1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Blended Component Units

<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 (OCDA)</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 the OC Community Resources Accounting Department.

<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.

<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.

Orange County Special Financing Authority
The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to assist in the refinancing of the County's Teeter Plan program, and in the financing of public capital improvements and other projects. The governing body of the Authority is the County's governing body. Please refer to Note 11, Long-Term Obligations, which discusses the retirement of the Teeter Bonds and consequently the elimination of separate financial statements by the bondholders. The Authority is reported in governmental fund types.

A. Reporting Entity (Continued)

Blended Component Units (Continued)

<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 Authority is reported in governmental fund types.

Orange County Public Facilities Corporation The Corporation has its own five member governing body appointed by the County's governing body, and provides services entirely to the primary government (the County) through the purchase, construction or leasing of land and/or facilities which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts ("special districts") is the County's governing body. Among its duties, it approves the special districts' budgets, and approves parcel fees, special assessments and special taxes. The special districts are reported in governmental fund types.

<u>In-Home Supportive Services (IHSS) Public Authority</u> The governing body of the Authority is the County's governing body. The Public Authority was established by the Board to act as the employer of record for the individual providers for the IHSS program. The duties of the Public Authority include collective bargaining for the individual providers, establishing a registry of providers, investigating the background of providers and providing training to both IHSS providers and consumers. The Authority is reported in governmental fund types.

Discretely Presented Component Unit

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

http://egov.ocgov.com/ocgov/Auditor-Controller - David Sundstrom/Financial Statements

B. Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide and fund financial statements. The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements report long-term liabilities and capital assets. Depreciation expense and accumulated depreciation are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the current financial resources measurement focus. Fund financial statements are shown

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

separately for specific major governmental funds, and in total for all other governmental funds. Fund financial statements for proprietary funds are reported under the accrual basis of accounting and the economic resources measurement focus. Major enterprise funds are shown separately, with internal service funds shown in total. Financial data for the internal service funds is included with the governmental funds for presentation in the government-wide financial statements. Fiduciary funds are displayed by category in the fund financial statements, but are not reported in the government-wide financial statements, because the assets of these funds are not available to the County.

Government-Wide Financial Statements

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" mandates the presentation of two basic government-wide financial statements:

- Statement of Net Assets
- Statement of Activities

The scope of the government-wide financial statements is to report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are normally supported by taxes, intergovernmental revenues, other nonexchange revenues, and business-type activities, which are financed by fees charged to external parties for goods or services, are reported in separate columns, with a combined total column presented for the primary government. Likewise, the primary government is reported separately from the legally separate component unit, Children and Families Commission of Orange County, for which the primary government is financially accountable.

The government-wide Statement of Net Assets displays the financial position of the primary government, in this case the County, and its discretely presented component unit. The Statement of Net Assets reports the County's financial and capital resources, including infrastructure, as well as the County's long-term obligations. The difference between the County's assets and liabilities is its net assets. Net assets represent the resources that the County has available for use in providing services after its debt is settled. These resources may not be readily available or spendable and consequently are classified into the following categories of net assets in the government-wide financial statements:

- <u>Net Assets Invested in Capital Assets, Net of Related Debt</u> This amount is derived by subtracting the
 outstanding debts incurred by the County to buy or construct capital assets shown in the Statement of
 Net Assets, net of depreciation.
- Restricted Net Assets This category represents restrictions imposed on the use of the County's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. All of the County's net asset restrictions are externally imposed by outside parties, constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2010, the County's governmental activities reported restricted net assets of \$1,249,418 restricted for the purposes of capital projects, debt service, legally segregated special revenue funds restricted for grants and other purpose, and regional park endowment. Restricted Net Assets for business-type activities amounted to \$135,168 and are restricted for the use of Airport and Waste Management activities, including debt service, passenger facility charges (PFC) replacements and renewals, landfill closure/postclosure, and landfill corrective action. At June 30, 2010, the County reported \$35,062 of net assets restricted by enabling legislation related to the Airport's PFC.
- Unrestricted Net Assets These assets are resources of the County that can be used for any purpose, though they may not necessarily be liquid. In addition, assets in a restricted fund that exceed the amounts required to be restricted by external parties or enabling legislation are reported as unrestricted net assets.

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

Government-Wide Financial Statements (Continued)

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

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

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

Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

<u>Flood Control District</u> This fund accounts for the planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins and other flood control infrastructure. Property taxes provide most of this fund's revenues.

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

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

Fund Financial Statements (Continued)

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

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

The County reports the following proprietary enterprise funds:

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

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

<u>Compressed Natural Gas (CNG)</u> This fund accounts for the operation and maintenance of the CNG facility. Revenues consist primarily of CNG sales to both the County and the public.

Additionally, the County reports the following fund types:

Internal Service Funds The County reports nine Internal Service Funds. These proprietary funds are used to account for the financing of services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis. The services provided by these funds are Insurance, Transportation, Publishing, and Information and Technology. Internal Service Funds are presented in summary form as part of the proprietary fund financial statements. Since the principal users of the internal services are the County's governmental activities, financial statements of Internal Service Funds are consolidated into the governmental activities column when presented at the government-wide level.

<u>Fiduciary Fund Types</u> The County has a total of 284 trust and agency funds for FY 2009-10. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, or investment trust fund is used. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

The County reports the following trust and agency funds:

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

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

Fund Financial Statements (Continued)

Investment Trust

Investment Pool

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

Educational Investment Pool

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

<u>Pension and Other Employee Benefits Trust</u> The County reports six Pension and Other Employee Benefits Trust funds. These trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit and defined contribution postemployment benefit plans.

Agency Funds These funds are generally used to account for assets that the County holds on behalf of others as their agent in a purely custodial capacity, such as the receipt, temporary investments, and remittance of fiduciary resources to individuals, private organizations, or other governments. Accordingly, assets reported in the agency funds are offset by a liability for resources held on behalf of others.

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Receivables are reported net of allowances for uncollectible receivables in the Statement of Net Assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide Statement of Activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed. Additionally, only the interfund transfers between governmental and business-type activities are reported in the Statement of Activities.

Governmental Fund Financial Statements

Governmental funds are used to report all governmental activities that are not primarily self-funded by fees or charges to external users or other funds and are not fiduciary activities. These activities include the County's basic services to its citizenry and to other agencies, including general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation and cultural services. There are five types of governmental funds:

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Permanent Fund

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

Revenues that are accrued include real and personal property taxes, sales taxes, property taxes in-lieu of motor vehicle license fees, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectability is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are expected to be received later than 60 days following the end of the fiscal year, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, and the receivable and deferred revenue are eliminated. Receipts that have not met all of the earning requirements are reported as unearned revenue. As of June 30, 2010, the County reported \$174,290 of deferred revenue, and \$58,430 of unearned revenue, in the governmental funds' Balance Sheet.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt and capital leases are recorded in the year they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures at fiscal year-end if they are due and payable. The related long-term obligation is recorded in the government-wide financial statements. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding at year-end.

Because the fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented to explain the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

Proprietary Fund Financial Statements

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund Financial Statements (Continued)

Under GASB Statement No. 20, the County has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 when preparing the government-wide and enterprise fund financial statements.

There are two types of proprietary funds:

- Enterprise Funds
- Internal Service Funds

The County has three enterprise funds: Airport, Waste Management and CNG. The principal operating revenues of the Airport, Waste Management and CNG enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tie-down fees (2) disposal fees charged to users of the waste disposal sites and (3) CNG sales, respectively.

Internal Service Funds are used to report activities that provide goods or services to other funds of the County. The Internal Service Funds receive revenues through cost-reimbursements of the goods and services provided to other County departments and agencies. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Fiduciary Fund Financial Statements

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

D. Budget Adoption and Revision

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

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

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

D. <u>Budget Adoption and Revision (Continued)</u>

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

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

The intent of preparing the Budgetary Comparison Statement reconciliation is to provide the reader with a more complete understanding and appreciation for the difference between budgetary revenues and other financing sources and expenditures/encumbrances and other financing uses presented in the Budgetary Comparison Statements and the revenues, expenditures, and other financing sources (uses) reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, which is prepared in accordance with GAAP. The major areas of difference are as follows:

- Under a budgetary basis, investment income is recognized on an amortized cost basis. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pool," all investment income, including changes in fair value (gains/losses) of investments, is recognized as interest revenue.
- Under a budgetary basis, redirected investment income is recognized as investment income in the
 recipient fund. In accordance with GASB Statement No. 31, investment income assigned to another
 fund due to management decision is recognized in the fund that reports the investment and reported
 as a transfer to the recipient fund in the GAAP financial statements.
- GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," states that all nonexchange transactions, such as government-mandated nonexchange transactions and voluntary nonexchange transactions, can be accrued only if they are measurable and "available." "Available" has been defined by GASB Statement No. 33 as "collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period." The County has established the availability period as 60 days after the end of the fiscal year or August 31. In order to ensure all transactions for the current fiscal year meet this criterion, the County analyzes revenue receipts through August 31, and records adjustments to revenue for any significant variances.
- GASB Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," states, "fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs." For the GAAP financial statements, an adjustment to record public purpose trust monies as revenue in the benefitting funds is recorded for funds which continue to be accounted for as fiduciary funds on a budgetary basis but no longer meet the definition of a fiduciary fund.
- Under a budgetary basis, intrafund transfers are recognized as other financing sources (uses). For the GAAP financial statements, intrafund transfers are eliminated to minimize the "grossing-up" of interfund transfers.
- Under a budgetary basis, the loan repayment from OC Public Library to the General Fund was
 recognized as other revenue within the General Fund. In accordance with GASB Statement No. 34,
 other revenue was adjusted and the loan payment was recorded as a reduction to the interfund
 receivable in the lender fund and a reduction to the interfund payable in the borrower fund for the
 GAAP financial statements.

D. Budget Adoption and Revision (Continued)

- For budgetary purposes, the loan from Waste Management to the General Fund was recognized as
 other financing sources (uses). In accordance with GASB Statement No. 34, an adjustment to record
 the interfund loan as an interfund receivable in the lender fund and interfund payable in the borrower
 fund was recorded for the GAAP financial statements.
- Under the budgetary basis, interfund reimbursements or repayments from funds responsible for particular expenditures or expenses to the funds that initially paid for them are recorded as revenues in the payer fund. In accordance with GASB Statement No. 34, an adjustment to eliminate interfund reimbursements is recorded for the GAAP financial statements.
- Under a budgetary basis, the County bills department for their portion of the annual required contribution (ARC) to Orange County Employees Retirement System (OCERS) and recognizes the portion that is not forwarded to OCERS as revenue because the County Investment Account at OCERS funded this portion of the ARC. For the GAAP financial statements, the County reclassified the budgeted revenue for the portion of the ARC funded by the County Investment Account to reduce expenditures.
- In accordance with GAAP, the County has established guidelines for recording accruals for incurred
 expenditures for which outflows of cash or other assets will not occur until after the end of each fiscal
 year. In order to reasonably ensure that accruals for current fiscal year transactions are materially
 accurate, the County performs a look-back analysis to identify and adjust expenditure accruals for the
 GAAP financial statements.

