery Bonds") in the amount of \$278,790, represent obligations of the County, payable from the General Fund. Including principal payments and defeasances, balances of the Plan COPS and the Recovery Bonds, as of June 30, 2001, are \$680,975 and \$247,455, respectively (See Note 6). The enacted Recovery Statutes provide the Plan COPs holders with statutory liens on the County's motor vehicle license fees and certain sales tax revenues, and further permitted the County to elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the Plan COPs. The Recovery Bonds are secured by a pledge and intercept of motor vehicle license fees, pursuant to legislation adopted prior to the Recovery Statutes. Recent State legislation has reduced the amount of motor vehicle license fees paid by owners of automobiles in the State. The State has made up the difference in motor vehicle license fees collected under reduced rates and the fees that would have been collected under the old fee formula, with monies from the State general fund.

The Plan was confirmed by the United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered on May 16, 1996. On June 12, 1996, the Plan COPs were issued, and the County emerged from bankruptcy.

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Plan COPs and to pay the annual amount of \$800 plus interest due on Option B Pool Participant warrants, as well as providing a total of \$46,237 of Available Cash (as defined in the Plan) to partially reimburse the County-Administered Accounts (as defined in the Plan) for losses allocated pursuant to the Comprehensive Settlement Agreement. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was \$4,800; 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 \$4,000.

1. BANKRUPTCY RECOVERY (Cont'd)

In accordance with the provisions for allocation of Available Cash in the Plan, along with \$8,718 of other reimbursements, to date Class B-11 school participants and B-12 non-school participants have been repaid their total loss amount of \$13,099 and \$15,297, respectively. The remaining B-13 participants have been repaid \$44,016. The B-13 participants represent funds that are within the County government. Since the nature of the obligation is now one in which the County owes itself, the associated General Long-Term Debt of \$195,745 outstanding as of July 1, 2000 has been removed from the Balance Sheet. Essentially, the B-13 County-Administered Account Claims against Available Cash represent a contingent claim based on the amount of Available Cash. Available Cash will cease once the bankruptcy debt is repaid.

FY 2001-02 General Fund Budget

The FY 2001-02 General Fund Budget was adopted by the Board of Supervisors as a balanced budget on June 26, 2001, and includes all bankruptcy-related debt service payments and related redirected and intercepted revenues. The FY 2001-02 General Fund Budget of \$2,174,324 represents an increase of 7.4% over the FY 2000-01 Modified Budget. This budget funds all FY 2001-02 Board approved Strategic Priorities; reserves \$1,500 for future year planned strategic priority projects; and increases the contingency fund to \$22,000 (\$17,000 reserved plus \$5,000 appropriated).

In addition, the FY 2001-02 General Fund Budget adds \$16,586 to the Debt Prepayment fund established by the Board of Supervisors in October 1999. This fund is intended to be used to reduce County debt levels by defeasing high-coupon County General Fund debt obligations, which may have particularly onerous administrative and/or costly legal restrictions.

2. 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, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles, 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 combined 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 to determine whether the following component units should be reported as blended or discretely presented component units:

Blended Component Units

<u>Orange County Flood Control District.</u> 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.

<u>Orange County Development Agency.</u> 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 Development Accounting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A. Reporting Entity (Cont'd)

Blended Component Units (Cont'd)

<u>Orange County Housing Authority.</u> 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 Civic Center Authority. The Authority is a joint powers authority of the County and the City of Santa Ana. It has a five member governing body with two members appointed by each of the County and the City of Santa Ana and the fifth member appointed by the other four members. The County has control over operations and responsibility for fiscal management of the Authority. The Authority is fiscally dependent upon the County and provides almost all services entirely to the County and the City of Santa Ana. Separate financial statements are also issued for this component unit. Copies of the financial statements can be obtained from Public Facilities & Resources Department (PFRD) Accounting. The Authority is reported in governmental fund types.

<u>Orange County Financing Authority.</u> 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.

<u>Orange County Special Financing Authority.</u> 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.

<u>Orange County Public Financing Authority.</u> 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 activities of the Authority occur within the proprietary fund types.

<u>Orange County Public Facilities Corporation</u>. 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, approves parcel fees, special assessments and special taxes, and appoints the management. The special districts are reported in governmental fund types.

<u>Discretely Presented Component Unit</u>

Orange County Children and Families Commission. 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 discrete 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 Orange County Children and Families Commission, 17320 Redhill Avenue, Suite 200, Irvine, CA, 92614.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. Fund Accounting

The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary "fund types."

Governmental Fund Types:

General Fund - The general fund is used to account 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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, and related costs.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary fund types and trust funds).

Proprietary Fund Types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

Fiduciary Fund Types:

Trust and Agency Funds - Trust and agency funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the County. When these assets are held under the terms of a formal trust agreement, a pension trust, investment trust, educational investment trust, nonexpendable trust or expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the County is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

Account Groups:

General Fixed Assets - The general fixed assets account group is used to account for all fixed assets of the County, other than those accounted for in proprietary funds or similar trust funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. <u>Fund Accounting (Cont'd)</u>

Account Groups (Cont'd):

General Long-Term Debt - The General Long-Term Debt Account Group (GLTDAG) is used to account for the unmatured principal of bonds and notes, and other forms of non-current or long-term general obligation debt that are not a specific liability of any proprietary fund or similar trust funds.

The County maintains 482 individual funds. Certain similar special revenue, debt service, capital projects, enterprise, and trust and agency funds have been grouped on a functional basis in conformity with generally accepted accounting principles (GAAP) to enhance communication and understanding of the financial statements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types, nonexpendable trust, pension trust, and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type and similar trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is followed for the general, special revenue, debt service, capital projects and agency funds. 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 to finance expenditures of the fiscal period. Revenues which 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.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt are recorded in the year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures during the fiscal year when they would normally be liquidated with expendable available financial resources. The related long-term obligation is recorded in the GLTDAG at year-end. 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.

The accrual basis of accounting is followed for enterprise, internal service, nonexpendable trust, pension trust, and investment trust funds. Generally, revenues are recognized when earned and expenses are recognized when incurred. Grants are recorded as non-operating revenues when earned, except for those restricted for capital acquisitions, which are recorded as apital contributions in the operating statement. Under GASB Statement No. 20, the County has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. <u>Budget Adoption and Revision</u>

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).

The governmental funds are comprised of multiple fund-agency units, with the exception of the "Public Library," "Redevelopment Agency," "Harbors, Beaches, and Parks District," "Taxable Note Repayment," "Restricted Refinancing Proceeds," "Recovery Certificates of Participation," "Deferred Compensation Reimbursement", special revenue funds; "Pension Obligation Bonds," "Refunding Recovery Bonds" and "Orange County Special Financing Authority," debt service funds; "Public Library," "Flood Control District" and "Telecommunications Equipment" capital project funds, which are comprised of individual fund-agency units.

Each year the initial adopted 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 not in the original budget. 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, which represents a Department or an Agency. Final appropriations reflected in the "Revised Budget" columns of the "Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis - All Governmental Fund Types" include reductions to appropriations in the amount of \$340,214.

Annual budgets were adopted for the individual funds comprising the following governmental fund type fund categories (listed by fund type/fund category):

General

Special Revenue

* Parking Facilities and Civic Center Authority

Roads

Public Library

Redevelopment Agency

Flood Control District

Harbors, Beaches and Parks District

Service Areas, Lighting and Maintenance Districts

Other Environmental Management

Other Public Protection

Community Services

Designated Special Revenue Funds

Restricted Refinancing Proceeds

Recovery Certificates of Participation

Schedule I County-Administered Accounts and Litigation Proceeds

Plan of Adjustment Available Cash

Deferred Compensation Reimbursement

Tobacco Settlement

* Orange County Housing Authority

Debt Service

Redevelopment Agency Bonds

* General Obligation, Other Revenue Bonds

Pension Obligation Bonds

Refunding Recovery Bonds

Orange County Special Financing Authority

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. <u>Budget Adoption and Revision (Cont'd)</u>

Capital Projects Criminal Justice Facilities Public Library Flood Control District Redevelopment Agency Special Assessment Districts, Community Facilities Districts and Service Areas Telecommunications Equipment

Excluded from the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on a Budgetary Basis are the following governmental fund type fund categories for which annual budgets were neither legally required nor adopted (listed by fund type/fund category):

Debt Service

Public Facilities Corporation Bonds, Master Lease Recovery Certificates of Participation

For reporting purposes, these fund categories include both budgeted and non-budgeted funds. The following defines the funds included in those fund categories:

FUND: BUDGETED NONBUDGETED

Special Revenue:

Parking Facilities and Parking Facilities Orange County Civic Center Parking/

General Operating Civic Center Authority

Orange County Civic Center Parking/

Maintenance

Orange County Orange County Housing Authority **Orange County Housing Authority**

Housing Authority Operating Reserve

Debt Service:

General Obligation, Other Flood Control District Bonds Orange County Civic Center State

Revenue Bonds 1957 I & S **Building Lease**

E. Encumbrances and Appropriations

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the general, special revenue and capital projects funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures that will ultimately result if the unperformed contracts in process at year-end are completed. Encumbrances at year-end do not constitute GAAP basis expenditures or liabilities. Only unencumbered, unexpended appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures. For budgetary purposes, the total of expenditures plus encumbrances cannot legally exceed budgeted appropriations.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. Cash and Investments (Cont'd)

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 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.

The County has not provided or obtained any legally binding guarantees during the period to support the value of participants' shares in the pools.

The pools value participants' shares using an amortized cost basis. Specifically, the pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. At June 30, 2001, there is no material difference between pool participants' shares valued on an amortized cost basis compared to fair value.

G. <u>Inventory of Materials and Supplies</u>

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. Land and Improvements Held for Resale

These assets, held by the County's Development Agency, are valued at the lower of cost or estimated net realizable value.

I. General Fixed Assets

The General Fixed Assets Account Group records, at cost, the fixed assets that are not accounted for in an enterprise, internal service or similar trust funds. Such assets include land, buildings, building improvements, furniture, fixtures and equipment. Gifts and contributions of fixed assets are recorded at fair market value when received. No depreciation is provided on general fixed assets. Expenditures for streets, roads, bridges, curbs, gutters, sidewalks, flood channels, lighting systems, and similar assets are not capitalized, because they are immovable and of value only to the County.

J. Property, Plant and Equipment of Enterprise and Internal Service Funds

Fixed assets purchased by the enterprise and internal service funds are capitalized at cost, while contributed assets are recorded at their fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Depreciation of assets contributed prior to fiscal year 2000-01 is netted against contributed capital. Estimated useful lives of property, plant and equipment are as follows:

Structures and Improvements 10 to 50 years Equipment 2 to 20 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 estimated future amounts to be paid on known claims and incurred but not reported claims, including allocated loss adjustment expenses. (See Note 18).