The following schedule shows the Budgetary Comparison Statement reconciliation between the budgetary basis and GAAP basis for the General Fund and major special revenue funds:

	G	General Fund		Roads		Flood Control District		OC Parks	F	Other Public Protection
Revenues and Other Financing Sources			_	rtoddo		21011101	_			
Total Revenues and Other Financing Sources from the Budgetary										
Comparison Statements	\$ 2,	627,491	\$	99,805	\$ 1	17,466	\$	101,528	\$	59,600
Differences-budget to GAAP:										
Change in unrealized gain/(loss) on investment (Note 4)		(256)		(76)		(230)		(68)		(63)
GASB 31 adjustment to report redirected investment										
income as transfers (Note 4)										154
GASB 33 adjustment of revenue accruals for 60 day recognition period		(7,125)		86		(6,683)		(3,613)		(224)
GASB 34 adjustment to record Public Purpose Trust Fund's monies										
as revenue in benefitting fund		762				(41)		(4)		
Adjustment to eliminate intrafund transfers										(700)
Reclassification of loan repayment from OC Public Library to										
the General Fund (Note 7)		(720)								
Reclassification of loan from Waste Management to the										
General Fund (Note 7)		(15,606)								
Reclassification of direct billing reimbursements paid by fund for the										
benefit of other funds		(9,560)		(237)		(130)		(620)		
Reclassification of other revenues to an expenditure for portion of										
ARC funded by the County Investment Account with OCERS		(11,000)								
Revenues and Other Financing Sources for non-budgeted										
funds are excluded in the Budgetary Comparison Statements										493
Total Revenues and Other Financing Sources as reported on the Statement										
of Revenues, Expenditures, and Changes in Fund Balances.	\$ 2,	583,986	\$	99,578	\$ 1	110,382	\$	97,223	\$	59,260

D. Budget Adoption and Revision (Continued)

	 General Fund	Roads	 Flood Control District	(OC Parks	!	Other Public Protection
Expenditures/Encumbrances and Other Financing Uses							
Actual expenditures reported in the Budgetary Comparison Statements	\$ 2,629,662	\$ 73,755	\$ 156,955	\$	87,823	\$	70,255
Differences-budget to GAAP:							
GASB 31 adjustment to report redirected investment							
income as transfers (Note 4)							154
Adjustment of expenditure accruals for timing	(5,356)	265	(13,842)		483		(1,063)
Adjustment to eliminate intrafund transfers							(700)
Reclassification of direct billing reimbursements paid by fund for the							
benefit of other funds	(9,560)	(237)	(130)		(620)		
Reclassification of other revenues to an expenditure for portion of ARC							
funded by the County Investment Account with OCERS	(11,000)						
Expenditures/Encumbrances and Other Financing Uses for non-budgeted							
funds are excluded in the Budgetary Comparison Statements							263
Total Expenditures and Other Financing Uses as reported on the Statement of							•
Revenues, Expenditures and Changes in Fund Balances.	\$ 2,603,746	\$ 73,783	\$ 142,983	\$	87,686	\$	68,909

E. Cash and Investments

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

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with an outside service to provide pricing for the fair value of investments in the portfolio. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing. As discussed in Note 4, Deposits and Investments - Concentration of Credit Risk – Serpentine Funding Limited (formerly Whistlejacket Capital LLC), the County has priced its holdings in Serpentine Notes based on information provided by a broker from an independent third party sale on June 28, 2010. On August 19, 2010, the County sold its position in the Serpentine Notes. Please refer to Note 20, Subsequent Events, for further information.

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

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

E. Cash and Investments (Continued)

managed by the Orange County Employees Retirement System (OCERS) and are reported at fair value. Refer to Note 18, Retirement Plans, to obtain OCERS stand-alone annual financial statements.

F. Inventory of Materials and Supplies

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

G. Prepaid Costs

The County pays for certain types of services in advance such as pension cost and rents and recognizes these costs in the period during which services are provided. Applicable fund balances are reserved for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds. At June 30, 2010, the County has prepaid costs of \$110,713 in the Statement of Net Assets, which primarily consist of the County's Investment Account with OCERS for future pension costs of \$100,668 (see Note 18 for additional information regarding this pension investment asset for the OCERS Pension Plan) and a deferred charge of \$3,144 reported in the Business-Type activities representing the agreement with the City of Irvine to prepay community amenities and transportation improvement costs associated with operating the Frank R. Bowerman Landfill for the period of 2008 through 2014.

H. Land and Improvements Held for Resale

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

Capital Assets

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

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets with an original unit cost equal to or greater than the County's capitalization threshold shown in the table below are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Asset Type	Capitalization Threshold
Land	\$0
Structures and Improvements	\$150
Equipment	\$5
Intangible	\$ 150
Infrastructure	\$0

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of structures and improvements, equipment, intangible, and infrastructure are as follows:

Structures and Improvements	10 to 50 years
Equipment	2 to 20 years
Intangible	5 to 20 years

I. Capital Assets (Continued)

Infrastructure:

Flood Channels 50 to 99 years
Roads 10 to 20 years
Bridges 50 years
Trails 20 years
Traffic Signals 15 years
Harbors 20 to 50 years

Maintenance and repair costs are expensed in the period incurred. Expenditures that materially increase the capacity or efficiency or extend the useful life of an asset are capitalized and depreciated. Upon the sale or retirement of the capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the Statement of Activities and Proprietary Funds' Statement of Revenues, Expenses and Changes in Fund Net Assets.

J. Self-Insurance

The County is self-insured for general and automobile liability and workers' compensation claims, for claims arising under the County self-insured PPO health plans, short-term disability plans, dental plan, reserve deputy sheriff accidental death and dismemberment plan and unemployment benefits program. Liabilities are accrued based upon case reserves, development of known claims, incurred but not reported claims and allocated and unallocated loss adjustment expenses. For additional information, refer to Note 16, Self-Insurance.

K. Property Taxes

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

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

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

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

California

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Property Taxes (Continued)

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2010 is allocated to and recorded in the corresponding funds for reporting purposes.

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end are recorded as deferred revenue in the fund-level financial statements, and recognized as revenue in the government-wide financial statements. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County maintains records of disputed property taxes, such as those properties for which the values have been appealed to the local Assessment Appeals Boards. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or the tax bills are corrected. As of June 30, 2010, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.2% of the combined beginning secured and unsecured property tax roll charge. 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

L. Compensated Employee Absences

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

M. Statement of Cash Flows

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

N. Indirect Costs

County indirect costs are allocated to benefiting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2009-10 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Code of Federal Regulation, Title 2, Part 225. The County has elected to allocate indirect costs to agencies within the General Fund that are not charged CWCAP in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

O. Effects of New Pronouncements

The following lists recent GASB pronouncements implemented or are effective in FY 2009-10:

- In June 2007, GASB issued Statement No. 51, "Accounting and Reporting for Intangible Assets." This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. See Note 2 and 5 for additional information.
- In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. Currently, the County Treasurer's Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County's investment pools and the Public Financing Advisory Committee policy prohibits derivative debt instruments.
- In December 2009, GASB issued Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies." This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court approves a new payment plan. This statement did not have a material impact in the financial statements.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Effects of New Pronouncements (Continued)

In December 2009, GASB issued Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans." This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2011. Currently, the County is not involved in these types of OPEB plans.

In June 2010, GASB issued statement No. 59, "Financial Instruments Omnibus." This statement updates and improves the existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2010, which requires the County to implement this statement in FY 2010-11.

P. Use of Estimates

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

Q. <u>Consolidation of Governmental Funds' Balance Sheet and Proprietary Funds' Statement of Net Assets</u> <u>Line Items in Statement of Net Assets</u>

Several asset or liability line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Assets are combined into one line item in the Government-Wide Statement of Net Assets for presentation purposes. In order to avoid any confusion, the following table lists the line items shown in the Governmental and Proprietary Fund financial statements that are condensed together in the Government-Wide Statement of Net Assets.

Government-Wide Statement of Net Assets Line Item	Corresponding Governmental and Proprietary Fund Balance Sheet or Statement of Net Assets Line Item
Cash and Cash Equivalents	Pooled Cash/Investments; Cash Equivalents/Specific Investments; Imprest Cash funds; and Cash/Cash Equivalents
Restricted Cash and Cash Equivalents	Restricted Cash and Investments with Trustee; Restricted Pooled Cash and Investments; and Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs
Prepaid Costs	Prepaid Costs and Bond Issuance Costs
Capital Assets – Not Depreciable/Amortizable	Land, Software in Development and Construction in Progress
Capital Assets – Depreciable/Amortizable	Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; Software and Accumulated Amortization; and Infrastructure and Accumulated Depreciation

2. CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 51, "Accounting and Reporting for Intangible Assets," establishes criteria for intangible assets, accounting and reporting treatment, internally generated intangible assets, and amortization of assets. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The Statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this Statement are effective for the FY 2009-10 financial statements. Intangible assets should be measured as of July 1, 2009 so that beginning net assets can be restated. Implementation of GASB Statement No. 51 impacted the County's government-wide Governmental Activities. As of the effective date of this Statement, the intangible assets were measured as of the beginning of FY 2009-10 and the net assets were restated. The GASB Statement No. 51 adjustment for intangible assets is reflected in the Net Assets Beginning of the Year for the government-wide Statement of Activities:

Total Coversons and al

	 - Governmental Activities
Net Assets at June 30. 2009	\$ 3,700,593
GASB Statement No. 51 Adjustment	 37,556
Net Assets at June 30, 2009 as Restated	\$ 3,738,149

Refer to Note 5, Changes in Capital Assets, for additional information.

3. DEFICIT FUND EQUITY

The Teeter Plan Obligation Commercial Paper Program Note Fund reported a deficit fund balance of \$3,110. The deficit fund balance decreased by \$11,993 from the previous year. The County implemented its Teeter Commercial Paper (CP) Program on August 26, 2008, for the purpose of refunding the outstanding Teeter Bonds and to provide a continuing source of funding for the County's annual obligation to make distributions to the taxing agencies participating in the Teeter Plan. The deficit results from additional costs and interest expense of the CP Notes incurred in the first year of the CP Program, and insufficient delinquent tax collection to retire the CP principal. The decreased deficit is a result of increased delinquent tax collection to retire additional CP principal. The County will continue to monitor and manage the collection of delinquent base tax receipts, penalties, and interest in order to eliminate the deficit fund balance.

The Workers' Compensation Internal Service Fund (ISF) and the Property and Casualty Risk ISF reported deficit net asset balances of \$35,793 and \$11,408, respectively. The deficits result from the amount calculated in the annual actuarial study which includes case reserves, development of known claims, incurred but not reported claims, allocated and unallocated loss adjustment expenses, and a discount for anticipated investment income. The deficit for the Workers' Compensation ISF increased by \$10,533 from the previous fiscal year due to an increase in the actuarial determined liability amount and decreased charges to participants in the program. The deficit for the Property and Casualty Risk ISF is due to an increase in the actuarial determined liability amount following increases in case reserves. Charges to County departments have not provided sufficient cash flows to entirely fund the deficits in these ISFs. The County will continue to review charges to departments and manage the funding status of the Workers' Compensation Program and the Property and Casualty Risk Program to the most efficient levels.

4. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled \$6,349,793 as of June 30, 2010. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Restricted Pooled Cash/Investments – Closure & Postclosure Care Costs, Restricted Pooled Cash/Investments, Cash/Cash Equivalents, Imprest Cash, Restricted Cash and Investments with Trustee, and Investments."

The Treasurer's office maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The Investment Policy Statement (IPS) establishes a Money Market Fund and an Extended Fund as components of the County Pool and Educational Pool.

The Treasurer's office has also established the OC Extended Fund B which is comprised of the Serpentine Funding Limited U.S. Restricted Pass-Through Notes ("P-T Notes"). Refer to Note 20, Subsequent Events, regarding the sale of Serpentine Notes on August 19, 2010. The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average maturity of 60 days. The maximum maturity of both the Extended Fund and OC Extended Fund B is 5 years. The Extended Fund shall have duration not to exceed a leading 1-3 Year index +25%.

The primary investment objectives of the Treasurer's office investment activities are to safeguard principal and to maintain the liquidity needs of the County and other depositors. After meeting the primary investment objectives, the Treasurer's office considers attaining a competitive rate of return commensurate with investment risk and attempting to stabilize a \$1 net asset value for the County Money Market Fund and the Educational Money Market Fund. These external investment pools contain deposits, repurchase agreements, and investments. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer's office. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

The Treasurer's office also manages specific investment funds subject to the IPS as well as Board action or other legal authority. Included below under the heading "Specific Investments" are the John Wayne Airport Investment Pool (Money Market Fund), and other separately managed investments.

On March 16, 2010, the County Board of Supervisors (Board) revoked all investment authority previously delegated to the County Treasurer. The revocation was due to a civil judgment rendered against the County Treasurer for actions he took in his private capacity as a court-appointed trustee from 1998 through July 2005. The actions all took place prior to his election as the County Treasurer in 2006. The trust was not a County trust and is separate from and has no relationship to the County. The revocation was not due to any issues relating to the Orange County Treasury Pool. The Board directed that the County Chief Financial Officer exercise its investment authority over the Treasurer's office investment management. The current Treasurer is not running for re-election in the 2010 election cycle and it is expected that a newly elected Treasurer will take office on January 3, 2011, and resume investment duties.

A. Deposits

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

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, the trust department of the same institution may hold them. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

the California Superintendent of Banks. Collateral is required for demand deposits at 110% of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150% is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

Total County deposits and investments at fair value as of June 30, 2010, are reported as follows:

Deposits:

Bopoolio.	
Imprest Cash	\$ 2,132
Deposit Overdraft	(105,669)
Total Cash Overdrafts	(103,537)
Investments:	_
With Treasurer	5,958,591
With Trustee	494,739
Total Investments	6,453,330
Total Deposits and Investments	\$ 6,349,793

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

Governmental Funds	\$ 1,866,820
Component Unit	118,741
Fiduciary Funds	3,360,457
Proprietary Funds	1,003,775
Total Deposits and Investments	\$ 6,349,793

B. Investments

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

External Investment Pools

The County Treasurer's office sponsors two external investment pools: the County Pool and the Educational Pool. Both pools consist of a Money Market Fund and an Extended Fund. The County Treasurer has a written IPS specifically for the separately managed County and Educational Investment Pools. The County and Educational Pools were in full compliance with their own more restrictive IPS as of June 30, 2010, and therefore were also in compliance with California Government Code (Code). The following are significant differences where the IPS is more restrictive than the Code: investment in reverse repurchase agreements is allowed by the Code but is not allowed under the IPS; the Code allows a higher percentage for investments in single issuer for a period up to three business days; the Code does not limit the purchase of securities from issuers that have been placed on credit watch negative whereas the IPS does.