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 determined by applying approved property tax rates to the assessed value of properties as established by the County Assessor, in the case of locally assessed property, and as established by the State Board of Equalization, in the case of State-assessed public utility unitary and operating non-unitary property. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

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

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 into 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 general purpose financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

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

Property tax revenues are recognized in the fiscal year, for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule.

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

The County also records collections of disputed property taxes, such as those paid for properties for which the values have been appealed to the local Assessment Appeals Boards, within the unapportioned tax liability accounts in the property tax unapportioned funds. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or distributed to the tax-receiving agencies. As of June 30, 2001, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 0.6253 percent of the combined beginning secured and unsecured property tax roll charge.

California

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

L. Property Taxes (Cont'd)

The following are significant dates on the property tax calendar:

	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 2nd Installment - February 1.	2605 2606
Secured tax delinquent dates (last day to pay without a penalty) are: 1st Installment - December 10, and 2nd Installment - April 10.	2617 2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

M. <u>Compensated Employee Absences</u>

Compensated absences (vacation, compensatory time off, annual leave and sick leave) are accrued as an expense and liability in the proprietary fund when incurred. In the governmental fund types, only those amounts that are expected to be liquidated with expendable available financial resources are accrued as current year expenditures. Compensated absences that exceed this amount are reported in the GLTDAG and are not recorded as expenditures.

The estimated liability recorded at June 30, 2001, in the GLTDAG is \$84,568 compared with \$74,342 at June 30, 2000. The increased balance is attributable to several factors. FY 2000-2001 was the first year County employees were entitled to receive compensation resulting from the Performance Incentive Program, which was implemented throughout the County in FY 1999-2000. Most of this amount will ultimately be paid from the general fund. The number of County General employees rose by four percent. Additionally, County staff received cost of living and/or pay adjustments conservatively estimated at five percent.

N. Total Columns on General Purpose Financial Statements

The "Total" columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. They do not represent and are not comparable to consolidated financial information. Data in these columns do not purport to present financial position, results of operations, or cash flows of the County reporting entity in conformity with GAAP.

O. Statement of Cash Flows

Statements of Cash Flows are presented for proprietary fund types and the nonexpendable trust fund. Cash and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

P. Effect of New Pronouncements

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

In December 1998, GASB issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," effective for periods beginning after June 15, 2000. The Statement establishes financial reporting standards to guide state and local governments' decisions about when (in which fiscal year) to report the results of nonexchange transactions (including taxes on retail sales of goods and services, property taxes, grants, and donations by non-governmental entities) involving cash and other financial and capital resources. Prior to the provisions of GASB Statement No. 33, expenditures and revenues for Federal and State programs were budgeted and accrued on a matching basis (as long as the revenues were received within the next fiscal year) in the County's budgetary and financial reports. The County has established new guidelines for accruing expenditures and revenues related to nonexchange transactions to meet the availability criteria for revenue recognition under GASB Statement No. 33. For revenues from nonexchange transactions to be considered available for accrual, the reimbursement of the accrued revenues must be received within 60 days following the end of the fiscal year. As a result of the revised revenue accrual procedures, the County adjusted the governmental funds' FY 2000-01 Beginning Fund Balance for the revenues accrued at the end of June 30, 2000 that were unavailable to pay liabilities of that period (See Note 13). It is anticipated, however, that after this first year of implementation, there should be no future impacts to the financial statements resulting from this pronouncement, provided there are no material changes in federal and state-funded program revenues.

GASB Statement No. 33 also includes a significant change in the recognition of capital contributions made to proprietary funds. This provision requires that capital contributions be recognized as revenues in the period that those amounts are received; whereas those resources were previously reported as additions to contributed capital in the proprietary funds' financial statements. Beginning in Fiscal Year 2000-01, the County has adopted this provision for recognizing capital contributions as revenue. GASB Statement No. 33 does not require the restatement of prior year contributed capital amounts.

In June 1999, GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," effective for periods beginning after June 15, 2001. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and will restructure much of the information that governments have presented in the past. GASB Statement No. 34 represents the most important single change in the history of accounting and financial reporting for state and local governments. One of the most significant changes is that all capital assets, including infrastructure, will be reported within the basic financial statements, along with depreciation expense and accumulated depreciation. Currently, infrastructure related to governmental funds is not reported in the financial statements.

The County established a GASB 34 Steering Committee consisting of the Auditor-Controller, Chief Financial Officer, and the Public Facilities and Resources Department Director to address the myriad of complex financial reporting issues. The Steering Committee has designated six workgroups to develop detailed implementation plans as well as conduct the various complex analyses required to implement the new pronouncement. The Steering Committee has decided to use the traditional approach of reporting depreciation of infrastructure assets rather than the modified approach based on the recommendation of the Capital Assets Workgroup.

In July 2001, the County submitted a Pro Forma Comprehensive Annual Financial Report (CAFR) to the Government Finance Officers Association (GFOA). This Pro Forma CAFR is a collaborative attempt by the County at incorporating the new requirements of GASB Statement No. 34 using FY 1999-00 CAFR audited numbers. The purpose of submitting the Pro Forma CAFR to GFOA is to obtain feedback on the Pro Forma CAFR in order to assist the County in identifying areas that need to be changed, deleted, or enhanced. The County will implement GASB 34 for its next CAFR for the year ended June 30, 2002.

In April 2000, GASB issued Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues—an Amendment of GASB Statement No. 33", which is effective for the same periods as GASB Statement No. 33. This statement eliminates the timing difference in the recognition of shared portions of derived tax or imposed nonexchange revenues between a provider and recipient government that was previously in GASB Statement No. 33. Recipient governments are now required to account for the sharing of revenues in the same manner as provider governments. There was no material effect on the financial statements as a result of implementing this new pronouncement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

P. Effect of New Pronouncements (Cont'd)

In June 2001, GASB issued Statement No. 37, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an Amendment of GASB Statements No. 21 and No. 34." This statement is effective for the same periods as GASB Statement No. 34 and either clarifies or modifies certain provisions in GASB Statements No. 21 "Accounting for Escheat Property" and No. 34. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in the Management's Discussion and Analysis (MD&A), program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc. The County is completing the analysis required for the implementation of this new statement in FY 2001-02.

Also in June 2001, GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures", which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. These new disclosure requirements address the needs of users of financial statements identified by GASB. The analysis required for the implementation of this new statement is being completed along with the analysis and implementation of GASB Statement No. 34 for the County's next CAFR for the year ended June 30, 2002.

Q. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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.

3. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled \$4,254,352 as of June 30, 2001. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Pooled Cash/Investments – Closure Costs, Cash Equivalents/Specific Investments, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."

The Treasurer maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The Investment Policy Statement (IPS) establishes a Money Market Fund and an Extended Fund as components of the County Pool and Educational Pool (effective December 3, 2001, the Educational Pool will not participate in the Extended Fund). The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

The primary investment objectives of the Treasurer's investment activities in order of priority are: protecting the safety of 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 Pool. 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 an operating 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.

3. DEPOSITS AND INVESTMENTS (Cont'd)

A. Deposits (Cont'd)

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 provides, 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.

At June 30, 2001, the carrying amount of overdraft of the County's demand deposits was \$87,835 and the related bank balance was \$36,138, of which \$300 was insured by FDIC insurance with the remainder collateralized as described above. The County had \$172,303 in maturing securities the following business day to cover outstanding checks. In addition, the County had imprest cash funds in the amount of \$2,022 of which \$1,171 was insured by FDIC insurance with the remainder collateralized as described above.

In addition, the County held a portion of its Restricted Cash and Investments with Trustee and non-pooled investments in the form of non-participating Bank Investment Contracts (BICs). These BICs are considered deposits with financial institutions and amount to \$25,522, of which \$16,441 is collateralized for non-pooled investment BICs and \$9,081 is uncollateralized for Restricted Cash and Investment BICs. The collateralized BICs and the uncollateralized BICs are FDIC insured by \$100 and \$200, respectively.

B. Investments

State statutes, Board of Supervisors' ordinances and resolutions, bond documents, covenants, 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 (consisting of both the Money Market Fund and the Extended Fund) and the Educational Pool.

The County Treasurer has a written Investment Policy Statement (IPS) specifically for the separately managed County and Educational Investment Pools. 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, Moody's Investors Service, Inc., or Fitch IBCA, Duff & Phelps ("Fitch"), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank with at least one billion dollars in assets (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%); and repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%). 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 is less than the minimum rating required by the IPS for that class of security.

Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Sections 53601 and 53635. 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.

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. <u>Investments (Cont'd)</u>

External Investment Pools (Cont'd)

All permitted investments are required to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

The IPS expressly prohibits leverage, reverse repurchase agreements, and volatile structured notes or derivatives. Investments are marked to market on a daily basis for purposes of determining net asset value of the Fund. If the net asset value of the Money Market Fund for either the County or 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. In addition, Fitch conducts a quarterly review of IPS compliance according to agreed upon procedures. On October 5, 2001, Fitch reaffirmed the Pools' rating of "AAA/V1+." Edison International's subsidiary, Southern California Edison (SCE), defaulted on its currently due note holders on January 16, 2001. Accordingly, Fitch downgraded the short-term rating of Edison International (EIX) to "D." On the same day, Fitch also downgraded the Educational Pool's rating from "AAA/V1+" to "AA/V1+" due to two Edison International holdings, aggregating \$40 million. The Educational Pool's investments in EIX were never in default, and all interest and principal payments were made on a timely basis. Fitch reinstated the Educational Pool's rating to "AAA/V1+" on July 18, 2001, coinciding with the maturity of the Edison holdings. The Pools are not registered with the Securities and Exchange Commission.

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 and community college districts and therefore includes 100 percent involuntary participants. At June 30, 2001, the County Pool includes approximately 0.49 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

As of June 30, 2001, floating rate notes comprised less than 6% of both the County and Educational Pools. Interest received on floating rate notes will rise or fall as the underlying index rate rises or falls. The use of floating rate notes in the County and Educational Pools is such that they hedge the portfolios against the risk of increasing interest rates, which reduces the fair value of the portfolio.

Condensed Financial Statements

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2001:

0 4 5	Educational	T . 4.1
County Pool	P00I	Total
\$ 2,184,907	\$ 1,385,917	\$ 3,570,824
\$ 2,016,356	\$	\$ 2,016,356
168,551	1,385,917	1,554,468
\$ 2,184,907	\$ 1,385,917	\$ 3,570,824
\$ 1,897,322	\$ 1,200,681	\$ 3,098,003
287,585	185,236	472,821
\$ 2,184,907	\$ 1,385,917	\$ 3,570,824
	\$ 2,184,907 \$ 1,897,322 287,585	County Pool Pool \$ 2,184,907 \$ 1,385,917 \$ 2,016,356 \$ 168,551 1,385,917 \$ 2,184,907 \$ 1,385,917 \$ 1,897,322 \$ 1,200,681 287,585 185,236

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. <u>Investments (Cont'd)</u>

Summary External Pool Financial Disclosures

Selected summary disclosures for each external pool as of June 30, 2001, are presented below:

	F	air Value	F	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
County Pool							
U.S. Government Agencies	\$	650,834	\$	650,905	Discount	07/06/01-03/26/04	397
Commercial Paper		582,496		586,541	Discount	07/02/01-10/22/01	21
Bankers' Acceptances		111,462		113,215	Discount	07/11/01-11/28/01	72
Medium-Term Notes		332,300		330,282	4.08-9.25%	08/15/01-05/19/03	153
Negotiable Certificates of Deposit		530,479		527,500	3.64-6.89%	07/05/01-05/20/02	108
Repurchase Agreements		40,000		40,000	4.15%	07/02/01	2
Money Market Mutual Funds		9,194		9,194	Variable	07/01/01	1
	\$:	2,256,765	\$ 2	2,257,637			172
Educational Pool							
U.S. Government Agencies	\$	284,724	\$	290,801	Discount	07/02/01-04/19/02	146
Commercial Paper	Ψ	468,702	Ψ	472,059	Discount	07/02/01-10/10/01	23
Bankers' Acceptances		66.827		67.683	Discount	07/02/01-11/28/01	37
Medium-Term Notes		267,537		265,573	3.99-9.75%	07/18/01-03/01/02	114
Negotiable Certificates of Deposit		254,350		254.000	3.73-6.95%	07/10/01-05/20/02	95
Repurchase Agreements		40,000		40,000	4.15%	07/02/01	2
Money Market Mutual Funds		5,795		5,795	Variable	07/01/01	_ 1
	\$	1,387,935	\$ ^	1,395,911		0.,0.,0.	79

At June 30, 2001, the weighted average maturity of the County Pool was 172 days and the Educational Pool was 79 days. At the same date, the Net Asset Value (NAV) for both the County and Educational Pool was \$1.00. The average daily investment balance of the County Pool and the Educational Pool amounted to \$2.22 billion and \$1.20 billion with an average effective yield of 6.25% and 6.07%, respectively, for the year ended June 30, 2001.

Level of Custodial Risk

Investments are categorized below as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

LEVEL OF CUSTODIAL CREDIT RISK										
			Category	Not Subject to						
		1	2	3	3	Categorization	Fair Value			
					•					
County Pool:										
U.S. Government Agencies	\$	650,834	\$	\$		\$	\$ 650,834			
Commercial Paper		582,496					582,496			
Bankers' Acceptances		111.462					111.462			

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. Investments (Cont'd)

	LEV	EL OF CUS	то	DIAL CREDI	IT R	ISK			
			Category	Not Subject to					
		1		2		3	Categorization	Fa	air Value
County Pool (Cont'd):									
Medium-Term Notes	\$	332,300	\$		\$		\$	\$	332,300
Negotiable Certificates of Deposits		530,479							530,479
Repurchase Agreements		40,000							40,000
Money Market Mutual Funds							9,194		9,194
Total Investments in County Pool		2,247,571					9,194		2,256,765
Educational Pool:									
U.S. Government Agencies		284,724							284,724
Commercial Paper		468,702							468,702
Bankers' Acceptances		66,827							66,827
Medium-Term Notes		267,537							267,537
Negotiable Certificates of Deposits		254,350							254,350
Repurchase Agreements		40,000							40,000
Money Market Mutual Funds							5,795		5,795
Total Investment in Educational Pool		1,382,140					5,795		1,387,935
Specific Investments:									
U.S. Government Agencies		15,403							15,403
Commercial Paper		13,895							13,895
Medium- Term Notes		3,112							3,112
Repurchase Agreements		1,081							1,081
Collateralized Investment Agreement							22,671		22,671
Money Market Mutual Funds							56,331		56,331
Total Specific Investments		33,491					79,002		112,493
Investments with Trustees:									
U.S. Government Agencies									
Commercial Paper									
Medium-Term Notes		167,170							167,170
Repurchase Agreements		, 		35,066					35,066
U.S. Government Securities				16,189					16,189
Mutual Funds							49,435		49,435
Guaranteed Investment Contracts							277,877		277,877
State Investment Pool (LAIF)							11,713		11,713
Total Investments with Trustees		167,170		51,255			339,025		557,450
Total Investments	\$	3,830,372	\$	51,255			\$ 433,016	\$	4,314,643

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. <u>Investments (Cont'd)</u>

As of June 30, 2001, the County's investment in LAIF is \$11,713. The total amount invested statewide by all public agencies in LAIF at that date is \$54,496,268. Of that amount, 95.49% is invested in non-derivative financial products and 4.51% in structured notes and asset backed securities. The Local Investment Advisory Board ("The Board") has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the County's position in the pool.

RECONCILIATION OF DEPOSITS AND INVESTMENTS

			 Total
Total Cash and Investments - Note 3:			
Total Investments			\$ 4,314,643
Total Deposits - Carrying Amount Overdraft			(87,835)
Bank Investment Contracts			25,522
Imprest Cash Funds			 2,022
Total Cash and Investments - Note 3			\$ 4,254,352
Total Cash and Investments - Combined Bala Pooled Cash/Investments Pooled Cash/Investments - Closure Costs Cash Equivalents/Specific Investments: Cash Equivalents	nce Sh	eet * : 26,435	\$ 3,558,884 41,996
Other Specific Investments	*	46,251	72,686
Imprest Cash Funds		<u> </u>	2,022
Restricted Cash and Investments with Trustee	Э		578,764
Total Cash and Investments - Combined	Balanc	e Sheet *	\$ 4,254,352

^{*} Amounts in the Combined Balance Sheet differ from amounts in the "Level of Custodial Credit Risk" schedule because that schedule is not required to report on deposits, overdraft or imprest cash which are reported in the Combined Balance Sheet.

4. CHANGES IN GENERAL FIXED ASSETS

The Schedule of Changes in General Fixed Assets includes general fixed assets of the County other than those accounted for in proprietary funds or similar trust funds. Additions and retirements in the County's general fixed assets during the fiscal year were as follows:

	Balance				Balance
	July 1, 2000	Additions	R	etirements	June 30, 2001
Land	\$ 263,500	\$ 5,895	\$	25	\$ 269,370
Structures and Improvements	604,970	37,242			642,212
Equipment	205,114	25,791		15,842	215,063
Construction in Progress	 211,943	37,748		14,582	235,109
Total	\$ 1,285,527	\$ 106,676	\$	30,449	\$ 1,361,754

4. CHANGES IN GENERAL FIXED ASSETS (Cont'd)

Construction in progress is composed of the following:

Project Title	Project Authorization		Expenditures to Date		Committed		Remaining Authorization	
800 MHZ CCCS Remote Sites	\$	8,000	\$	5,247	\$		\$	2,753
ADA Compliance – Various Facilities	·	9,491	·	1,197	·	564		7,730
Bolsa Chica Linear Park (Weider Park								
Development)		6,169		514				5,655
Animal Shelter		6,489		99		113		6,277
Central Courthouse Remodel		5,056		1,199				3,857
Central Courthouse Seismic Retrofit		5,465		1,682				3,783
Central Justice Center - Phase II								
HVAC/ADA		13,795		1,023		6,044		6,728
CFD 87 Library Construction		5,962						5,962
CFD 87-4A School Facilities		9,656		6,154				3,502
CFD 88-1 Library Construction		6,835		6,000				835
CFD 99-1A Public Facilities		7,071		597				6,474
Civic Center Development Report &								
Design		12,092		9,541				2,551
Foothill SE Substation		14,420		270		83		14,067
HCA Remodel 1719/1725 W. 17th Street		12,068		7,556				4,512
Joplin – Wastewater System		5,451						5,451
Muni/South – 5 Court Additional Design		6,213		1,415				4,798
New Communications Center		17,084		1,304				15,780
New Criminal Court Facility		5,224		3,951				1,273
New South Court Facility		5,068		103				4,965
Newport Harbor HQ Building		8,220		4,049		46		4,125
Probation – Juvenile Hall 30 Bed								
Expansion/Security Fence		13,378						13,378
Rancho Potrero – Juvenile Hall 90 Bed		10,702		484		1,332		8,886
Rossmoor Pump Station, Phase I		19,823		2,008		7,463		10,352
Storm Drain Facilities		7,285		4,108				3,177
Theo Lacy Building A Phase 2		35,563		30,376		872		4,315
Theo Lacy Jail Expansion		219,816		86,995				132,821
Theo Lacy Laundry Facility		17,212						17,212
Upper Newport Bay Coastal								
Development Plan		23,911		6,661		128		17,122
All Other Projects *		276,188		52,576		13,206		210,406
Total	\$	793,707	\$	235,109	\$	29,851	\$	528,747

^{* &}quot;All Other Projects" represents projects with individual appropriations of less than \$5 million.

5. 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 fuels corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2001, approximates \$69,264.

5. COUNTY PROPERTY ON LEASE TO OTHERS (Cont'd)

The County's General Fund, Special Revenue Funds and Enterprise Funds lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2001 are as follows:

	 neral und	Special Sevenue Funds	Enterprise Funds		
FY 2001-2002	\$ 100	\$ 4,824	\$	25,854	
FY 2002-2003	101	4,631		25,832	
FY 2003-2004	100	4,641		25,828	
FY 2004-2005	63	4,638		25,635	
FY 2005-2006	45	4,208		12,611	
Subsequent Years	 66	 105,962		8,808	
Total future minimum rentals	\$ 475	\$ 128,904	\$	124,568	

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$7 (General Fund), \$6,979 (Special Revenue Funds), and \$14,881 (Enterprise Funds) for the year ended June 30, 2001.

6. LONG TERM OBLIGATIONS

General Obligation Bonds Payable

The amount of 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, 2001, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$2,856,854.

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

In 1971, the Orange County Civic Center Authority issued \$4,600 State Building Revenue Bonds. The State Building Revenue Bonds are secured by "Revenues" defined as (a) all rental and other income received by the Authority as lessor under the Santa Ana Civic Center State Building Lease, (b) all rental and other income derived by the Authority from the use and operation of the project, (c) damage awards, if any, under a construction contract and (d) interest or other income derived from funds other than the Construction Fund. In accordance with the State Building Lease, monthly rental payments are made by the State of California. The State Building Bonds are not obligations of the County. As of June 30, 2001, the outstanding principal amount of State Building Revenue Bonds was \$330.

The County issued Master Lease Equipment Obligations on January 3, 1991 and February 1, 1993. These obligations are secured by base rental payments on the acquired equipment. The total outstanding equipment obligations as of June 30, 2001, was \$4,875 for the February 1, 1993 issue. The January 3, 1991 issue was paid off in September 2000.

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. As of June 30, 2001, the outstanding principal amount of the current interest NDAPP Bonds was \$26,140 and the accreted value of the capital appreciation NDAPP Bonds was \$1,667.