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

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

External Investment Pools (Continued)

Authorized Investment

% of Market Value

1.	U.S. Treasury instruments backed by the full faith and credit of the United States government	100%
2.	Obligations issued or guaranteed by agencies of the United States government and government sponsored enterprises	100%
3.	Commercial paper of "prime" quality, with further restrictions regarding issuer size, organization and maturity	No more than 45% - Money Market No more than 40% - Extended Fund
4.	Negotiable certificates of deposits issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank, the Money Market Funds may invest in U.S. dollar denominated certificates of deposits issued in London, England (Euro CD)	No more than 30%
5.	Bankers acceptances with a maturity not to exceed 180 days	No more than 40%
6.	Money market mutual funds registered with the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940 and have either the highest rating by at least two of the Nationally Recognized Statistical Rating Organizations (NRSROs) or retained an investment advisor registered or exempt from registration with the SEC with assets under management in excess of \$500,000	No more than 20%; no more than 10% may be invested in any one Money Market Mutual fund
7.	Municipal debt issued by a local agency or any state	No more than 30%
8.	"AAA" receivable-backed securities from two or more of the NRSROs including U.S. governmental agency mortgage pass-through, collateralized mortgage obligations, private label mortgage-backed, equipment lease-backed certificates, consumer receivable-backed bonds, and auto loan receivable-backed bonds	No more than 10%
9.	Medium-term notes with a maximum maturity of 397 days for the Money Market Fund and five years for the Extended Fund. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States	No more than 30%
10.	Repurchase agreements are limited to maturities of one year or less and must be collateralized by U.S. Treasury and or U.S. governmental agency securities with a value of at least 102% of the repurchase price. Repurchase agreement counterparties must have a minimum short-term rating of no less than A-1 or equivalent by a NRSRO and have a capital of no less than \$500,000	No more than 50%
11.	Money Market Funds may invest in funding agreements	No more than 10%

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

Repurchase agreements are limited to a one year maturity and can only be entered into with entities prescribed in California Government Code Section 53601.7. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers, and also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

External Investment Pools (Continued)

The current IPS expressly prohibits leverage, reverse repurchase agreements as defined by California Government Code, structured notes, structured investment vehicles, and derivatives. The Board approved an update to the Investment Policy Statement on December 16, 2008, prohibiting the purchase of structured investment vehicles. Investments are marked to market on a daily basis. If the net asset value of the Money Market Fund for either the County Pool or the Educational Pool is less than \$.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

Under the IPS, no more than 5% of the total 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. At the time of the purchase of any security, a fund may invest up to 12.5% of its total market value in the securities of a single issuer for a period of up to three business days. The fund may not invest in the securities of more than one issuer under this provision at any time.

The Treasury Oversight Committee (TOC) was established in December 1995, and consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools and two public members. The TOC conducts Treasury oversight.

On February 8, 2010, S&P affirmed an AAA Principal Stability Fund Rating for the County Money Market Fund and the County Educational Money Market Fund. The Pools are not registered with the SEC.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer's Pool. The Educational Pool consists entirely of public school districts and therefore includes 100% involuntary participants. At June 30, 2010, the County Pool includes approximately 7.99% involuntary participant deposits for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

As of June 30, 2010, the major classes of the County's investments consisted of the following:

	\$ 3,191,828	\$ 3,185,599			0.75 *
Money Market Mutual Funds	120,854	120,854	Variable	07/01/10	0.00
Repurchase Agreements	118,269	118,269	0.150%	07/01/10	0.00
U.S. Treasuries	41,889	41,895	Discount	07/29/10 - 08/05/10	0.09
Municipal Debt	111,047	110,975	0.200 - 6.500%	07/01/10 - 06/01/11	0.22
Medium-Term Corporate Notes	415,363	412,322	0.350 - 6.450%	07/16/10 - 06/01/14	0.58
Negotiable Certificates of Deposit	204,646	204,668	0.250 - 0.840%	07/13/10 - 06/23/11	0.12
Commercial Paper	423,207	423,349	Discount	07/01/10 - 10/19/10	0.08
Asset-Backed Securities	19,554	24,167	0.000%	06/05/11	0.93
U.S. Government Agencies	\$ 1,736,999	\$ 1,729,100	Discount, 0.17 - 6.63%	07/01/10 - 06/24/15	1.17
County Pool		•			
With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)

4. <u>DEPOSITS AND INVESTMENTS (Continued)</u>

B. Investments (Continued)

External Investment Pools (Continued)

With Transport (Continued)	_	'a in Malura		Duin ain al	Interest Rate	Makurika Dan na	Weighted Average
With Treasurer (Continued): Educational Pool		air Value	- 1	Principal	Range (%)	Maturity Range	Maturity (Years
U.S. Government Agencies	\$	1,484,497	\$	1,476,864	Discount, 0.19 - 6.14%	07/01/10 - 06/24/15	1.24
Asset-Backed Securities	Ψ	16,446	Ψ	20,324	0.000%	06/05/11	0.93
Commercial Paper		218,835		218,848	Discount	07/02/10 - 07/14/10	0.02
Negotiable Certificates of Deposit		139,487		139,500	0.250 - 0.840%	07/14/10 - 06/23/11	0.20
Medium-Term Corporate Notes		298,801		297,043	0.350 - 6.450%	07/01/10 - 06/01/14	0.64
Municipal Debt		118,293		118,060	0.200 - 5.750%	07/01/10 - 06/01/11	0.26
U.S. Treauries		38,100		38,105	Discount	07/29/10 - 08/05/10	0.09
Repurchase Agreements		223,764		223,764	0.150%	07/01/10	0.00
Money Market Mutual Funds		161,391		161,391	Variable	07/01/10	0.00
Money Market Mutual Funds	•	2,699,614	•	2,693,899	vanable	07/01/10	0.78
Specific Investments	<u>Ψ</u>	2,099,014	Ψ	2,093,099			0.70
U.S. Government Agencies	\$	13,036	\$	13,018	Discount, 0.24 - 6.88%	07/06/10 - 09/20/29	0.45
Commercial Paper	Ψ	14,196	Ψ	14,200	Discount Discount	07/02/10 - 08/30/10	0.43
Negotiable Certificates of Deposit		3,999		4,000	0.350%	07/06/10 - 07/19/10	0.08
Medium-Term Corporate Note		6,155		6,000	4.500 - 6.450%	08/01/10 - 02/22/11	0.03
Municipal Debt		3,862		3,855	4.500 - 6.450% 0.200 - 5.750%	07/01/10 - 10/01/10	0.45
Repurchase Agreements		1,082		1,082	6.180%	08/15/19	9.13
Money Market Mutual Funds		24,819		24,819	Variable	07/01/10	0.00
ivioney warket wutuar r unus	\$	67,149	\$	66,974	vanable	07/01/10	0.30
With Trustees:	<u></u>	07,140	Ψ	00,014			
Restricted Investments with Trustees							
U.S. Government Agencies	\$	200,911	\$	143,376	Discount, 4.375%	10/22/10-09/01/21	3.43
U.S. Treasury Bonds		3,615		2,613	Discount, 9.000%	11/15/18	0.07
Guaranteed Investment Contracts		31,527		31,527	Variable, 4.27-5.005%	07/01/10-11/02/18	0.41
Money Market Mutual Funds		157,201		157,202	Variable	07/01/10	0.00
Money Market Mutual Accounts		10,160		10,160	Variable	07/01/10	0.00
Stable Value Fund		4,427		4,427	Variable	07/01/10	0.00
	\$	407,841	\$	349,305			3.91
With External Orange County							
Retirement System (OCERS): Restricted Investments **	_	00.400					
Restricted investments ***	\$	82,482	:				
With State's Local Agency Investment							
Fund (LAIF):							
Restricted Investment ***	\$	4,416	•				

^{*} Portfolio weighted average maturity

^{**} The Retiree Medical Trust reports \$82,482 of restricted investments with OCERS. Refer to Note 18 on obtaining OCERS Financial Statements.

^{***} The Law Library fund reports \$4,416 of restricted investments with LAIF.

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

Interest Rate Risk

The IPS serves as the formal policy for the Treasurer's office and provides specific guidelines and limitations to mitigate interest rate risk. The IPS is reviewed and approved by the Board annually, and any amendments to the IPS must first be reviewed and approved by the Treasury Oversight Committee and then by the Board. The IPS is therefore considered formally adopted. The IPS was last adopted on December 15, 2009.

Of the County Pool's \$3,191,828 and the Educational Pool's \$2,699,614 portfolio at June 30, 2010, over 63.37% and 62.15%, respectively of the investments have a maturity of six months or less, 20.02% and 21.53% respectively have a maturity of more than one year. Of the remainder, 3.71% and 3.99% have a maturity of over three years.

As of June 30, 2010, variable-rate notes comprised 26% and 25% of the County Pool and Educational Pool respectively. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity (WAM), the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity. The annual average daily investment balance of the County Pool and the Educational Pool amounted to \$3,534,388 and \$2,736,458 with an average effective yield of 1.02% and 1.30%, respectively, for the year ended June 30, 2010.

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

At June 30, 2010, the County Money Market Fund and Educational Money Market Fund amounted to \$1,706,188 and \$1,349,698 respectively. In accordance with the IPS, the County Treasurer manages investment related risk for deposits and investments by limiting the weighted average maturity to 60 days in the Money Market Funds. At June 30, 2010, the weighted average maturity of the County Money Market Fund was 58 days and the Educational Money Market Fund was 55 days. At the same date, the Net Asset Value (NAV) of the Money Market Funds for both pools was \$1.00 (in absolute dollar amounts).

Interest Rate Risk-Duration (Extended Funds)

At June 30, 2010, the Extended Funds (which comprises both the County and Educational Pools) amounted to \$2,835,556. Of this amount, the County Pool owned 52.37% and the Educational Pool owned 47.63%. In the case of the Extended Fund B, which amounted to \$36,000 the County Pool owned 54.32% and the Educational Pool owned 45.68%. In accordance with the IPS, the Treasurer's Office manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index. The portfolio duration for the Extended Fund as of June 30, 2010, was 1.49 years. This was computed using the Macaulay duration method.

As of June 30, 2010, the Extended Fund consisted of the following investments:

		Macaulay
	Fair Value	Duration
Investment Type	(Amounts in Thousands)	(In Years)
U.S. Government Agencies \$	2,068,088	1.82
Asset-Backed Securities	36,000	0.94
Commercial Paper	312,482	0.03
Medium-Term Corporate Notes	237,584	1.48
Municipal Debt	101,413	0.45
Treasuries	79,989	0.09
Total Fair Value \$	2,835,556	
Portfolio Duration		1.49

0/ -4

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

Custodial Credit Risk

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

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the NRSROs as explained above. For an issuer of short-term debt, the rating must be no less than "A-1" or "SP-1" (S&P), "P-1" or "MIG 1/VMIG 1" (Moody's), or "F1" (Fitch), while an issuer of long-term debt shall be rated no less than an "A" in the Money Market Funds and "AA" in the Extended Fund. As of June 30, 2010, the County's investments in commercial paper were in compliance with the IPS limits.

Concentration of Credit Risk

At June 30, 2010, the County did not exceed the IPS limitation that states that no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2010 (NR means Not Rated):

				% of
	S&P	Moody's	Fitch	Portfolio
0. 4 0. 1				
County Pool				
Asset-Backed Securities *	NR	NR	NR	0.61%
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	1.29%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	15.09%
Federal Farm Credit Bank Bonds	AAA	Aaa	AAA	7.07%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	1.29%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	18.34%
Freddie Mac Discount Notes	AAA	Aaa	AAA	0.34%
Freddie Mac Bonds	AAA	Aaa	AAA	11.00%
Commercial Paper	A-1	P-1	F-1	13.26%
Negotiable Certificates of Deposit	A-1	P-1	F-1	6.41%
Medium-Term Corporate Notes				
Corporate Notes	Α	Α	Α	0.50%
Corporate Notes	AA	Aa	AA	5.98%
Corporate Notes	AAA	Aaa	AAA	4.86%
Corporate Notes	AA	Aa	NR	1.67%
Municipal Debt	AAA	Aa	AAA	3.48%
Repurchase Agreements	NR	NR	NR	3.71%
Treasuries	AAA	Aaa	AAA	1.31%
Money Market Mutual Funds	AAA	Aaa	AAA	3.79%
Total County Pool				100.00%

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

Concentration of Credit Risk (Continued)

				% of
	S & P	Moody's	Fitch	Portfolio
Educational Pool				
Asset-Backed Securities *	NR	NR	NR	0.61%
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	1.81%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	13.00%
Federal Farm Credit Bank Bonds	AAA	Aaa	AAA	8.73%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	0.88%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	17.33%
Freddie Mac Bonds	AAA	Aaa	AAA	13.25%
Commercial Paper	A-1	P-1	F1	8.11%
Negotiable Certificates of Deposit	A-1	P-1	F1	5.17%
Medium-Term Corporate Notes				
Corporate Notes	Α	Α	Α	0.56%
Corporate Notes	AA	Aa	AA	5.48%
Corporate Notes	AAA	Aaa	AAA	1.78%
Corporate Notes	AA	Aa	NR	3.26%
Municipal Debt	AAA	Aa	AAA	4.38%
Repurchase Agreements	NR	NR	NR	8.29%
Treasuries	AAA	Aaa	AAA	1.41%
Money Market Mutual Funds	AAA	Aaa	AAA	5.95%
Total Educational Pool				100.00%
Specific Investments				
U.S. Government Agencies				
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	2.24%
Federal Farm Credit Bank Bonds	AAA	Aaa	AAA	4.47%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	2.23%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	6.93%
Freddie Mac Discount Notes	AAA	Aaa	AAA	1.79%
Freddie Mac Bonds	AAA	Aaa	AAA	1.56%
Ginnie Mae Bonds	AAA	Aaa	AAA	0.19%
Commercial Paper	A-1	P-1	F1	21.14%
Negotiable Certificates of Deposit	A-1	P-1	F1	5.96%
Medium-Term Notes	AA	Aa	AA	9.17%
Municipal Debt	AAA	Aa	AAA	5.75%
Repurchase Agreements	NR	NR	NR	1.61%
Money Market Mutual Funds	AAA	Aaa	AAA	36.96%
Total Specific Investments				100.00%

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

Concentration of Credit Risk (Continued)

	S&P	Moody's	Fitch	% of Portfolio
Restricted Investments with Trustees				
(Excluding Restricted Investments with OCERS and LAIF) **				
U.S. Government Agencies				
Federal Home Loan Bank	AAA	Aaa	NR	3.23%
Federal National Mortgage Association Medium-Term Notes	AAA	Aaa	AAA	42.41%
Freddie Mac Discount Notes	NR	P-1	F1	3.62%
U.S. Treasuries	AAA	Aaa	AAA	0.89%
Guaranteed Investment Contracts	NR	NR	NR	7.73%
Money Market Mutual Funds	AAA	Aaa	NR	38.54%
Money Market Deposit Accounts	NR	NR	NR	2.49%
Stable Value Fund	NR	NR	NR	1.09%
Total Restricted Investments with Trustees				100.00%

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

Concentration of Credit Risk-Structured Investment Vehicles

As of June 30, 2010, the County Pools did not hold any structured investment vehicles.

Restructuring of Whistlejacket Capital LLC (Whistlejacket)

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

On March 19, 2009, the Receiver of Whistlejacket entered into a restructuring agreement and a portfolio sale agreement with Goldman Sachs International. On April 29, 2009, a competitive auction of portfolio securities was held as part of the restructuring agreement. Each senior creditor had the option of cashing out their share of portfolio securities subject to the auction price or setting a reserve price below which senior creditors could elect to receive P-T Notes in a restructured program called Serpentine Funding Limited (incorporated under the laws of the Cayman Islands). The Treasurer's reserve price was not met and therefore the County received approximately \$63,500 of Serpentine Funding Limited P-T Notes. In connection with the Treasurer's acquisition of the P-T Notes from the restructuring, Orange County Counsel issued an opinion, stating in pertinent part that a) the Treasurer is authorized to exchange or purchase the P-T Notes and b) that the exchange or purchase of P-T Notes does not violate California law.

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

^{**} For the ratings of the restricted investments held with OCERS, refer to OCERS Comprehensive Annual Financial Report for the year ended December 31, 2009. For the ratings of the restricted investments held with LAIF, refer to the California State Treasurer's web site at http://www.treasurer.ca.gov/pmia-laif/index.asp

4. DEPOSITS AND INVESTMENTS (Continued)

B. <u>Investments (Continued)</u>

Restructuring of Whistlejacket Capital LLC (Whistlejacket) (Continued)

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

As of June 30, 2010, the Extended Fund B (jointly owned by the County and Educational Pools) held \$36,000 (at fair value) of Serpentine funding Limited Restricted P-T Notes. These holdings are classified as asset-backed securities in the accompanying disclosures for the County and Educational Pools. The Treasurer has determined the \$36,000 fair value of the P-T Notes based on information provided by a broker from an independent third party sale on June 28, 2010.

The original face value of the Whistlejacket/Serpentine Notes was \$80,000. From October 2008 through June 9, 2010, the County received a total cash distribution of \$36,093 of which \$35,509 (98%) was applied to principal. Of the \$36,093 cash distributions, a total of \$18,476 was from the Whistlejacket Receiver while \$17,617 came from Serpentine. As of June 30, 2010, the unrecovered balance on the Notes was \$44,491.

Refer to Note 20, Subsequent Events, regarding the sale of the Serpentine P-T Notes on August 19, 2010.

Condensed Financial Statements

In lieu of separately issued financial statements for the entire pools and the external portion of the pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2010:

Entire Pool

	County Investment Pool		Investment		Educational Investment Pool		Total
Net Assets Held for Pool Participants	\$	3,212,675	\$	2,645,919	\$ 5,858,594		
Equity of Internal Pool Participants Equity of External Pool Participants Undistributed and Unrealized Loss	\$	3,070,428 144,919 (2,672)	\$	- 2,646,480 (561)	\$ 3,070,428 2,791,399 (3,233)		
Total Net Assets	\$	3,212,675	\$	2,645,919	\$ 5,858,594		
Statements of Changes in Net Assets							
Net Assets at July 1, 2009 Net Changes in Investments by Pool	\$	3,208,630	\$	2,683,761	\$ 5,892,391		
Participants		4,045		(37,842)	(33,797)		
Net Assets at June 30, 2010	\$	3,212,675	\$	2,645,919	\$ 5,858,594		

4. <u>DEPOSITS AND INVESTMENTS (Continued)</u>

B. Investments (Continued)

Condensed Financial Statements (Continued)

External Pool Portion

Combining Statement of Fiduciary Net Assets

	County Investment Pool		_	ducational nvestment Pool	Total
<u>Assets</u>					
Pooled Cash/Investments	\$	144,489	\$	2,638,930	\$ 2,783,419
Receivables					
Interest/Dividends		502		7,232	7,734
Total Assets		144,991		2,646,162	2,791,153
Liabilities		,	`		
Due To Other Governmental Agencies		72		243	315
Total Liabilities		72		243	315
Net Assets					
Held in Trust		144,919		2,645,919	2,790,838
Total Net Assets	\$	144,919	\$	2,645,919	\$ 2,790,838

Combining Statement of Changes in Fiduciary Net Assets

	County Investment Pool		Educational Investment Pool		Total
Additions:					
Contributions to Pooled Investments	\$	288,614	\$	6,674,782	\$ 6,963,396
Interest and Investment Income		966		35,739	36,705
Less: Investment Expense		(101)		(3,111)	(3,212)
Total Additions		289,479		6,707,410	 6,996,889
Deductions:					
Distributions from Pooled Investments		268,070		6,745,252	7,013,322
Total Deductions		268,070		6,745,252	7,013,322
Change in Net Assets Held in Trust					
For External Investment Pool		21,409		(37,842)	(16,433)
Net Assets Held in Trust, Beginning of Year		123,510		2,683,761	 2,807,271
Net Assets Held in Trust, End of Year	\$	144,919	\$	2,645,919	\$ 2,790,838

5. CHANGES IN CAPITAL ASSETS

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

	Primary Government							
	Balance							
	July 1, 2009	Increases	Decreases	Adjustments	June 30, 2010			
Governmental Activities:								
Capital Assets Not Depreciated/Amortized:								
Land	\$ 644,822	\$ 44,745	\$ (23)	\$	\$ 689,544			
Construction in Progress	380,695	59,285	(68,333)		371,647			
Software in Development	36,766	19,226			55,992			
Total Capital Assets Not	1,062,283	123,256	(68,356)		1,117,183			
Being Depreciated/Amortized:								
Capital Assets, Depreciable/Amortizable:								
Structures and Improvements	982,988	50,290			1,033,278			
Equipment	343,821	12,520	(8,371)		347,970			
Software	790	700			1,490			
Infrastructure:								
Flood Channels	940,474	13,072			953,546			
Roads	133,279	2,158			135,437			
Bridges	65,049	7,296			72,345			
Trails	40,741	1,977			42,718			
Traffic signals	10,668				10,668			
Harbors and Beaches	37,625				37,625			
Capital Assets,								
Depreciable/Amortizable	2,555,435	88,013	(8,371)		2,635,077			
Less Accumulated Depreciation/Amortization For:								
Structures and Improvements	(456,936)	(23,909)			(480,845)			
Equipment .	(248,579)	(23,078)	8,181		(263,476)			
Software		(499)	·		(499)			
Infrastructure:		,			,			
Flood Channels	(219,837)	(9,914)			(229,751)			
Roads	(52,994)	(7,080)			(60,074)			
Bridges	(23,008)	(994)			(24,002)			
Trails	(23,619)	(2,458)			(26,077)			
Traffic signals	(9,162)	(379)			(9,541)			
Harbors and Beaches	(22,972)	(907)			(23,879)			
Total Accumulated								
Depreciation/Amortization	(1,057,107)	(69,218)	8,181		(1,118,144)			
Capital Assets,								
Depreciable/Amortizable (Net)	1,498,328	18,795	(190)		1,516,933			
Governmental Activities Total Capital Assets, Net	\$ 2,560,611	\$ 142,051	\$ (68,546)	\$	\$ 2,634,116			

5. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government									
	Balance July 1, 2009				Decreases		es Adjustments			Balance e 30, 2010
Business-Type Activities:										
Capital Assets Not Depreciated:										
Land	\$	38,083	\$	-	\$		\$		\$	38,083
Construction in Progress		143,019		126,977		(72,089)				197,907
Total Capital Assets Not Being Depreciated		181,102		126,977		(72,089)				235,990
Capital Assets, Depreciable:										
Structures and Improvements		353,497		13,098				(42,003)		324,592
Equipment		74,669		6,165		(1,958)		663		79,539
Infrastructure		388,108		40,437				60,923		489,468
Capital Assets, Depreciable		816,274		59,700		(1,958)		19,583		893,599
Less Accumulated Depreciation For:										
Structures and Improvements		(195,606)		(12,673)				41,689		(166,590)
Equipment		(39,726)		(5,449)		1,809		(1,447)		(44,813)
Infrastructure		(204,012)		(18,717)				(41,689)		(264,418)
Total Accumulated Depreciation		(439,344)		(36,839)		1,809		(1,447)		(475,821)
Capital Assets, Depreciable (Net)		376,930		22,861		(149)		18,136		417,778
Business-Type Activities Total Capital Assets, Net	\$	558,032	\$	149,838	\$	(72,238)	\$	18,136	\$	653,768

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

\$ 2,064
38,089
11,936
1,126
2,961
73
7,020
 5,949
69,218
19,684
17,155
36,839
\$ 106,057
\$

6. RECEIVABLES

GASB Statement No. 38, "Certain Financial Statement Note Disclosures," requires identification of receivable balances not expected to be collected within one year. The details of the receivables reported in the government-wide Statement of Net Assets that are not expected to be collected within the next fiscal year are identified below:

Accounts Receivable

\$412 of accounts receivable for governmental activities is not expected to be collected within the next fiscal year. Of this amount, \$400 consists of invoices billed by OC Animal Care for dog license fees and penalties. \$12 is set up for Court Costs by CEO Risk Management and Claimants are on multi-year payment plans which will fully repay costs.

Deposits Receivable

\$1,360 in deposits receivable for governmental activities is not expected to be collected within the next fiscal year. \$713 is the initial deposit with the City of Lake Forest and \$400 represents a deposit that is required by the vendor (Cardinal Health) per the price agreement with the Health Care Agency; the deposit will be returned within 60 days of the expiration of the price agreement. \$150 is set up for the widening of the Ortega Highway project. The remaining \$97 represents the Condemnation Deposits with the court or state.