In August 1993, OCDA issued \$57,965 Santa Ana Heights Project Area, 1993 Tax Allocation Revenue Bonds ("SAHP Bonds"). The SAHP Bonds are secured by property tax increment revenues received by OCDA attributable to the Santa Ana Heights Project Area. As of June 30, 2001, the outstanding principal amount of SAHP Bonds was \$51,835.

6. LONG TERM OBLIGATIONS (Cont'd)

On April 12, 1989, Certificates of Participation (COPs) in the principal amount of \$89,150 were delivered to finance the acquisition, construction and installation of a project, which includes a courthouse, intake facility, administration facility and two parking facilities. In 1992, the \$102,735 Refunding Certificates of Participation (Juvenile Justice Center Facility) were delivered. These COPs are secured by lease payments made by the County in accordance with a lease agreement between the County and the Orange County Public Facilities Corporation. As of June 30, 2001, the outstanding principal amount of the COPS was \$83,845.

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of \$209,840 and Series 1994B in the aggregate principal amount of \$110,200 (Series 1994 Pension Bonds). The Series 1994 Pension Bonds were issued to refund the County's obligation under a debenture issued in favor of the Orange County Employees' Retirement System (OCERS) to fund the County's unfunded actuarial accrued liability to OCERS. The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994 Pension Bonds, the "Pension Obligation Bonds"). As of June 30, 2001, the outstanding principal amount of the Series 1994, 1996A and 1997A Pension Bonds were \$9,000, \$80,232 and \$77,768, respectively.

In June 1995, the County issued \$278,790 of 1995 Recovery Bonds. The 1995 Recovery Bonds are a General Fund obligation of the County and are being paid from motor vehicle license fees intercepted from the State Controller, to the extent there are sufficient fees available for debt service. These motor vehicle license fees, if not used to pay debt service, would otherwise be received by the County General Fund. The 1995 Recovery Bonds were issued to refund obligations of the County in partial satisfaction of claims of certain Investment Pool Participants pursuant to the Comprehensive Settlement Agreement between the County and such participants. In June 1998, the County spent \$31,335 from its Debt Repayment Reserve to purchase defeasance securities which were placed in escrow to legally defease a portion of the 1995 Recovery Bonds. As of June 30, 2001, \$12,265 of this amount had been paid, leaving and outstanding balance of \$19,070. The outstanding principal balance of these bonds as of June 30, 2001 was \$247,455.

On June 30, 1995, the Orange County Special Financing Authority issued \$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, 2001 was \$125,225.

On June 12, 1996, the County issued \$760,800 in the aggregate principal amount of its 1996 Recovery Certificates of Participation, Series A (Series A Certificates). Proceeds of the Series A Certificates were applied to (1) provide funds for the payment of the claims of the holders of the County's 1994-95 Taxable Notes and 1994-95 Tax and Revenue Anticipation Notes (Series A and Series B), whose maturities were extended to June 30, 1996, and the payment of certain other claims and uses approved by the Bankruptcy Court, (2) refund \$124,700 of outstanding COPs executed and delivered on behalf of the County, (3) fund a reserve account for the Series A Certificates and two months of capitalized interest, and (4) pay costs associated with the delivery of the Series A Certificates. The Series A Certificates are general obligations of the County, are also secured by certain statutory liens and are payable from an intercept of motor vehicle license fees and certain sales taxes, to the extent there are sufficient license fees and sales tax funds available for debt service. These motor vehicle license fees and sales taxes, if not used to pay debt service, would otherwise be received by the County General Fund. As of June 30, 2001, the outstanding principal balance of the Series A Certificates was \$680,975.

In July 1997, the County issued \$7,830 of COPs to finance the Superior Court Integrated Court Management System Program. The proceeds were used to refinance certain computer equipment originally purchased by the County pursuant to an Equipment Lease Purchase Agreement, dated April 9, 1996, and to finance the acquisition and installation of certain other computer equipment. Debt service payments are made by the County and reimbursed by the Superior Court. The outstanding principal balance of these COPs as of June 30, 2001 was \$1,444.

6. LONG TERM OBLIGATIONS (Cont'd)

In July 1987, the County issued \$242,440 of Airport Revenue Bonds, Series 1987 to finance the construction of new facilities at John Wayne Airport. In October 1990, the County issued \$6,420 of COPs to finance the acquisition of loading bridges and baggage handling facilities (these certificates were defeased in July 1996). In July 1993, the County issued approximately \$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. The outstanding principal amount of Airport Revenue Bonds as of June 30, 2001 was \$184,608. The Airport Bonds are secured by a pledge of net revenues of the Airport Enterprise Fund.

In November 1997, the Orange County Public Financing Authority issued \$77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The outstanding principal balance of these bonds as of June 30, 2001, was \$68,637. 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.

In December 1987, COPs representing the proportionate interests of the owners thereof in lease payments made by the County under the lease agreements typically 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 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 Facilities Corporation. At June 30, 2001, the outstanding principal amount of the Refunding COPS was \$27,050.

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. Since the securities purchased may have varying timing and collection of principal and interest, 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.

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 General Long-Term Debt Account Group and Enterprise Funds. As of June 30, 2001, \$119,945 of legally defeased debt remains outstanding.

During fiscal year 2000-01, the following events concerning County debt obligations took place:

Teeter Plan Revenue Bond Remarketing

The \$34,000 Series D bonds underwent a mandatory tender on November 1, 2000, and were remarketed and converted from fixed rate bonds at 6.25% to variable rate bonds. After the conversion, interest rates, determined on a weekly basis, have ranged from 1.00% to 6.70% payable monthly, and currently, \$91,225 is being remarketed weekly.

6. LONG TERM OBLIGATIONS (Cont'd)

Lease Revenue Bonds

In April 2001, the Orange County Public Financing Authority issued \$10,330 Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project), to (1) finance the acquisition and installation of certain telecommunications equipment for the general government purposes, (2) fund a debt service reserve fund, (3) pay capitalized interest on bonds, and (4) pay costs related to the issuance of the bonds. The bonds are limited obligations of the Authority 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. At June 30, 2001, the outstanding principal amount of the Lease Revenue Bonds was \$10,330.

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2001 were as follows:

		Issuances, Discount Amortization Balance and						Balance		
Description	Ju	July 1, 2000		Accretions	Retirements		June 30, 2001			
General Long-Term Debt Account Group:										
Orange County Civic Center Authority 1971 State Building Revenue Bonds: Date Issued: December 1, 1971 Interest Rate: 5.00% to 5.40% Original Amount: \$4,600 Maturing in installments through December 1, 2001.	\$	640	\$		\$	(310)	\$	330		
Master Lease Schedule No. 2 1990 Equipment Project Purchaser Certificates: Date Issued: January 3, 1991 Interest Rate: 7.00% Original Amount: \$16,475 Maturing in installments through September 1, 2000.		1,974				(1,974)		-		
Orange County Public Facilities Refunding Certificates of Participation: (Civic Center Parking Facilities Project) 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.		27,807		1,183		(1,940)		27,050		

6. LONG TERM OBLIGATIONS (Cont'd)

	Balance	Issuances, Discount Amortization and		Balance
Description	July 1, 2000	Accretions	Retirements	June 30, 2001
Orange County Financing Authority				
Tax Allocation Revenue Bonds - Series 1992 A: (Neighborhood Development and Preservation				
Project) 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.	27,888	104	(185)	27,807
Orange County Public Facilities Corporation Refunding Certificates of Participation: (Juvenile Justice Center Facility) Date Issued: June 1, 1992 and delivered July 7, 1992 to refund prior April 1, 1989 bond issue Interest Rate: 3.2% to 6.375% Original Amount: \$102,735 Maturing in installments through June 1, 2019.	86,385		(2,540)	83,845
Orange County Financing Authority Tax Allocation Revenue Bonds - Series 1992 B: (Neighborhood Development and Preservation Project) Date Issued: July 1, 1992 Interest Rate: 4.20% to 7.40% Original Amount: \$3,185 Maturing in installments through September 1, 2000.	495		(495)	
Orange County Public Facilities Corporation Revenue Bonds Master Lease Program: Date Issued: February 1, 1993 Interest Rate: 3.40% to 5.50% Original Amount: \$24,780 Maturing in installments through September 1, 2003.	4,875			4,875
Orange County Development Agency Santa Ana Heights Project Area 1993 Tax Allocation Revenue Bonds: Date Issued: August 1, 1993 to refund prior September 1, 1987 bond issue Interest Rate: 3.25% to 6.20% Original Amount: \$57,965 Maturing in installments through				
September 1, 2023.	52,885		(1,050)	51,835

6. LONG TERM OBLIGATIONS (Cont'd)

		Issuances, Discount Amortization		
Description	Balance July 1, 2000	and Accretions	Retirements	Balance June 30, 2001
County of Orange	July 1, 2000	710010110113	Remements	00110 00, 2001
Taxable Pension				
Obligation Bonds - Series 1994 A:				
Date Issued: September 1, 1994				
Interest Rate: 6.15% to 8.21%				
Original Amount: \$209,840				
Maturing in installments through September 1, 2004.	16,500		(7.500)	0.000
September 1, 2004.	10,500		(7,500)	9,000
County of Orange Refunding Recovery Bonds - Series 1995 A: Date Issued: June 1, 1995 Interest Rate: 5.0% to 6.50% Original Amount: \$278,790				
Maturing in installments through June 1, 2015.	247,455			247,455
Orange County Special Financing Authority Teeter Plan Revenue Bonds Series A through E: Date Issued: June 1, 1995 Interest Rate: 6.35% (Series E) Interest Rate: Variable (Series A,B,C and D) Original Amount: \$155,000 Maturing in installments through November 1, 2014.	127,625		(2,400)	125,225
Orange County Public Facilities Corporation Recovery Certificates of Participation Series 1996 A: Date Issued: June 1, 1996 Interest Rate: 4.20% to 6.00% Original Amount: \$760,800 Maturing in installments through July 1, 2026.	703,140		(22,165)	680,975
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1996 A: Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB) Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB) To refund prior September 28, 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).	76,629	3,603		80,232

6. LONG TERM OBLIGATIONS (Cont'd)

		Issuances,		
		Discount Amortization		
	Balance	and		Balance
Description	July 1, 2000	Accretions	Retirements	June 30, 2001
County of Orange Taxable Refunding Pension Obligation Bonds – Series 1997 A: 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).	73,559	4,209		77,768
County of Orange Superior Court ICMS 1997 Certificates of Participation: Date Issued: July 30, 1997 Interest Rate: 4.50% to 5.00% Original Amount: \$7,830 Maturing in installments through August 1, 2001.	2,820		(1,376)	1,444
Orange County Public Financing Authority Telecommunications Equipment Project Lease Revenue Bonds Series 2001 Date Issued: April 1, 2001 Interest Rate: 4.00% Original Amount: \$10,330 Maturing in installments through December 15, 2008.		10,330		10,330
Subtotal - General Long-Term Debt	¢ 4.450.677	¢ 10.420	¢ (44.025)	¢ 4.400.474
Account Group	\$ 1,450,677	\$ 19,429	\$ (41,935)	\$ 1,428,171
Enterprise Funds:				
Airport Revenue Refunding Bonds - Series 1993 Date Issued: July 1, 1993 to refund \$68,440 of the 1987 Airport Revenue bond issue. Interest Rate: 3.00% to 5.50% Original Amount: \$79,755 Maturing in installments through July 1, 2018.	70,582	114	(2,355)	68,341
Deferred Amount on Refunding (1993 Airport Revenue Bonds)	(8,507)	473		(8,034)