Notes Receivable

\$31,922 of notes receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$30,183 consists of loans to build affordable, low to moderate income, and senior housing. \$1,184 is from the sale of surplus County property. The remaining \$554 is for rehabilitation loans and loans provided to first time home buyers.

Loans Receivable

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

Due from Other Governmental Agencies

\$67,265 due from other governmental agencies is not expected to be received within the next fiscal year. Of this amount, \$66,847 is owed by the State of California to the County for various Senate Bill (SB90) mandated cost reimbursements for programs and services the State requires the County to provide. The remaining \$418 includes revenue due from Riverside County for the cost-share related to the Seven Oaks Dam-Santa Ana River Project.

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2010 is as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund				
General Fund	Teeter Plan Obligation Commercial				
	Paper Program Note	\$	12		
	Roads	•	1,845		
	Flood Control District		4,064		
	OC Parks		2,081		
	Other Public Protection		6,974		
	Other Governmental Funds		18,467		
	Internal Service Funds		367		
	Airport		1,521		
	Waste Management		2,970		
	Compressed Natural Gas		30	\$	38,331
	Compressed Natural Gas		30	Ψ	30,331
Roads	General Fund		387		
	Flood Control District		625		
	OC Parks		3		
	Other Governmental Funds		115		1,130
Flood Control District	General Fund		1,581		
	Roads		483		
	OC Parks		52		
	Other Governmental Funds		194		2,310
OC Parks	General Fund		13		13
Other Public Protection	General Fund		653		
Other Fublic Frotection	Roads		1		
	OC Parks		1		
	Airport		1		656
	Allpoit	-	<u> </u>		030
Other Governmental	General Fund		17,337		
Funds	Roads		1		
	Flood Control District		23		
	OC Parks		3		
	Other Public Protection		4		
	Other Governmental Funds		4,444		
	Internal Service Funds		55		
	Airport		141		
	Waste Management		1		22,009

7. INTERFUND RECEIVABLES AND PAYABLES (Continued)

Receivable Fund	Payable Fund		
Airport	General Fund	\$ 1	\$ 1
Waste Management	General Fund	4	
	Roads	2	
	Flood Control District	9	
	OC Parks	1	16
Compressed Natural Gas	General Fund	1	1
Internal Service Funds	General Fund	1,262	
	Roads	3	
	Flood Control District	5	
	OC Parks	79	
	Other Public Protection	1	
	Other Governmental Funds	7	
	Internal Service Funds	39	
	Airport	423	
	Waste Management	9	
	Compressed Natural Gas	30	1,858
	Total		\$ 66,325

Due From/To Primary Government and Component Unit:

Receivable Entity	Payable Entity	<u>Amount</u>
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	\$ 350
Component Unit – Children & Families Commission of Orange County	Primary Government – General Fund	3
Component Unit – Children & Families Commission of Orange County	Primary Government – Health Care	343

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

7. INTERFUND RECEIVABLES AND PAYABLES (Continued)

Advances To/From Other Funds:

Receivable Entity	Payable Entity	<u>Amount</u>	
General Fund	Other Governmental Funds	\$	1,058
Waste Management	General Fund		15,606

The interfund loans represent an advance made to OC Public Libraries from the General Fund for the OC Public Library Headquarter building, and an advance made to the General Fund from OC Waste management for varies Information Technology Capital Projects.

8. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from landfill gas lease agreements, cell tower operators and a material recovery facility. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2010, approximates \$16,749.

The County leases real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2010 are as follows:

Fiscal Year(s) Ending June 30	 Governmental Activities	Business-type Activities	
2011	\$ 13,589	\$	35,117
2012	11,471		19,609
2013	9,534		5,991
2014	9,266		5,075
2015	 9,345		3,594
	53,205		69,386
2016-2020	42,187		11,387
2021-2025	46,623		12,471
2026-2030	47,971		398
2031-2035	51,580		
2036-2040	41,259		
2041-2045	1,983		
2045-2049	 279		
	231,882		24,256
Total future minimum rentals	\$ 285,087	\$	93,642

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$268 (Flood Control District), \$3,201 (OC Parks), \$27,417 (Airport), \$6 (Waste Management), and \$55 (Other Governmental Funds) for the year ended June 30, 2010.

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2010 were as follows:

Transfer from	Transfer to			
Governmental Funds				Explanations
General Fund	Other Public Protection Other Governmental Funds Internal Service Funds	\$ 482 108,773 1,679	\$ 110,934	(a), (g)
Flood Control District	General Fund	3,134	3,134	(b)
OC Parks	General Fund	18_	18	
Other Public Protection	General Fund Other Governmental Funds	38,945 400	39,345	(c)
Teeter Plan Obligation Commercial Paper Program Note	General Fund	20,000	20,000	(d)
Other Governmental Funds	General Fund OC Parks Other Governmental Funds	186,123 138 11,128	197,389	(e), (h)
Internal Service Funds	General Fund Flood Control District OC Parks CNG Enterprise Fund	173 1,598 4 50	1,825	(i)
Total Governmental Funds			\$ 372,645	
Enterprise Funds				
Waste Management	General Fund	\$ 11,238		
Total Enterprise Funds			\$ 11,238	(f)

Interfund transfers reflect a flow of assets between funds and component units of the primary government without an equivalent flow of assets in return. Routine transfers were made in the current fiscal year to (1) relay cash/resources from contributing County funds to various debt service funds for the retirement of long-term obligations (2) to transfer Measure H Tobacco Settlement revenues and Available Cash Distribution in compliance with the specific statutory requirements or Bankruptcy Recovery Plan, and (3) to transfer excess unrestricted revenues to finance various County programs based on budgetary authorizations by the Board. The details of the significant transfers are outlined below:

Routine Transfers

a. Transfer from General Fund

• A total of \$73,456 was transferred from the General Fund to Debt Service Fund in connection with debt service payments for the various County debt issues.

9. INTERFUND TRANSFERS (Continued)

Routine Transfers (Continued)

- a. Transfer from General Fund (Continued)
 - \$9,926 was transferred from the General Fund to Other Governmental Funds in order to distribute available cash to the remaining claimants of the bankruptcy loss as part of the Bankruptcy Recovery Plan.
 - \$14,269 was transferred from the General Fund to Other Governmental Funds to finance the County's 60 percent share of the Social Services Agency Wraparound Program.
 - \$1,400 was transferred from the General Fund to Other Governmental Funds to pay for parking facilities bonds and other operating costs associated with the parking facilities.

b. Transfer from Flood Control District

• \$3,134 was transferred from the Flood Control District Fund to the General Fund for the Watershed Management Program.

c. Transfer from Other Public Protection

- \$7,673 was transferred from Other Public Protection to the General Fund for the reimbursement of various County programs as follows:
 - \$1,123 for District Attorney Department programs
 - \$2,550 for the Clerk-Recorder's information technology, capital acquisitions and/or improvements
 - \$4,000 for the Probation's Youth Offender Block Grant expenditures
- \$26,511 was transferred from the Other Public Protection Fund to the General Fund to support the Sheriff Department's operations.

d. Transfer from Teeter Plan Obligation Commercial Paper Program Note

• \$20,000 of excess penalties and interest from delinquent tax payments was transferred from the Teeter Plan Obligation Commercial Paper Program Note Fund to the General Fund.

e. Transfer from Other Governmental Funds

- \$28,570 of tobacco settlement monies was transferred from Other Governmental Funds to the General Fund to finance various health care programs.
- \$5,308 of bond proceeds was transferred from Other Governmental Funds to the General Fund for the Cogeneration Plant at the County's Central Utility Facility.
- \$101,402 was transferred from Other Governmental Funds to the General Fund for the reimbursement of various County programs as follows:
 - \$67,914 for Prop. 63, Mental Health Services Act expenses
 - \$23,264 for Social Services Agency Wraparound Program
 - \$1,210 for Social Service Agency Children's Trust Fund Programs
 - \$9,014 for emergency medical services

f. Transfer from Enterprise Funds

• \$11,226 in net proceeds and interest earnings from the importation of Out-of-County Waste Program earned by OC Waste and Recycling during the current fiscal year was transferred to the General Fund for Recovery COPs Lease Financing as part of the Bankruptcy Recovery Plan.

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

Non-Recurring Transfers

g. Transfer from General Fund

 \$2,030 was transferred from the General Fund to Other Governmental Funds for the development of housing for persons in the Mental Health Services Act (MHSA) target population, loans to developers and rent payments.

9. INTERFUND TRANSFERS (Continued)

Non-Recurring Transfers (Continued)

- g. Transfer from General Fund (Continued)
 - \$5,057 was transferred from the General Fund to Other Governmental Funds for Sheriff Department construction and facility developments.
 - \$1,388 was transferred from the General Fund to Internal Service Funds for medical reimbursements.

h. Transfer from Other Governmental Funds

- \$22,450 was transferred from Other Governmental Funds to the General Fund to offset the Sheriff Department's operational costs.
- \$7,150 was transferred from Other Governmental Funds to Special Revenue and Debt Service Funds for the tax increments allocation and debt service payments related to Low and Moderate Income Housing Program.
- \$25,420 was transferred from Other Governmental Funds to the General Fund for the reimbursement of the following County costs:
 - \$4,561 for the Medi-Cal Mental Health Managed Care Program
 - \$7,576 for Centers for Disease Control pandemic flu H1N1 costs
 - \$5,783 for the debt service of the Juvenile Justice Center Facility Lease Revenue Bonds
 - \$3,500 for Registrar of Voters election costs
 - \$2,000 for Probation department's detention maintenance facilities
 - \$2,000 for District Attorney's Public Safety Working Group

i. Transfer from Internal Service Funds

 \$1,598 was transferred from Internal Service Funds to the Flood Control District for Katella Yard relocation costs.

10. SHORT-TERM OBLIGATIONS

Teeter Plan Obligation Commercial Paper Notes Series A

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

On July 14, 2009, the County redeemed \$100,000 of its \$178,300 CP outstanding at June 30, 2009 and issued an additional \$132,675 in CP. The additional CP issued financed the purchase of delinquent property tax receivables associated with the Teeter Plan. Proceeds of this purchase paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll. As of June 30, 2010, the outstanding principal amount of the CP notes was \$210,975.

Refer to Note 20, Subsequent Events, for additional information.

2009-2010 Tax and Revenue Anticipation Notes

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

Description		Balance ly 1, 2009	[suances & Discount/ Premium nortization	R	Retirements		Balance ne 30, 2010		ounts Due ithin One Year
County of Orange Teeter Plan Obligation Commercial Paper Notes, Series A Date of Original Issuance: August 26, 2008 Interest Rate: Variable Original Amount: \$178,300 Various Dates of Maturity with Installments Not to Exceed 270 Days from Date of Issuance	\$	178,300	\$	132,675	\$	(100,000)	\$	210,975	\$	210,975
County of Orange 2009-2010 Tax and Revenue Anticipation Notes Date Issued: July 1, 2009 Interest Rate: 2.00% Original Amount: \$150,000 Maturing in Installments Through June 30, 2010 Total	<u>\$</u>	<u>-</u>	<u>\$</u>	150,000 282 675	<u>\$</u>	(150,000)	<u>\$</u>	 210 975	<u>\$</u>	 210 975
I otal	\$	178,300	\$	282,675	\$	(250,000)	\$	210,975	\$	210,975

11. LONG-TERM OBLIGATIONS

General Bonded Debt

General Obligation Bonded Debt

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25% of the last equalized assessment property tax roll. At June 30, 2010, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$5,287,070. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, Section 1 requires the approval of 2/3 of the voters voting on the proposition.

Bankruptcy Obligations

Refunding Recovery Bonds 2005 Series A

On August 18, 2005, the County issued its \$146,005 Refunding Recovery Bonds 2005 Series A (2005 Recovery Bonds) at a premium of \$9,318. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the Recovery Refunding Bonds 1995 Series A (1995 Recovery Bonds), were used to refund and defease the outstanding 1995 Recovery Bonds and pay costs of issuance for the 2005 Recovery Bonds. As of June 30, 2010, the outstanding principal amount, including the premium of the 2005 Recovery Bonds, was \$86,827.

Lease Revenue Refunding Bonds Series 2005

On August 16, 2005, the Orange County Public Financing Authority (OCPFA) issued its \$419,755 Lease Revenue Refunding Bonds Series 2005 (Series 2005 Bonds) at a premium of \$19,973. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the 1996 Recovery Certificates of Participation (Recovery COPs), were used to defease certain non-callable Recovery COPs, the remainder was used to fund a debt service reserve fund for the Series 2005 Bonds, and pay costs of issuance of the Series 2005 Bonds. As of June 30, 2010, the outstanding principal amount, including the premium of the Series 2005 Bonds, and interest were \$246,072 and \$35,036, respectively.