6. LONG TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 2000	Issuances, Discount Amortization and Accretions	Retirements	Balance June 30, 2001
Airport Revenue Refunding Bonds - Series 1997: 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.	123,570	(343)	(6,960)	116,267
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(5,877)	1,257		(4,620)
Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds - Series 1997: 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.	72,367	(185)	(3,545)	68,637
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(5,521)	615		(4,906)
Subtotal - Enterprise Funds	\$ 246,614	\$ 1,931	\$ (12,860)	\$ 235,685
Total	\$ 1,697,291	\$ 21,360	\$ (54,795)	\$ 1,663,856

The following is a schedule of all long-term debt service requirements to maturity by fund type and account group on an annual basis (in thousands):

Fiscal Year(s) Ending June 30	 Enterprise Funds	 General Long- Term Debt Account Group	 Total
2002 2003 2004 2005 2006 2007-2027	\$ 26,621 26,740 26,587 26,554 26,474 222,506	\$ 145,236 131,043 126,309 125,255 134,368 1,893,937	\$ 171,857 157,783 152,896 151,809 160,842 2,116,443
Total Less: Interest and Unaccreted Principal	355,482 (102,747)	2,556,148	2,911,630
Deferred Amount On Refunding Discount Add: Premium Accreted Value of CABs	(17,560) (1,939) 2,449	 41,683	(17,560) (1,939) 2,449 41,683
Principal Payable	\$ 235,685	\$ 1,428,171	\$ 1,663,856

6. LONG TERM OBLIGATIONS (Cont'd)

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 general purpose 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 general purpose 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 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, 2001, are \$704.996.

7. ARBITRAGE REBATE PAYABLE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. In general, arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Failure to follow the arbritage regulations could result in all interest paid to bondholders retroactively rendered taxable.

In accordance with the arbitrage regulations, if excess earnings were calculated, 90% of the amount calculated would be due to the Internal Revenue Service (IRS) at the end of each five year period. The remaining 10% would be recorded as a liability and paid after all bonds had been redeemed. During the current year, the County performed calculations of excess investment earnings on various bonds and financings. Liabilities were calculated for the four issues listed below. However, the five year reporting period has not occurred and therefore the full amount calculated has been recorded as a liability to the IRS. The rebate amounts are recorded as liabilities in the GLTDAG and the Integrated Waste Management Department Enterprise Fund (IWMD). The County has determined that an arbitrage rebate liability of \$233 at June 30, 2001 is due to the IRS and is comprised of the following.

GLTDAG	
County of Orange Certificates of Participation, 1997	\$ 10
Orange County Public Facilities Corporation, 1992	22
Orange County Public Facilities Corporation, 1991	24
IWMD	
Orange County Public Financing Authority Refunding Revenue Bonds, 1997	177
	\$ 233

8. CONDUIT DEBT OBLIGATIONS

From 1980 through 2001 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 financial statements.

As of June 30, 2001 there were 86 series of bonds outstanding, with an aggregate principal amount payable of \$1,273,828.

9. 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:

	Equipment		Total		
FY 2001-2002	\$ 23,917	\$	24,744	\$	48,661
FY 2002-2003	20,906		24,037		44,943
FY 2003-2004	15,948		22,902		38,850
FY 2004-2005	7,572		18,303		25,875
FY 2005-2006	1,621		17,491		19,112
Subsequent years	 405		62,705		63,110
Total	\$ 70,369	\$	170,182	\$	240,551

Total rent expenditures for operating leases incurred for FY 2000-01 were \$38,435.

Capital Leases

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

	Fixe	General ad Assets ount Group
Equipment Land, Structures and Improvements	\$	48 74,721
Total	\$	74,769

9. LEASES (Cont'd)

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, 2001:

	Long	General g-Term Debt ount Group
FY 2001-2002	\$	7,510
FY 2002-2003		7,609
FY 2003-2004		7,848
FY 2004-2005		8,146
FY 2005-2006		8,429
Subsequent years		70,420
Total minimum lease payments		109,962
Less: amount representing interest		(49,725)
Present value of net minimum		
lease payments	\$	60,237

The majority of the capital lease obligations payable in the GLTDAG will be financed by the General Fund. Property acquired under capital leases is collateral for the capital lease obligations.

The following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group:

	Ou	Lease Principal Itstanding y 1, 2000	In E	ligations curred During Year	Pr Paid	Lease incipal /Reduced ing Year	Ou	Lease Principal tstanding e 30, 2001
Total capital lease obligations	\$	56,374	\$	6,544	\$	2,681	\$	60,237

10. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables by fund are as follows:

	Other	Funds	Primary Go	vernment	Component Unit		
	Due From	Due To	Due From	<u>Due To</u>	Due From	<u>Due To</u>	
General Fund	\$ 134,117	\$ 36,569	\$	\$	\$ 12	\$	
Special Revenue Funds							
Parking Facilities & Civic Center							
Authority	127	126					
Roads	9,506	1,416					
Public Library	461	976					
Redevelopment Agency	1,492	574					
Flood Control District	2,944	1,282					
Harbors, Beaches & Parks District	3,854	1,653					
Service Areas, Lighting &							
Maintenance Districts	25	6					

10. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

	Other Funds		Primary Go	vernment	Component Unit		
	Due From	<u>Due To</u>	Due From	Due To	Due From	Due To	
Special Revenue Funds (Cont'd)	. 0.740	Ф 4.000	Φ.	Φ	Φ.	Φ.	
Other Environmental Management Other Public Protection		\$ 4,023	\$	\$	\$	\$	
Community Services	26,131 219	8,422 539					
Designated Special Revenue	219	559					
Funds	2,961	1,640					
Recovery Certificates of	2,501	1,040					
Participation	83	1					
Schedule I County - Administered							
Accounts and Litigation							
Proceeds	56						
Plan of Adjustment Available Cash	9,907						
Deferred Compensation							
Reimbursement	100	1					
Tobacco Settlement	252	5,201					
Orange County Housing Authority		1					
	61,013	25,861					
Debt Service Funds							
Redevelopment Agency Bonds	735	1,729					
Public Facilities Corporation	733	1,729					
Bonds, Master Lease	1						
Pension Obligation Bonds	15	2					
3	751	1,731					
Capital Projects Funds							
Criminal Justi ce Facilities	1,093	3					
Public Library	1,477	384					
Flood Control District	1,960	560					
Redevelopment Agency	405	228					
Special Assessment Districts,							
Community Facilities Districts, and Service Areas	1 025	556					
and Service Areas	1,025 5,960	1,731					
	3,900	1,731					
Enterprise Funds							
Airport	394	2,959					
Waste Management	4,826	3,626					
3	5,220	6,585					
	·						
Internal Service Funds							
Self-Insured Benefits	49						
Unemployment Insurance	87	1					
County Indemnity Health Plan	439	3					
Workers' Compensation	156	17					
Property and Casualty Risk	1,272	6					
Transportation Publishing Services	3,470 23	159 199	 -				
Telephone	189	2					
Totophono	5,685	387					
	3,000						

10. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

	Other	Funds	Primary Go	vernment	Component Unit		
	Due From	Due To	Due From	Due To	Due From	Due To	
Trust and Agency Funds							
Nonexpendable Trust							
Regional Park Endowment	\$ 3	\$	\$	\$	\$	\$	
Pension Trust							
Defined Benefit Retirement Plan	44						
Investment Trust							
Investment Pool	18,376	4,489					
Educational Investment Pool	27						
Agency							
Unapportioned Tax and Interest		20.244				1.051	
Funds	4.040	26,244				1,254	
Clearing and Revolving Funds	4,943						
Departmental Funds	1,348	133,890					
	24,741	164,623				1,254	
Component Unit							
Orange County Children and							
Families Commission			1,254	12			
			1,254				
Total	\$ 237,487	\$ 237,487	\$ 1,254	\$ 12	\$ 12	\$ 1,254	

11. <u>DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS</u>

The following funds have deficit retained earnings:

	<u>Deficit</u>
Internal Service Funds	
Workers' Compensation	\$42,468
Transportation	131

The deficit in the Workers' Compensation Fund results from accrual of known losses and actuarially-determined lncurred But Not Reported (IBNR) claims. Charges to County departments have not provided a sufficient cash flow to entirely fund the IBNR. The deficit has increased from the previous fiscal year due to increases in the costs of permanent disabilities and a trend of rising medical costs. The County anticipates increasing charges to departments over the next five years in order to achieve an adequate funding level.

Although the Transportation Internal Service Fund had a deficit in retained earnings, total fund equity is not in a deficit since it includes contributed capital of \$17,831.

12. BUDGETARY BASIS OF ACCOUNTING

Reconciliation of Actual Operations on a Budgetary Basis to Modified Accrual Basis

The accompanying Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget (more fully described in Note 2.D) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, and entity differences in the corresponding ending fund balances as reported on the general purpose financial statements for the year ended June 30, 2001 is presented below:

	Governmental Fund Types								
				Special		Debt		Capital	
		General		Revenue		Service		Projects	
Fund balances, as reported on the Combined Statement of Revenues, Expenditures/ Encumbrances and Changes in Fund Balances (budgetary basis)	\$	223,085	\$	418,209	\$	405,655	\$	427,584	
Adjustments: Effects of encumbrances on									
expenditures (timing differences) For nonbudgeted funds		91,147		54,340				(68,501)	
(entity differences)				2,317		131,035			
For accruals and deferrals (basis differences)		13,345		61,063		(42,954)		3,375	
For fund structure (perspective differences)				(8,779)				5,459	
Fund balances, as reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis)	\$	327,577	\$	527,150	\$	493,736	\$	367,917	

Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following areas for the year ended June 30, 2001:

Fund	Function/Fund-Agency	Appropri	ations	Expenditures		
General Fund:						
	Public Assistance Community Services Agency	\$	15.845	\$	16.005	
	Community Convices Agency	Ψ	10,040	Ψ	10,000	

In the General Fund, public assistance expenditures in excess of appropriations occurred in the Community Services Agency (CSA). CSA's excess of expenditures occurred because the department 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.

13. CHANGE IN ACCOUNTING PRINCIPLE

The County implemented GASB Statement No. 33, effective July 1, 2000. Under the provisions of this statement, governmental fund revenues pertaining to nonexchange transactions can be accrued only if they are measurable and available. As a result of this change in accounting principle, fund balance as of June 30, 2000 has been restated to account for the accrued revenues that were unavailable within the established availability criteria to pay liabilities associated with the accrued expenditures as follows:

	General	Special Revenue	Debt Service	Capital Projects	 Total
Fund Balance, as previously reported Restatement for change in accounting	\$ 238,730	\$ 493,062	\$ 504,819	\$ 298,231	\$ 1,534,842
principle	(23,539)	(1,606)		(252)	(25,397)
Fund Balance, as restated	\$ 215,191	\$ 491,456	\$ 504,819	\$ 297,979	\$ 1,509,445

The effect of this change was to decrease the governmental funds' fund balances for the year ended June 30, 2000 by \$25,397.

The impact of GASB 33 on the current year operations of the General Fund resulted in a decrease of approximately \$8,000 in intergovernmental revenues; whereas the impact of GASB 33 is immaterial to the current year operations of the Special Revenue and Capital Projects fund type. Prior to GASB 33, those revenues would normally be accrued along with the related expenditures on a matching basis as long as the revenues are received within the next fiscal year. Also, capital grant revenues of \$5,646 are recorded as capital contributions in the Enterprise Funds' Statement of Revenues, Expenses and Changes in Retained Earnings and Contributed Capital.

14. RESERVED FUND BALANCES

Fund balances, which are not available for appropriation at June 30, 2001, are reserved for the following purposes:

	General		Special Revenue		Debt Service		Capital Projects		Trust		Component Unit	
Assets Not Available for												
Appropriations:												
Encumbrances	\$	77,858	\$	74,586	\$		\$	16,176	\$		\$	13,916
Long-Term Receivables						16,454						
Imprest Cash Funds		1,644		174								
Notes Receivable				3,466								
Loans Receivable				1,215								
Employees' Retirement										3,468		
Inventory of Materials												
and Supplies		431		814								
Prepaid Costs		1		96								
Land and Improvements												
Held for Resale								2,179				
Redevelopment Loans				3,267				1,211				
Debt Service						475,552						
External Investment Pools										1,554,468		
Children's Programs												91,323
Fund Balances Reserved by												
Board of Supervisors for a												
Future Purpose:												
Equipment Replacement				21,245								
Low and Moderate Income												
Housing				10,559								
Land Purchase				70				15,116				
OCHA Operations				4,511								
Future Road Projects				37,905								
Library Contingencies				1,934								
Capital Projects				18,598				91,537				

14. RESERVED FUND BALANCES (Cont'd)

	General	Special Revenue	Debt Service	Capital Projects	Trust	Component Unit
Fund Balances Reserved by						
Board of Supervisors for a						
Future Purpose (Cont'd):						
General Reserve	\$	\$ 17,358	\$	\$	\$ 54	\$
Cash Flow Loans to Housing						
& Community Development		2,500				
Loan Program		9,747				
Contingencies	16,000					
Revitalization Projects		1,767				
Strategic Priorities	77,600					
Other Reserves	109	82		900		
Reserved Fund Balance	\$ 173,643	\$ 209,894	\$ 492,006	\$ 127,119	\$ 1,557,990	\$ 105,239

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

15. ENTERPRISE FUNDS

A. Airport

The Airport Enterprise Fund was established to account for self-supporting services rendered at John Wayne Airport (JWA). The Airport's staff coordinates and administers the general business activities related to JWA, including concessions, fixed base operations, leased property, and aircraft tiedown facilities. Separate financial statements are issued for the Airport Enterprise Fund. Copies of the financial statements may be obtained from JWA Accounting Services.

B. Waste Management

The Waste Management Enterprise fund was established to provide monies for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate fees, which users pay based primarily on tonnage. Separate financial statements are also issued for the Waste Management Enterprise Fund. Copies of the financial statements may be obtained from the Integrated Waste Management Department (IWMD).

C. Segment Information for Enterprise Funds

				Total
			Waste	Enterprise
	Airport	ľ	Management	Funds
Operating revenues	\$ 70,489	\$	101,437	\$ 171,926
Depreciation	16,842		8,709	25,551
Operating income	22,849		29,181	52,030
Intergovernmental revenues	11		235	246
Current capital contributions	5,646			5,646
Operating transfers out	(5,370)		(14,001)	(19,371)
Net income	16,730		30,100	46,830
Plant, property and equipment:				
Additions	11,107		13,400	24,507
Deletions	(62)		(449)	(511)
Net working capital	54,045		295,786	349,831
Total assets	403,862		558,271	962,133
Bonds and other long-term liabilities	171,954		230,398	402,352
Total equity	197,007		294,611	491,618

16. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

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

IWMD owns or operates the following waste disposal sites:

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

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by IWMD. Santiago Canyon and Coyote Canyon are owned by the Irvine Company and are under lease. IWMD closed Coyote Canyon in 1995, as this site had reached its maximum capacity. Santiago Canyon is currently inactive and due for closure in 2002. The \$166,667 balance reported as the landfill closure and postclosure care liability at June 30, 2001 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date (40%), less actual costs disbursed related to the closure of the Coyote Canyon landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$159,727 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 2001 dollars.. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board's regulations, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD, on an annual basis, sets aside cash for the FRB, Olinda Alpha, Prima Deshecha, and Santiago Canyon into estricted escrow funds held by the County. As of June 30, 2001, \$41,996, has been set aside for these costs and is included in the accompanying balance sheet as Pooled Cash/Investments – Closure and Postclosure Care Costs. The State mandated formula under which these contributions are computed will 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 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. WMD evaluates its potential exposure to remediation liabilities on closed landfill sites, and based on information currently available to them, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

17. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2001, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund type:

One and Free de	Project Title		Remaining Commitments
General Fund:	Central Justice Center – Phase II HVAC/ADA Heating, Ventilation, & Air-Conditioning Improv to Comply with ADA	rements \$	6,044
	Probation Department Facility Rancho Potrero (90 bed juvenile facility constructions)	uction	1,332
	Capital Projects Jury Assembly Room – Remodeling of Central House	Court	2,093
		Subtotal	9,469
Special Revenue:	Road Fund Various Roads Resurfacing and Slurry Seal		1,271
	Newport Boulevard Phase II		1,130
	Foothill Circulation Phasing Plan Category 3 / Backbone 2 Intersection Improver Alton-Irvine Blvd. to Foothill Transportation Con		1,279 1,566
	Flood Fund Flood Related Projects – Professional Services Carbon Creek Channel/Coyote Creek Channel Rossmoor Pump Station, Phase 1 Fullerton Creek Channel – Knott to Beach Bolsa Chica Channel @ 1-405 East Garden Grove Wintersburg Channel, 349 m eters upstream of Goldenwest to 138	l	2,048 1,113 7,463 2,355 4,203
	upstream of Gothard Huntington Beach Channel to Atlanta Ave.	Tileters	4,907 3,625
	Harbors, Beaches & Parks Prospect Sports Park Mission San Juan Capistrano		2,000 1,100
	ations	42.002	
	communications system)	Subtotal	13,983 48,043
Capital Projects:			
	Criminal Justice Facility Rancho Potrero Leadership Academy Juvenile Hall – 60 bed expansion		2,204 2,404
		Subtotal	4,608

17. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Cont'd)

Enterprise:	Project Title		emaining ommitments
<u>стиегризе</u> .	Integrated Waste Management Frank R. Bowerman (FRB) – Construction Mgmt.	c	0.000
	Construction Quality Assurance Phase V-D	\$	6,000
	FRB Gas Collection Pipes		1,488
	Subtotal		7,488
	Total	\$	69,608

In addition, the County is involved in the Santa Ana River Mainstem Project and the proposed Prado Dam. These are major flood control projects, which when fully completed, are designed to prevent the type of devastating damage caused by large-scale flooding that occurs on the average of every 190 years in the Santa Ana River flood plain. The Federal Government, Orange County Flood Control District (OCFCD), San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing the U.S. Army Corp of Engineers' (COE) estimated total project cost of \$14 billion. The OCFCD currently estimates its share of costs for the two projects to be \$413 million for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions. The costs of these projects exceed OCFCD available funds. This estimate is based on a recent indication of support by the COE for the Federal government to finance 50% of the total Prado Dam costs, subject to Federal appropriations to do so. The cost of the project exceeds OCFCD revenues available for facility improvements. The project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD eligible expenditures). An estimated \$54 million in budgeted and encumbered funds are expected to be reimbursed to the OCFCD over the next 18 months, upon audit by the State Department of Water Resources (DWR). Once a claim is reviewed and approved by the DWR, only 90% of the eligible expenditures can be received if funds are available, and the remaining 10% can be received after an audit by the State Controller's Office. To date, the OCFCD has spent approximately \$203 million, submitted \$132.5 million in claims for reimbursement of eligible expenditures, and has received \$94 million in reimbursements. The County does not accrue revenue due to the uncertainty of DWR eligibility approval of the reimbursement and due to the typical review completion time period after claim submission.

18. 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, and the Workers' Compensation Program, which 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 up to \$5,000. A commercial insurance policy also provides an additional \$5,000 in coverage.

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-insured up to \$5,000. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance provides up to an additional \$25,000 in liability coverage.

The County first began purchasing commercial insurance for the Workers' Compensation and the Property and Casualty Risk Programs in fiscal year 1997-98 to provide excess coverage. For fiscal years 1998-99, 1999-00, and 2000-01 there were no claims or settlements that exceeded the self-insurance threshold and accordingly, no claims or settlements have been paid by the excess insurance.

18. SELF-INSURANCE (Cont'd)

Independent actuarial studies are secured annually for the Workers' Compensation and Property and Casualty Risk ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include amounts for loss adjustment expenses and claims incurred but not reported. Claim liabilities are calculated considering inflation, claims cost trends including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Claims liabilities have been discounted at a rate of 5% to reflect anticipated future investment earnings.

All County departments that have employees contribute to the Workers' Compensation Fund according to the State Controller's method of cost allocation based on employee classifications and claims experience. All departments that have any loss experience in property or casualty are similarly charged for their pro rata share of the ISF costs.

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

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

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

	Workers' Compensation		Property & Casualty Risk		Othe	Health & er Insurance Benefits	Total		
Unpaid Claims, Beginning of FY 1999-00	\$	35,465	\$	41,308	\$	10,695	\$ 87,468		
Claims and Changes in Estimates		25,835		(6,081)		36,732	56,486		
Claim Payments		(17,968)		(7,035)		(36,132)	(61,135)		
Unpaid Claims, End of FY 1999-00		43,332		28,192		11,295	82,819		
Claims and Changes in Estimates		31,802		3,018		38,828	73,648		
Claim Payments		(20,146)		(6,063)		(39,462)	(65,671)		
Unpaid Claims End of FY 2000-01	\$	54,988	\$	25,147	\$	10,661	\$ 90,796		

There is an additional \$673 in the General Fund for claims payable to management employees for unreimbursed medical expenses, accidental death and dismemberment insurance, health insurance, professional organization fees and, in lieu of the aforementioned, actual cash disbursements.