Bankruptcy Obligations (Continued)

Lease Revenue Refunding Bonds Series 2005 (Continued)

The Series 2005 Bonds are limited obligations of the OCPFA payable through July 2017, and are payable solely from base rental payments to be made by the County pursuant to a lease, dated as of August 1, 2005, between the OCPFA and the County, and other amounts held by the trustee in the funds and accounts established under the indenture (other than the rebate fund), except as otherwise provided in the indenture.

Revenue Bonds Payable and Certificates of Participation

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, Certificates of Participation (COPs) representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the \$33,579 Refunding COPs (Civic Center Parking Facilities Project), which are payable through December 2018. At June 30, 2010, the outstanding principal amount and interest of the Refunding COPs were \$4,758 and \$18,669, respectively.

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

Tax Allocation Refunding Bonds, Series 2001 (Neighborhood Development and Preservation Project)

In July 2001, OCDA issued its \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 (NDAPP Refunding Bonds). A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140 of the \$27,072 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. As of June 30, 2010, the outstanding principal amount, including premium of the Series 2001 Bonds, and interest on the NDAPP Refunding Bonds were \$20,554 and \$7,270, respectively.

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

In May 2002, the OCPFA issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, in the principal amount of \$80,285, payable through June 2019, with a premium of \$3,164. The Lease Revenue Refunding Bonds were issued to (1) redeem the outstanding Refunding COPs (Juvenile Justice Center Facility), (2) finance the acquisition of certain software and computer equipment for the general governmental purposes of the County, and (3) pay costs related to the issuance of the bonds, including bond insurance premiums. As of June 30, 2010, the outstanding principal amount, including the premium of the Series 2002 bonds, and interest were \$52,088 and \$13,896, respectively.

The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2002, between the OCPFA and the County, and other amounts held by the Trustee in the funds and accounts established under the Indenture (other than the rebate fund), except as otherwise provided in the Indenture.

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Lease Revenue Bonds, Series 2006

On October 19, 2006, the OCPFA issued its \$32,700 Lease Revenue Bonds, Series 2006 (Series 2006 Bonds) at a premium of \$2,140. The Lease Revenue Bonds, payable through June 2018, were issued to finance the construction of a cogeneration conversion project at the County's central utility facility, fund a debt service reserve fund for the bonds, and pay costs relating to the issuance of the bonds. As of June 30, 2010, the outstanding principal amount, including the premium of the Series 2006 Bonds, and interest were \$29,295 and \$6,372, respectively.

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

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

In November 2003, OCDA issued \$38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project (SAHP) Area 2003 at a premium of \$1,660. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. The SAHP Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the SAHP. As of June 30, 2010, the outstanding principal amount including premium of the Series 2003 Bonds and interest of the SAHP were \$31,122 and \$11,437, respectively.

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

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of \$209,840 and Series 1994B in the aggregate principal amount of \$110,200 (Series 1994 Pension Bonds). The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994 Pension Bonds).

On May 11, 2000, a cash tender offer of certain outstanding Pension Obligation Bonds was completed. The County purchased and canceled \$288,290 (maturity value) of Pension Obligation Bonds for a cost of \$179,016. On June 22, 2000, the debt service on the outstanding Pension Obligation Bonds was provided for through the deposit with the trustee of \$175,492 principal amount of "AAA" rated debt securities issued by Fannie Mae along with \$9,151 in debt service funds already being held by the trustee. In accordance with irrevocable instructions, these securities, together with other cash amounts and investments held by the trustee will be used solely to retire the remaining Pension Obligation Bonds as they mature. Because this was an economic defeasance and not a legal defeasance, this debt will be reported in the County's financial statements until it is fully redeemed. As of June 30, 2010, the outstanding principal amount of the Series 1996A and 1997A Pension Bonds were \$31,696 and \$27,635, respectively.

Airport Revenue Refunding Bonds, Series 2003

In July 1987, the County issued in the principal amount of \$242,440 Airport Revenue Bonds, Series 1987 (1987 Bonds) to finance the construction of new facilities at John Wayne Airport. In July 1993, the County issued in the principal amount of \$79,755 Airport Revenue Refunding Bonds, Series 1993 (1993 Bonds) to partially refund the 1987 Bonds. In April 1997, the County issued in the principal amount of \$135,050 Airport Revenue Refunding Bonds, Series 1997 (1997 Bonds) to complete a forward refunding of the majority of outstanding 1987 Bonds. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410. On July 1, 2009, the County called and redeemed the outstanding carrying principal balance of 1997 Bonds, in the amount of \$44,155.

Revenue Bonds Payable and Certificates of Participation (Continued)

Airport Revenue Refunding Bonds, Series 2003 (Continued)

On May 29, 2003, the County issued in the principal amount of \$48,680 Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds), the proceeds of which, together with certain monies deposited with the Trustee, refunded and defeased the 1993 Bonds. The outstanding principal amount including premium and interest for 2003 Bonds as of June 30, 2010 were \$34,473 and \$7,916, respectively.

The 2003 Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses; (2) interest earnings; and (3) other miscellaneous revenue. The 2003 Bonds are payable through July 2018. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2010, the principal and interest paid and total net revenues were \$4,578 and \$42,046, respectively.

Waste Management System Refunding Revenue Bonds, Series 1997

In November 1997, the OCPFA issued in the principal amount of \$77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The Waste Management System Bonds are secured by a pledge of (1) the net operating revenues; (2) all money, securities and funds in the Waste Management Enterprise Fund that are required to be held or set aside therein for any purpose other than the payment of operating expenses pursuant to the terms of the sublease, but excluding any such money, securities and funds in the (i) closure account or any other fund or account required pursuant to state or federal law to be held in trust, (ii) environmental account in an amount not exceeding \$50,000, (iii) post-closure reserve account, or (iv) that were borrowed or received to pay capital costs and excluding any deposits or net incremental solid waste system revenues or any deposits that are required to be made in the rebate account; and (3) to the extent permitted by and in accordance with the procedures established under any applicable law, any rights of the County under any approvals, licenses and permits relating to the System. The bonds are payable through December 2013. The outstanding principal amount and interest on these bonds as of June 30, 2010 were \$26,013 and \$2,878, respectively. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120% of the aggregate debt service requirement over the life of the bonds.

Advance Refunding

During this and in prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2010, \$19,460 of legally defeased debt remains outstanding.

Fiscal Year 2009-10 Debt Obligation Activity

During FY 2009-10, the following events concerning County debt obligations took place:

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the County issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of \$233,115, with an original issue net premium of \$288. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. As of June 30, 2010, the outstanding principal amount, including net premium, of the 2009A and 2009B Bonds were \$66,307 and \$166,621, respectively, and the outstanding interest was \$61,797 and \$113,973, respectively.

Fiscal Year 2009-10 Debt Obligation Activity (Continued)

Airport Revenue Bonds, Series 2009A and 2009B (Continued)

The 2009A and 2009B Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, (3) other miscellaneous revenue and (4) available Passenger Facility Charges (PFC) revenues. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2010, the principal and interest paid and total net revenues were \$5,450 and \$52,990, respectively. The total net revenues include \$10,944 of available PFC revenue.

Schedule of Long-Term Debt Obligations, Fiscal Year 2009-10

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2010 were as follows:

Description	Balance July 1, 2009		Issuances & Discount/ Premium Amortization		Retirements		Balance June 30, 2010		Amounts Due within One Year	
Governmental Funds:										
County of Orange Refunding Recovery Bongs – 2005 Series A: Date Issued: August 18, 2005 to Refund and Defease the Outstanding Refunding Recovery Bonds – Series 1995A Interest Rate: 3.00% to 5.00% Original Amount: \$146,005 Maturing in Installments Through June 30, 2015. Deferred Amount on Refunding	\$	101,456 (6,250)	\$	(829) 1,042	\$	(13,800) 	\$	86,827 (5,208)	\$	15,633 (1,042)
Orange County Public Financing Authority Lease Revenue Refunding Bonds, Series 2005: Date Issued: August 16, 2005 to Refund and Defease the 1996 Recovery Certificates of Participation – Series 1996A Interest Rate: 3.00% to 5.75% Original Amount: \$419,755 FY 2009-10 Principal and Interest: \$61,449 FY 2009-10 Total Pledged Revenues: \$74,838 Maturing in Installments Through July 1, 2017. Deferred Amount on Refunding		297,438 (18,100)		(1,886) 2,129		(49,480) 		246,072 (15,971)		54,253 (2,129)
Orange County Public Facilities Corporation, 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 the 1987 COPs Bond Issue Interest Rate: CIB – 4.40% to 6.75% Interest Rate: CAB – 6.85% to 7.05% Original Amount: CIB - \$24,495 Original Amount: CAB - \$9,084 FY 2009-10 Principal and Interest: \$2,605 FY 2009-10 Total Pledged Revenues: \$2,743 Maturing in Installments Through December 1, 2018.		5,502				(744)		4,758		694

Schedule of Long-Term Debt Obligations, Fiscal Year 2009-10 (Continued)

Description	Balance July 1, 2009	Issuances & Discount/ Premium Amortization	Retirements	Balance June 30, 2010	Amounts Due within One Year
Orange County Development Agency Tax Allocation Refunding Bonds - Series 2001: (Neighborhood Development and Preservation Project) Date Issued: July 11, 2001 to Refund the Series A 1992 Tax Allocation Revenue Bonds Interest Rate: 4.00% to 5.50% Original Amount: \$26,160 FY 2009-10 Principal and Interest: \$2,170 FY 2009-10 Total Pledged Revenues: \$18,825 Maturing in Installments Through September 1, 2022. Deferred Amount on Refunding	\$ 21,679	\$	\$ (1,125)	\$ 20,554	\$ 1,175
	(767)	55		(712)	(55)
Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds - Series 2002 Date Issued: May 1, 2002 to Refund the Outstanding Refunding Certificates of Participation Interest Rate: 3.00% to 5.50% Original Amount: \$80,285 FY 2009-10 Principal and Interest: \$7,083 FY 2009-10 Total Pledged Revenues: \$74,838 Maturing in Installments Through July 1, 2019. Deferred Amount on Refunding	56,573	(170)	(4,315)	52,088	4,733
	(2,186)	219		(1,967)	(219)
Orange County Development Agency Santa Ana Heights Project Area 2003 Tax Allocation Refunding Bonds: Date Issued: November 13, 2003 to Refund the 1993 Tax Allocation Revenue Bonds Interest Rate: 2.00% to 5.25% Original Amount: \$38,465 FY 2009-10 Principal and Interest: \$2,963 FY 2009-10 Total Pledged Revenues: \$12,724 Maturing in Installments Through September 1, 2023. Deferred Amount on Refunding	32,721	(104)	(1,495)	31,122	1,692
	(1,327)	92		(1,235)	(92)
Orange County Public Financing Authority Lease Revenue Bonds, Series 2006 Date Issued: October 19,2006 Interest Rate: 4.00% to 5.00% Original Amount: \$32,700 FY 2009-10 Principal and Interest: \$4,199 FY 2009-10 Total Pledged Revenues: \$74,838 Maturing in Installments Through December 1, 2018.	32,125	(45)	(2,785)	29,295	2,955

Schedule of Long-Term Debt Obligations, Fiscal Year 2009-10 (Continued)

Description	Balance lly 1, 2009	Dis Pre	ances & count/ emium rtization	R	etirements	Ju	Balance ne 30, 2010	Amounts Due within One Year
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1996 A: Date Issued: June 1, 1996 – Capital Interest Rate Bonds (CIB) Date Issued: June 12, 1996 – Capital Appreciation Bonds (CAB) To Refund the Taxable POBs Series 1994 A Interest Rate: CIB - 7.47% to 7.72% Interest Rate: CAB - 8.09% to 8.26% Original Amount: CIB - \$81,680 Original Amount: CAB - \$40,000 FY 2009-10 Principal and Interest: \$2,170 FY 2009-10 Total Pledged Revenues: \$18,825 Maturing in Installments Through September 1, 2010 (CIB) and September 1, 2016 (CAB)	\$ 36,981	\$		\$	(5,285)	\$	31,696	\$ 2,499
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1997 A: Date Issued: January 1, 1997 – Capital Interest Rate Bonds (CIB) Date Issued: June 14, 1997 – Capital Appreciation Bonds (CAB) To Refund the Taxable POBs Series 1994 A Interest Rate: CIB - 5.71% to 7.36% Interest Rate: CAB – 7.33% to 7.96% Original Amount: CIB - \$71,605 Original Amount: CAB - \$65,318 FY 2009-10 Principal and Interest: \$2,170 FY 2009-10 Total Pledged Revenues: \$18,825 Maturing in Installments Through September 1, 2010 (CIB) and September 1, 2021 (CAB)	\$ 32,730	\$		\$	(5,095)	\$	27,635	\$ 2,152
Subtotal – Governmental Funds	\$ 588,575	\$	503	\$	(84,124)	\$	504,954	\$ 82,249