The increase in the overall cost of workers' compensation claims this period reflects several costly settlements, increases in the costs of permanent disabilities, and a trend in rising medical costs.

The County's loss frequency for Property and Casualty Risk continues to decrease due to the ongoing impacts of city incorporations, which continue to reduce risk exposure. A change in procedure in all Orange County courts continues to reduce the number of lawsuits filed against the County. Cases are resolved promptly which usually results in a lower cost or settlement.

19. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS

The County records estimates of liabilities for litigation and claims expected to be paid primarily from the General Fund. Estimated liabilities for litigation and claims totaling \$195 have been recorded in the General Long-Term Debt Account Group at June 30, 2001, as none of these liabilities are expected to be liquidated with expendable available financial resources.

<u>Sparkes Pit/Rains Refuse Disposal Station #18 – Regulatory Action</u>. Located in the City of Anaheim, Sparkes Pit is a landfill formerly leased to and operated by the County. The State Water Board and other regulatory agencies are seeking certain improvements to the site to mitigate possible groundwater contamination. In addition, the regulators may require the installation of a landfill gas system upgrade or installation of a new system. It is likely that the County will incur costs as a result of these regulatory actions. Although the ultimate costs, if any, are unknown, they may be significant. However, the County's Chapter 9 discharge may prove to be an absolute defense to this matter. The County is aggressively seeking to join other parties who participated in past operations of the site to share in the costs of mitigation. At this early stage of the regulatory actions, it is not possible to predict the outcome of these actions or the success of the County's attempt to join other responsible parties.

<u>Cannery Street Refuse Disposal Station #4</u>. A park owned by the City of Huntington Beach is located on a site that was formerly used as a refuse disposal station operated by the County of Orange. Methane gas was detected on the property. The Local Enforcement Agency (LEA), the entity that regulates landfills, ordered the City and the Huntington Beach School District to develop a plan to control the landfill gas at the site. To the best of our knowledge, the City of Huntington Beach is in the process of implementing the landfill gas mitigation required by the LEA. The County cannot estimate the cost to control landfill gas. The costs, however, could be substantial. The City has notified the County that it is their position that the County is responsible for control of landfill gas from that site. The City, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

La Habra Refuse Disposal Station # 11. A park owned by the City of La Habra is located on a site that was formerly leased and used as a refuse disposal station operated by the County of Orange. The site was operated by the City for refuse disposal prior to 1949 and by the County between 1949 and 1958. Methane gas was detected on the property. The LEA ordered the City to develop a plan to control the landfill gas at the site. To the best of our knowledge, the City of La Habra is in the process of implementing the landfill gas mitigation required by the LEA. The County cannot estimate the cost to control landfill gas. The costs, however, could be substantial. The City has notified the County that it is their position that the County is responsible for control of landfill gas from that site. The City, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

San Joaquin Refuse Disposal Station # 13. The site, owned by the University of California at Irvine, was leased and operated by the County of Orange as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the Food and Drug Administration. Methane gas was detected on the property. The LEA is discussing with the owners follow-up actions to further evaluate landfill gas migration. The County cannot estimate the cost to control landfill gas. The costs, however, could be substantial. The University has notified the County that it is their position that the County is responsible for control of landfill gas from that site. The University, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

<u>Forster Refuse Disposal Station # 17</u>. The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County of Orange from 1958 to 1976. The current owner is proposing a change in land use for the property and has notified the County that it is their position that the County is responsible for closure of the site. The County cannot estimate the cost to close the site. The costs, however, could be substantial. The owner, however, has not yet filed a claim. The County denies that it is responsible. It is possible, however, that the County could incur significant costs if the matter results in litigation.

19. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

<u>Hughes Aircraft Co. v. County of Orange.</u> Hughes Aircraft Co. is seeking a refund of property taxes for the tax years 1989 to 1994 for personal property that it contends were owned by the U.S. Government under the terms of its government contracts. Hughes estimates that the total amount to be refunded is \$1,153, plus interest of which the County's share would be approximately 12% of the estimated total to be refunded. This case went to trial and resulted in a Superior Court ruling in favor of Hughes. The County appealed the decision and all briefs required by the Court of Appeal have been completed. After several counties filed an *Amicus* Brief, the Court of Appeal has asked that Hughes and the County file briefs in response. Briefing is now complete. The Court of Appeal has written a tentative opinion affirming the trial court's decision, but has requested oral argument before the opinion is filed. No date for oral argument has been set.

Barratt American Incorporated, et al., v. County of Orange. Plaintiffs claim that the County of Orange has overcharged on its building permit and inspection services since 1992. Specifically, they allege the County has collected fees in excess of the costs of providing the services in the amount of \$16,232 as of May 1999, of which Plaintiffs claim they paid \$42. Plaintiffs further claim the County improperly used some of the alleged surplus to pay for certain administrative expenses arising out of the Orange County Bankruptcy proceeding as well as for other services or charges in an amount not known to the plaintiffs. Finally, Plaintiffs allege that since May 1999, the County has collected and will collect an estimated \$40,000 in fees pursuant to an alleged defective resolution.

The County denies the allegations and claims that the statutes of limitations and other legal doctrines bar Plaintiffs' claims. Additionally, the County asserts the fee challenges could and should have been raised in the Orange County Bankruptcy proceeding. Indeed, plaintiff Barratt American submitted a fee refund claim in the bankruptcy matter. A first phase of trial took place on October 30, 2000 for a court determination of certain County defenses including statutes of limitations. The court ruled that the existing County resolution is valid and that Plaintiffs' claims arising out of the former 1992 resolution are barred by applicable statutes of limitations.

The second phase of trial began August 17, 2001. The court ruled that Plaintiffs cannot challenge in state court an approximately \$2,500 allocation of investment pool loss approved by the United States Bankruptcy Court in the Orange County Bankruptcy proceeding. The court further ruled against the plaintiffs on their claim that Office of Management and Budget Circular A-87 controls the county's discretion on how to disperse the surplus. The court also ruled against the plaintiffs on their claim that the county cannot maintain a reserve balance in the surplus funds. Plaintiffs will pursue additional claims against the County in a final Phase 3 trial.

On March 26, 2001, Plaintiffs filed a new complaint against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaint is similar to the former complaint except that the new complaint challenges the enactment of a fee reduction ordinance enacted by the County earlier this year. The County denies the allegations and intends to defend itself in court against the complaint.

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

OCFA has contacted the County regarding potential claims against the County arising out of possible contamination from motor vehicle fuels that leaked from underground storage tank systems at nine fire stations. OCFA claims are currently tolled until February 2003 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 to take place.

19. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

The El Toro Reuse Planning Authority (ETRPA) v. Board of Supervisors. In this lawsuit, ETRPA alleges that the County (and the Board of Supervisors) are illegally diverting John Wayne Airport revenue to fund public information regarding constructing a commercial airport at the former El Toro Marine Corps Air Station. The case is in the pleading stages and the County is vigorously defending the County's expenditures. If, however, the case goes to trial and Plaintiffs prevail, the court could order reimbursement from the general fund of any moneys illegally diverted from John Wayne Airport revenue.

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

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

In November 2001, the Superior Court ruled that the County Assessor used an illegal assessment method in recapturing Proposition 13 values. The County is currently considering asking for appellate court review of the ruling. Class action issues have not been decided. If the court's ruling is upheld, the ruling could result in millions of dollars of refunds due taxpayers and reductions in base year values for subsequent years, thus reducing tax revenue in the future.

<u>Garry v. City of Irvine et al.</u> This is an action brought by an individual taxpayer challenging the County's expenditures on the public information program for the proposed El Toro airport on the grounds they constitute waste and illegal campaigning. The matter is in the discovery stage and the County is vigorously defending its expenditures. If, however, the matter proceeds to trial and Plaintiff prevails, the court could order reimbursement from the County general fund of any moneys illegally expended. Expenditures subject to this lawsuit may total in the millions of dollars.

SoliFlo Partners, LP v. County of Orange. This action was filed September 1999. The Plaintiff claims that the County has failed to complete its payment for materials dredged in the Newport Dunes Marina. Plaintiff also claims it has been damaged due to County delays in the dredging project. Total claim of damages is approximately \$1,400. The County has cross-claimed against Plaintiff and its surety for the cost to complete Plaintiff's work and against Plaintiff for making false claims to the County. The County's damages are not yet fully ascertained.

Last year, the case was ordered to mediation, which commenced in December 2000. The settlement negotiations continued through the winter months and collapsed in May 2001. Written discovery is pending and depositions are expected to commence this fall. The court has set a trial date of April 22, 2002.

The County will vigorously defend against Plaintiff's claims and prosecute its cross-claims against Plaintiff and surety. Notwithstanding the aggressive litigation approach adopted, the County will take reasonable steps to settle such claims on appropriate terms as may be to the County's strategic and economic advantage.

SoliFlo Partners, LP v. County of Orange. SoliFlo Partners, LP, filed another action April 10, 2001, which was not served until the end of July. This litigation arises out of a dredging project in the Upper Newport Bay. Plaintiff claims it is owed compensation for its dredging work, together with additional compensation for alleged delay to its work in the sum of approximately \$1,400. The County has not yet responded to the complaint, no discovery has commenced nor has a trial date been set. At this early stage of litigation, it is difficult to assess the likelihood of an unfavorable outcome. As with the previous litigation, the County will vigorously defend against Plaintiff's claims. Notwithstanding the aggressive litigation approach adopted, the County will take reasonable steps to settle such claims on appropriate terms as may be to the County's strategic and economic advantage.

19. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)

Coordination Proceeding Special Title (Rule 1550 (B)) - Retirement Case. On August 14, 1997, the Supreme Court of the State of California issued a decision in a case entitled *Ventura County Deputy Sheriffs Association vs. Board of Retirement of Ventura County Employees' Retirement Association.* On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a county retirement system operating under the provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements, received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefit.

The court has ruled that disputed items of compensation are not includable in "compensation earnable" and that the *Ventura* decision should be applied retroactively. Questions relating to the finding of such retroactive application remain before the court. Judgment has not been entered. Should the County prevail on appeal, it could realize a reduction in retirement obligations of approximately \$175,000 or in excess of \$15,000 for 15 years. Should the employees prevail on appeal, future retirement costs to the County could increase significantly.

20. OTHER CONTINGENCIES

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

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

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

A. HCA is currently under investigation by federal authorities for potential civil fraud and False Claims Act violations in connection with its Medicare billings for mental health services. The investigation is being directed by the United States Attorney's Office for the Central District of California, working in conjunction with the Office of the Inspector General for the Department of Health and Human Services.

In April 2000, HCA was served with a subpoena requiring it to produce all documents relating to HCA's Behavioral Health Division Medicare billings from January 1995 to December 1997. In December 2000, HCA was served with an amended subpoena, limiting the number of documents HCA was required to provide. HCA filed a motion in the United States District Court, Central District of California, on May 25, 2001, in which HCA sought to quash or to modify the subpoena for lack of jurisdiction under the federal False Claims Act. On November 6, 2001, Magistrate Judge Marc L. Goldman denied the motion. HCA is currently preparing documents in order to respond to the December 2000 subpoena.