Schedule of Long-Term Debt Obligations, Fiscal Year 2009-10 (Continued)

Description	Balance July 1, 2009		Issuances & Discount/ Premium Amortization		Retirements		Balance June 30, 2010		Amounts Due within One Year	
Enterprise Funds:										
Airport Revenue Refunding Bonds – Series 2003: Date Issued: May 29, 2003 to Refund 1993 Airport Revenue Bond Issue Interest Rate: 2.50% to 5.00% Original Amount: \$48,680 FY 2009-10 Principal and Interest: \$4,578 FY 2009-10 Total Pledged Revenues: \$42,046 Maturing in Installments Through July 1, 2018. Deferred Amount on Refunding (2003 Airport Revenue Bonds)	\$	36,677 (4,175)	\$	(339) 873	\$	(2,865)	\$	34,473 (3,302)	\$	3,307 (749)
Airport Revenue Bonds – Series 2009A and 2009B: Date Issued: July 9, 2009 Interest Rate: 3.00% to 5.75% Original Amount: \$233,115 FY 2009-10 Principal and Interest: \$5,450 FY 2009-10 Total Pledged Revenues: \$52,990 Maturing in Installments Through July 1, 2039.				232,928				232,928		4,858
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 FY 2009-10 Principal and Interest: \$7,147 FY 2009-10 Total Pledged Revenues: \$8,878 Maturing in Installments Through December 1, 2013. Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)		31,725 (581)		(92) 306		(5,620)		26,013 (275)		6006 (190)
		` '				(0. 105)				
Subtotal – Enterprise Funds		64,646		233,676		(8,485)		289,837		13,232
Total	\$	653,221	\$	234,179	\$	(92,609)	\$	794,791	\$	95,481

Schedule of Long-Term Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by fund type on an annual basis:

	Governm	ental Funds	Enterpr	ise Funds	
Fiscal Year(s) Ending June 30	Principal	Interest	Principal	Interest	Total
2011	81,510	29,750	13,410	14,158	138,828
2012	87,439	35,026	14,155	13,492	150,112
2013	56,223	39,724	15,905	12,793	124,645
2014	54,407	29,332	17,305	12,072	113,116
2015	55,993	26,291	10,660	11,512	104,456
2016-2020	145,609	120,110	56,070	49,738	371,527
2021-2025	19,239	17,542	50,340	36,851	123,972
2026-2030			64,725	21,829	86,554
2031-2035			21,685	10,297	31,982
2036-2040			27,979	3,822	31,801
Total	500,420	297,775	292,234	186,564	1,276,993
Add: Premium Less: Deferred Amount	29,627		1,180		30,807
on Refunding	(25,093)		(3,577)		(28,670)
Principal Payable, Net	\$ 504,954	\$ 297,775	\$ 289,837	\$ 186,564	\$ 1,279,130

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2010 were as follows:

	Balance ly 1, 2009	A	Additions	Reductions		Balance ne 30, 2010	ue within One Year
Governmental Activities:						 	
Bonds and COPs Payable:							
Revenue Bonds	\$ 415,725	\$		\$	(59,200)	\$ 356,525	\$ 61,720
Certificates of Participation	5,502				(744)	4,758	694
Pension Obligation Bonds	69,711				(10,380)	59,331	4,651
Recovery Bonds	93,606				(13,800)	79,806	14,445
Add: Premium on Bonds Payable	32,661				(3,034)	29,627	4,276
Less: Deferred Amount on Refunding	(28,630)				3,537	(25,093)	(3,537)
Total Bonds & COPs Payable, Net	588,575				(83,621)	504,954	82,249
Interest Accretion on Capital							
Appreciation Bonds Payable	138,168		14,529			152,697	
Other Long-Term Liabilities:							
Compensated Employee Absences							
Payable	165,732		122,814		(120,240)	168,306	90,929
Arbitrage Rebate Payable	1,239		370			1,609	730
Capital Lease Obligations Payable	84,952				(4,838)	80,114	4,129
Insurance Claims Payable	158,167		130,249		(109,302)	179,114	59,715
Net Pension Obligation	652		151		(156)	647	
Total Other Long-Term Liabilities	410,742		253,584		(234,536)	429,790	155,503
Total Governmental Activities							
Long-term Liabilities	\$ 1,137,485	\$	268,113	\$	(318,157)	\$ 1,087,441	\$ 237,752

Changes in Long-Term Liabilities (Continued)

	Balance y 1, 2009	Δ	additions	Re	eductions	Balance e 30, 2010	 ie within ne Year
Business-Type Activities:			,				
Bonds Payable:							
Revenue Bonds	\$ 67,604	\$	233,115	\$	(8,485)	\$ 292,234	\$ 13,410
Add: Premium on Bonds Payable	1,798		288		(906)	1,180	761
Less: Deferred Amount on Refunding	(4,756)				1,179	(3,577)	(939)
Total Revenue Bonds Payable, Net	 64,646		233,403		(8,212)	289,837	13,232
Other Long-Term Liabilities:							
Compensated Employee Absences							
Payable	4,763		3,793		(3,565)	4,991	2,406
Arbitrage Rebate Payable	130		87			217	
Landfill Site Closure/Postclosure							
Liabilities	173,048				(9,163) *	163,885	1,988
Pollution Remediation Obligation	10,473		394		(3,441)	7,426	585
Total Other Long-Term Liabilities	188,414		4,274		(16,169)	176,519	4,979
Total Business-Type Activities					<u> </u>		
Long-Term Liabilities	\$ 253,060	\$	237,677	\$	(24,381)	\$ 466,356	\$ 18,211

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

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2010, is \$168,306 compared with \$165,732 at June 30, 2009. Employees are entitled to paid annual leave, compensated time, and in some cases vacation and sick time depending on job classification, length of service, and other factors. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

Special Assessment District Bonds

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular County tax bills sent to owners of property against which there are unpaid assessments. Neither the faith and credit nor the taxing power of the County, the State, or any political subdivision thereof is pledged to the payment of the bonds. Assessment District Bonds represent limited obligations of the County payable solely from special assessments paid by property owners within each district. Accordingly, such obligations are not included in the accompanying basic financial statements.

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

The County is acting as an agent of the assessment and community facilities districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because of the County's limited obligation in connection with special assessment district and community facilities district debt, related transactions are reflected in Agency Departmental Funds.

Special Assessment District Bonds (Continued)

Major capital outlay expenditures relating to these bonds are accounted for in the "Service Areas, Lighting, Maintenance and Assessment Districts" Special Revenue Fund. Special assessment district and community facilities district bonds outstanding as of June 30, 2010, amounted to \$635,164.

12. CONDUIT DEBT OBLIGATIONS

From 1980 through 2010, the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

The bonds do not constitute an indebtedness or liability of the County and neither the County, the State of California nor any political subdivisions thereof is obligated in any manner for the repayment of the bonds and in no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 2010, there were 40 series of bonds outstanding, with an aggregate principal amount payable of \$614,809.

13. 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 leases and commitments:

Fiscal Year Ending June 30	Equipment		Real Property		 Total
2011	\$	2,928	\$	26,719	\$ 29,647
2012		124		18,393	18,517
2013		12		15,064	15,076
2014		2		12,527	12,529
2015		2		10,610	10,612
2016 - 2020				21,258	 21,258
Total	\$	3,068	\$	104,571	\$ 107,639

Total expenditures for equipment rentals and operating leases incurred for FY 2009-10 was \$52,725.

Capital Leases

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

Land	\$ 22,418
Structures & Improvements	98,433
Less: Accumulated Depreciation	 (28,842)
Total	\$ 92,009

13. LEASES (Continued)

Capital Leases (Continued)

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2010:

Fiscal Year Ending June 30	
2011	\$ 10,238
2012	10,089
2013	9,676
2014	9,832
2015	8,574
2016-2020	45,782
2021-2025	34,644
2026-2027	980
Total Minimum Lease Payments	129,815
Less: Amount Representing Interest	(49,701)
Present Value of Net Minimum	
Lease Payments	\$ 80,114

14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

State laws and regulations require OC Waste & Recycling (OCWR) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain postclosure maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, OCWR will report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

OCWR owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine Active)
- Olinda Alpha (Brea Active)
- Prima Deshecha (San Juan Capistrano Active)
- Santiago Canyon (Orange Ceased accepting waste in 1996, final closure certification in 2005)
- Coyote Canyon (Newport Beach Ceased accepting waste in 1990, final closure certification in 1995)

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

The total landfill closure and postclosure care liability at June 30, 2010 was \$163,885. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (24.96% for FRB, 65.99% for Olinda Alpha and 22.03% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. As a result of the landfill expansion at the Olinda Alpha landfill in FY 2009-10, the total estimated maximum capacity has increased, thereby reducing the cumulative percentage of landfill used and the total landfill closure and postclosure care liability at June 30, 2010. OCWR will recognize the remaining estimated cost of closure and postclosure care of \$182,594 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2009 dollars (using the 2009 inflation factor of 1.012). OCWR has enough landfill capacity to operate the system for a minimum of twenty-five years. However, OCWR intends to operate the landfills well beyond this period as a result of approved and planned expansions.

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

In compliance with Title 27 CCR - Environmental Protection of California Code of Regulation, OCWR makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the state mandated formula. Also in compliance with regulations, OCWR has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure costs. The agreements state that OCWR pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OCWR ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OCWR has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on state provided inflation factors. The state mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements, these costs may need to be covered by increasing the amount charged to landfill customers.

As of June 30, 2010, a total of \$89,258 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. This amount includes what OCWR has proactively pre-funded for postclosure care.

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. Refer to Note 17, Estimated Liability for Other Litigation, Claims and Pollution Remediation, for additional discussion regarding pollution remediation liabilities.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2010, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund within governmental or business-type activities:

	R€	emaining
Project Title	Con	nmitments
Governmental Activities:		
Roads		
Foothill Circulation Project - Alton Parkway to Irvine Boulevard	\$	11,940
Alton Parkway Road Extension - Irvine Boulevard to Commercentre Drive	е	6,858
Katella Avenue - Smart Street Improvement Project		6,797
Ortega Highway - Antonio Parkway to Central Entrance		6,554
Moulton Parkway Widening		5,841
Newport Ave Pavement Rehabilitation		2,634
		40,624
Flood Control District		
Los Alamitos Pump Station: New Pump and Pump House		7,686
Westminster Channel Improvement - Hoover Street to Beach Boulevard		7,496
San Juan Creek Channel Improvement Project		1,606
		16,788

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Project Title	Remaining Commitments
Governmental Activities (Continued):	
OC Parks	
Lower Newport Bay Seawall Replacement	\$ 1,568
Others Commenced at Freedo	1,568
Other Governmental Funds Central Jail Complex Consolidated Maintenance Project	1,884
Central Sail Complex Consolidated Maintenance Project	1,884
	.,
Business-Type Activities:	
Airport	
Terminal C Gate Expansion	82,332
Design of the New Southwest Parking Structure C	13,494
Design and Construction of the Terminal C Baggage Handling System	11,588
Design and Construction of the Central Plant	9,326
Passenger Loading Bridges for Terminal A, B and C	2,848
Building Commissioning Services	1,109
Material Testing and Construction Inspection Services of	
Projects Associated with the Airport Improvement Plan	1,102
	121,799
Waste Management	
Frank R. Bowerman Construction Management,	
Construction Quality Control Slide/Buttress	1,919
Prima Construction Administration/Crew Quarter	1,336
	3,255
Total Commitments	\$ 185,918

In addition, the County is involved in the Santa Ana River (SAR) Mainstem Project. The SAR is a major flood control project implemented and funded by the Federal Government and three local sponsors – the Orange County Flood Control District (OCFCD), San Bernardino County Flood Control District, and Riverside County Flood Control and Water Conservation District. A component of the initial project has been re-designated as the Prado Dam Project, which is being implemented and funded by the Federal Government and the OCFCD through a separate Project Cooperation Agreement (PCA). The purpose of the SAR Mainstem/Prado Dam project (Project) is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain. When the SAR Project was initiated in 1989, the U.S. Army Corps of Engineers (COE) considered this flood plain to constitute the worst flood threat west of the Mississippi River as to impacts to the population and property. The Project involves a combination of flood channel improvements and constructing new channels in Orange, San Bernardino and Riverside counties, construction of Seven Oaks Dam in San Bernardino County, construction of improvements and protection at the Santiago retention basin and along the creek, raising the existing Prado Dam and increasing its flood flow outlet gates and reservoir capacity, along with several environmental mitigation related studies, habitat restoration and protection activities, recreation amenities, and preservation of historical sites and records.