It is the County's understanding the investigation focuses on HCA's Medicare billing practices from 1990 through 1997, and that the investigators believe that HCA may have made numerous false claims on its Medicare bills during that period. 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, the County is unable to reasonably estimate any potential penalties and/or other costs that HCA may be required to pay.

20. OTHER CONTINGENCIES (Cont'd)

B. The State of California mandates that counties provide necessary mental health services to children who are enrolled in special education programs. Consistent with the practices of most other California counties, Orange County has been claiming the net cost of providing these services to the State under the Senate Bill 90 State Mandated Costs Reimbursement program (SB 90). The State has fully reimbursed these claims since FY 1986-87 when costs first became eligible for reimbursement.

An ongoing State Controller's Office audit has preliminarily determined that a portion of the County's claims are ineligible for reimbursement due to a difference of opinion regarding claiming guidelines affecting FY 1997-1998 and FY 1998-1999 for a total of \$18,200. If upheld, this finding could also potentially impact an estimated \$9,000 –10,000 in County claims subsequent to FY 1998-1999. A final audit report has not been issued, and there is an extensive appeal process.

The County disagrees with the auditor's preliminary findings and intends to appeal any negative finding. This issue potentially impacts a number of other California counties. Orange County is working collaboratively with other California counties and the statewide local mental health directors association to seek formal clarification and modification of obsolete claiming guidelines through the Commission on State Mandates. If necessary, legislative changes may be sought.

Reduced program reimbursement from the State for subsequent years may result in the County having to find alternative funding sources or re-prioritize programs or a combination of both. If the preliminary State finding is ultimately upheld and legislative and other remedies are unsuccessful, the County's general fund may be required to repay a portion of the disputed claims and assist in funding mandated programs in subsequent years. The County is considering a contingency funding plan for prior year and future year potential impact of this issue.

21. DEFINED BENEFIT PENSION PLANS

Orange County Employees Retirement System (OCERS)

<u>Plan Description</u>. Substantially all County employees participate in OCERS, a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system and account for approximately 16.47% of the system membership.

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

OCERS issues a stand alone annual financial report each year ending December 31. OCERS annual financial report can be obtained by writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701 or by calling (714) 558-6200.

<u>Funding Policy</u>. In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. For FY 2000-2001, employer's contributions as a percentage of covered payroll were .96% for General members and 22.22% for Safety members.

21. DEFINED BENEFIT PENSION PLANS (Cont'd)

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety members, the rate of contribution is calculated to provide an annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

The Pension Liability or Asset at transition was calculated in accordance with the provisions of GASB Statement No. 27 and was zero at transition and the effective date.

As of OCERS' most recent annual report, the County's 2000 contribution represented 76% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued \$320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to refund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account (Investment Account) with the POB proceeds in the amount of \$318,300. For FY 1995-96, the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and Unfunded Actuarial Accrued Liability (UAAL) portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provides for the Investment Account to be used to fund the County's employer contribution in a decreasing percentage each year. The Investment Account allowed for 75% of the employer contribution to be paid from the Investment Account Agreement, however, due to higher than anticipated investment earnings, the \$45,932 contribution was paid entirely by the investment account. In subsequent years the portion of normal costs paid from bond proceeds would be adjusted by a reduction of 5% of normal costs each year for 20 years, increases or decreases in relation to changes in the UAAL, and returns on investments which varied from anticipated. The balance of the investment account on June 30, 2001 was \$241,772.

Because the amortized gains of the retirement system have been higher than anticipated, the required annual percentage of employer contributions has remained low. The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

Year <u>Ended</u>	unty Cash ntribution	RS Investment unt Contribution			Percentage Contributed
06/30/99	\$ 1,284	\$ 44,004	\$	45,288	100%
06/30/00	232	50,262		50,494	100%
06/30/01		45,932		45,932	100%

Defined Benefit Retirement Plan

<u>Plan Description</u>. In January 1992, the County adopted the 1992 Defined Benefit Retirement Plan. 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 Plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS.

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

21. DEFINED BENEFIT PENSION PLANS (Cont'd)

As of June 30, 2001, the plan consists of 1,691 active plan participants, ten terminated plan participants entitled to but not yet receiving benefits, and five retirees receiving benefits.

The plan's 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. Investments are reported at fair value as further described in Note 2.F and are fully invested in the County Pool as described in Note 3. The plan has not issued separate stand-alone financial statements.

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

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

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 annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is the total of (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the unfunded actuarial liability. Based on the most recent actuarial valuation, June 30, 2000, interest on the net pension obligation is immaterial.

For the fiscal year ended June 30, 2001, the County's annual required contribution was \$73. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the traditional unit credit actuarial cost method. The actuarial assumptions included (a) 8.0% investment return (net of administrative expenses), (b) the 1983 Group Annuity Mortality table for Males and Females, and (c) projected annual salary increases of 4% a year (used to project future payroll only). Both (a) and (c) include a 3% 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.

The actuarial valuation date for year 2000 has been changed to June 30 from January 1. The change in accrued liability due to the change of valuation date is insignificant.

Orange County Defined Benefit Retirement Plan Schedule of Funding Progress (Amounts in Thousands)

Actuarial Valuation Date	V			Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)		
01/01/94	\$	957	\$	1,023	\$ 66	93.5%	\$ 10,903	0.6%
01/01/98	\$	2,058	\$	2,178	\$ 120	94.5%	\$ 10,862	1.1%
06/30/00	\$	2,666	\$	3,750	\$ 1,084	71.1%	\$ 18,920	5.7%
06/30/01*	\$	3,419	\$	4,149	\$ 730	82.4%	\$ 19,676	3.7%

^{*} June 30, 2001 Actuarial Accrued Liability based on June 30, 2000 valuation results roll forward.

21. DEFINED BENEFIT PENSION PLANS (Cont'd)

Schedule of Employer Contributions (Amounts in Thousands)

Year Ended June 30	P	annual ension st (APC)	Percentage of APC Contributed	Net Pension Obligation		
1999	\$	3	0%	\$	6	
2000	\$	22	0%	\$	28	
2001	\$	73	0%	\$	101	

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

22. POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County makes health care benefits available for 4,263 retired employees. These health care benefits are funded by a 1% salary contribution from current employees, contributions from the OCERS' Additional Retirement Benefit Account, and contributions from the retirees themselves. The County recognizes the cost of these benefits by reporting as expenditures in various funds periodic insurance premiums and claims, which were \$18,959 in FY 2000-01.

Participants for County administered retiree health care must be eligible to retire and have at least ten years of County service and have reached the age of 50. Participants must also be receiving a monthly retirement allowance from the Orange County Employees Retirement System (OCERS) and be enrolled in a County health plan at the time of retirement.

The retiree medical grant amount for calendar year 2001 is set at \$12.89 per month for each year of County service to a maximum of 25 years. For fiscal year 2000-2001, the retiree medical program contributed \$9,584 towards retiree medical insurance costs. The County of Orange Board of Supervisors approved the establishment of the retiree medical program on August 1, 1993.

At the beginning of each month, the County of Orange and OCERS determine eligibility. The appropriate funds are then applied to the retirees' monthly pension benefit.

23. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (Deferred Compensation Plan), which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or certain other cases. In addition, the County provides an employer paid deferred compensation plan for its executives and elected officials.

On January 1, 1998, the County placed all Plan assets in trust accounts for the exclusive benefit of the participants and their beneficiaries, in order to comply with the Small Business Job Protection Act of 1996. Consequently, the County's financial statements do not include Plan assets.

At June 30, 2001, assets with a current market value of \$376,588 were in the Plan's trust accounts.

24. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2001:

A. Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001

On July 11, 2001, the Orange County Development Agency issued \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 ("NDAPP Refunding Bonds"). A substantial portion of the proceeds of the NDAPP Refunding Bonds and certain other monies, were used to purchase United States Treasury Securities – State and Local Government Series ("SLGS") in order to defease \$26,140 of the \$27,072 outstanding 1992 Tax Allocation Revenue Bonds, Series A ("Prior Bonds"). This action left \$932 (par amount) Capital Appreciation Bonds as the only portion of the "Prior Bonds" outstanding.

B. Terrorists Attacks on September 11, 2001

The terrorist attacks on September 11, 2001, have had a tremendous impact on the nation's economy overall and specifically travel related industries. The immediate effect of the attacks was a temporary suspension of all non-military aircraft operations and closure of all U.S. airports, including JWA. JWA reopened on September 13, 2001. Air carriers have resumed services, although some of them are currently operating at reduced levels and have announced significant cutbacks in their national operations. The Airport and the airlines have implemented new safety and security measures, including those mandated by the Federal Aviation Administration.

As with other airports, the reduction in passenger activity at JWA has had a financial impact. JWA experienced a decrease in operating revenues and passenger activity since September 11, 2001. Based on September and October 2001 data, management projects a 15% decrease in activity for FY 2001-02. Parking and rental car revenues are projected to be lower than last fiscal year. With respect to security costs, based on the current federal security mandates and recommendations of the Orange County Sheriff's Department, the Airport anticipates spending \$8,700, in addition to the originally budgeted \$4,000. The increase in security costs will substantially increase operating expenses, although a portion of the additional cost is borne by the airlines. The Airport is unable to predict the duration and the extent of the impact of the September 11 events on its operations.

On December 4, 2001, JWA management presented a plan to the Board of Supervisors to increase various rates in order to increase revenue and recover the additional security cost. The Board of Supervisors decided to postpone considering the rate hike plan to February of 2002.

C. <u>Teeter Plan Revenue Bonds</u>

- On November 1, 2001, the mandatory tender of the Teeter Plan Revenue Bonds 1995, Series E occurred. The original \$34,000 Series E Bonds were remarketed and have a variable interest rate that will be determined on a weekly basis.
- On November 1, 2001, the Orange County Special Financing Authority retired \$800 of the 1995 Teeter Plan Revenue Bonds, Series A, leaving \$1,800 of the Series A bond outstanding.

D. 3% at 50 Public Safety Retirement

In 1999, the State passed Assembly Bill 1937 giving the Public Employees Retirement System and the 1937 Act Retirement Plans (which includes Orange County's Retirement System) the option to offer a new benefit formula known as 3% at 50 for public safety members. The Association of Orange County Deputy Sheriffs requested a contract re-opener to discuss this benefit. Based on market research and the need to maintain competitiveness in the public safety labor market, the County Board of Supervisors amended the Personnel and Salary Resolution on December 4, 2001, implementing a 3% at 50 retirement formula for public safety employees effective June 28, 2002. The initial estimated annual cost of this benefit is \$14,700 and will be funded by a combination of existing Public Safety Sales Tax, law enforcement contract revenue, contributions from the public safety employees and from the County General Fund. Costs of this benefit have been included in the County's 2002 Strategic Financial Plan.