The COE's estimated combined cost of all project components is \$1,900,000. OCFCD's cost share is estimated to be \$388,000 for acquisition of real property rights, relocation (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction of the Prado Dam Project. As of June 30, 2010, the OCFCD has expended about \$445,600 on the entire Santa Ana River Project.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

The construction of Seven Oaks Dam and most channel improvements in Riverside, San Bernardino and Orange counties have been completed. The relocation and protection of State Route (SR) 71 adjacent to Prado Dam (a joint OCFCD and Caltrans project) and construction to raise the Prado Dam embankments and install new outlet gates is complete. Landscaping along the SAR in Orange County was completed in May 2010. Design for the construction of interior dikes in the Prado Dam reservoir, and for improvements and protection of SR 91 in the SAR Canyon are also underway. The COE completed construction of National Housing Tract Dike and Sewage Treatment Plant Dike in 2008. Landscaping for these dikes began in September 2009 and is expected to be completed in June 2011. Several environmental mitigation studies and restoration/preservation projects are underway in all three counties. All property right acquisitions for the Seven Oaks Dam and along the lower SAR in Orange County up to Weir Canyon Road are completed. The escrow for purchase of the Green River Golf Course was closed on September 29, 2006. This property is required for construction of protection along SR 91 and nearby mobile homes, open space/recreation mitigation, and to accommodate increased flooding when the Prado Dam outlet gates are constructed and operational. The first phase of SR-91 protection is currently under construction and is expected to be completed in May 2011. The OCFCD is currently in final design for the 4 miles of Santa Ana River Interceptor Line relocation project, which is expected to be constructed by early 2013. The OCFCD continues to acquire property rights for the Prado Dam Project, subject to the availability of funding.

The Project has been authorized by the State Legislature for reimbursement of up to 70% of the Local Sponsors' expenses through the State Flood Control Subvention Fund, which is administered by the Department of Water Resources (DWR). As of June 30, 2010, the OCFCD has submitted \$249,966 in claims, and received \$191,164 in reimbursements. An additional \$61,953 in claims is in the process of being prepared for submittal to the DWR, for a total of unpaid claims for expenses through June 30, 2010, of about \$120,755. Of this amount, \$19,391 was appropriated by the State for FY 2010-11, and therefore was accrued as revenue in the government-wide financial statement. Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid, subject to available funding, with the remaining 10% paid after an audit by the State Controller's Office.

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

16. <u>SELF-INSURANCE</u>

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

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

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to \$5,000. Commercial insurance is purchased for property and other risk exposures. Excess liability insurance provides up to an additional \$100,000 in liability coverage. In the past three fiscal years, there have been no settlements that exceeded the self-insurance threshold. Accordingly, no claims or settlements have been paid under the excess insurance policy. However, there currently is a verdict that was entered against the County and two of its employees that is making its way through the appellate courts. If that verdict stands, the County will exceed its self-insured retention. The County has been in contact with various insurance carriers, which issued policies to the County that could cover a portion of the verdict in this case.

16. SELF-INSURANCE (Continued)

Independent actuarial studies are prepared annually for the Workers' Compensation and Property and Casualty Risk ISFs. The reported unpaid claims liabilities are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, allocated loss adjustment expenses. Unpaid claims liabilities are calculated considering inflation, claims cost trends, including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Unpaid claims liabilities have been discounted at a rate of 3.47% to reflect anticipated future investment earnings.

All County departments and other governmental agencies authorized by the Board to participate in the Workers' Compensation ISF are charged for their pro rata share of costs based upon employee classification rates and claims experience. All County departments participate in the Property and Casualty Risk self-insurance program and are charged for their pro rata share based upon claims experience and actual number of positions from a biweekly County payroll report. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controller's Office for cost plan allocations.

The County has established the Unemployment Insurance ISF, which covers all employees and pays through the State of California the standard unemployment benefits, the County self-insured PPO Health Plans ISF, which provides health plan benefits, and the Health and Other Self-Insured Benefits ISF, which provides dental, and short-term disability benefits for a portion of the County's employees and accidental death and dismemberment (AD&D) benefit for Reserve Deputy Sheriffs.

Through Fiscal Year 2009-10, the County's Premier Wellwise and Premier Sharewell PPO Plans have a lifetime coverage maximum of \$3,000 and \$1,000, respectively, for each covered employee or dependent. The dental insurance coverage is up to \$1,500 annually (absolute dollars) for each covered employee or dependent. The short-term disability insurance coverage is up to 12 months or when the employee returns to work, whichever comes first. Unemployment benefits coverage by the statute is up to 26 weeks and up to an additional 20 weeks of benefits coverage through the FED-ED program or when the employee returns to work or no longer meets the requirements for the benefits. The self-insured AD&D benefit is for Reserve Deputy Sheriffs only and has a maximum benefit of \$5,000 (absolute dollars).

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

	Workers' Compensation				Unemployment Insurance		Health & Other Insurance		Total
Unpaid Claims, Beginning of FY 2008-09	\$	110,858	\$	25,906	\$	716	\$	9,336	\$ 146,816
Claims and Changes in Estimates		28,570		10,089		3,187		51,731	93,577
Claim Payments		(20,154)		(8,069)		(1,854)		(52,149)	(82,226)
Unpaid Claims, End of FY 2008-09	\$	119,274	\$	27,926	\$	2,049	\$	8,918	\$ 158,167
Claims and Changes in Estimates		26,952		33,173		6,239		63,885	130,249
Claim Payments		(23,773)		(19,109)		(4,566)		(61,854)	(109,302)
Unpaid Claims, End of FY 2009-10	\$	122,453	\$	41,990	\$	3,722	\$	10,949	\$ 179,114

Estimated Liability for Litigation and Claims

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

In addition to the accrued liabilities for self-insurance claims incurred but not reported in Note 16, and other specific litigation and claims described herein, the County is also a defendant in numerous other lawsuits and claims arising from, among other things, breach of contract and tax disputes. Although the aggregate amount asserted in such lawsuits, or claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or changes in financial position of the funds of the County.

The lawsuits and claims discussed below represent issues in which the financial loss to the County has been determined to be a potential liability by County Counsel.

<u>Retired Employees Association of Orange County, Inc. v. County of Orange</u> In 2006, the Board approved agreements with a number of employee bargaining units addressing the County's Retiree Medical Plan and the method by which current employee and retiree health insurance premiums would be determined. These changes included separately pooling current employees and retirees for the purposes of health premium setting beginning in 2008.

On November 5, 2007, the Retired Employee's Association of Orange County (REAOC) filed a Complaint for Declaratory and Injunctive Relief filed in the United States District Court for the Central District of California contesting the splitting of the pool for purposes of determining health insurance premiums. REAOC asserted causes of action for breach of contract, impairment of contract in violation of the United States and California constitutions, violation of the due process clauses of the United States and California constitutions, and promissory estoppel. On June 19, 2009, the Court granted the County's Motion for Summary Judgment and denied as moot REAOC's Motion for Summary Adjudication, finding that absent "any explicit legislative or statutory authority requiring the County to continue providing retirees the pooling benefit in setting rates, ...the County is not contractually obligated to continue providing retirees the pooling benefit throughout their lifetimes." Costs were awarded for the County in the amount of \$36.

On June 30, 2009, REAOC appealed the District Court decision to the United States Court of Appeals for the Ninth Circuit, which heard oral argument before a three-judge panel on June 10, 2010. On June 29, 2010, the Ninth Circuit panel certified the following question of law to the California Supreme Court: "Whether, as a matter of California law, a California county and its employees can form an implied contract that confers vested rights to health benefits on retired county employees." In its order certifying the question, the Ninth Circuit panel retained jurisdiction of the case, but stayed further proceedings pending final action by the California Supreme Court. On August 18, 2010, the California Supreme Court agreed to decide the question, designating REAOC as the petitioner. On November 29, 2010, the parties completed their briefing in the California Supreme Court. The amici curiae have until December 29, 2010, to file their proposed briefs, and, if the Court accepts any proposed amicus brief, both REAOC and the County will then have (20) days to file an answering brief. Although REAOC has sought calendar preference for the hearing of this question, the date for oral argument has not yet been set.

The County's response to this litigation has been, and continues to be, to contest the case vigorously. It is difficult to predict the County's potential liability at this time; however, should Plaintiff succeed in its overall efforts here, this lawsuit could have a significant financial impact on the County.

Estimated Liability for Litigation and Claims (Continued)

Gaylan Harris, et al. v. County of Orange On January 22, 2009, retired Orange County employee and REAOC Board member Gaylan Harris filed a Class Action Complaint for Damages and Injunctive Relief in the United States District Court. He is represented by the same attorneys representing REAOC in the case described above. In addition to challenging the Board action that "split the pool and created different premium pools for active and retired employees," which was expressly challenged in the REAOC action, Mr. Harris's complaint also challenges the County's changes to the Retiree Medical Grant program, which offsets retiree premiums, and seeks monetary damages and a jury trial. As with the REAOC case, Mr. Harris asserted causes of action for breach of contract, unconstitutional impairment of contract, and denial of due process. On January 31, 2009, this action was transferred to the Honorable Andrew J. Guilford, who was already presiding over the REAOC action, on the ground that the cases were related. On February 3, 2009, Mr. Harris amended the complaint to add two more individual representative plaintiffs and a state cause of action for age discrimination in employment in violation of California's Fair Employment and Housing Act (California Government Code section 12940(a)). The Clerk of the Board received service of both the original and amended complaints on April 9, 2009.

The County answered the lawsuit on May 29, 2009. On February 22, 2010, the Court certified the case as a Rule 23(b)(2) class action, thereby binding all retirees who might otherwise challenge the changes to the County's retiree medical program. On April 7, 2010, the County filed a motion for judgment on the pleadings. The County's motion was heard on June 14, 2010; however, in light of the REAOC appeal pending in the Ninth Circuit and now in the California Supreme Court, the Court continued the case several times, but has indicated it should reach a decision at the next hearing on January 3, 2011.

The County's response to this litigation has been, and continues to be, to contest the case vigorously. It is difficult to predict the County's potential liability at this time; however, should Plaintiffs succeed in its overall efforts here, this lawsuit could have a significant financial impact on the County.

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

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

Following months of settlement negotiations, the parties agreed upon a settlement of the case, subject to Board of Supervisors and Court approval. The Board approved the proposed settlement of the action on April 20, 2010. The settlement called for issuance of a Consent Decree that will remain in effect for three years. The Consent Decree will require SSA to process Regular Food Stamps applications according to certain agreed-upon percentages and times, as follows: (a) approve at least 93% of eligible applications within thirty (30) days of the date of application; (b) approve or deny at least 90% of all applications within thirty (30) days of the date of application, and (c) approve or deny 97% of all applications within sixty (60) days of the date of application. During the same three-year period, SSA will process Expedited Food Stamps applications as follows: (a) approve at least 90% of eligible Expedited Food Stamps applications within three (3) days of the date of application; and (b) approve at least 95% of eligible Expedited Food Stamps applications within fourteen (14) days of the date of application.

Estimated Liability for Litigation and Claims (Continued)

Joann Blackstar, et al. v. County of Orange (Continued)

The Settlement Agreement also limited Plaintiffs' recovery of attorneys' fees and costs to no more than \$750, which is less than half of the award of fees that Plaintiffs would have sought in the absence of the settlement.

On September 13, 2010, the Court issued its final approval of the settlement and entered the Consent Decree. Thus, the Consent Decree and its requirements as described above are now in effect and must be complied with by SSA. On October 7, 2010, the Court also entered an Order approving the Settlement Agreement. This obligated the County to pay the agreed-upon award of \$750 to Plaintiffs' counsel for attorneys' fees and costs. SSA paid the attorney's fees award in late October 2010. The action will now remain pending and subject to monitoring by the Court during the remainder of the three-year Consent Decree period, which will expire on September 12, 2013.

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

Association of Orange County Deputy Sheriffs v. County of Orange In August 2009, the Orange County District Attorney (OCDA) implemented a temporary (nine-day) layoff of its investigators in order to realize a budget savings of approximately \$767. Initially, the Association of Orange County Deputy Sheriffs (AOCDS) filed a lawsuit in Federal Court to stop the layoffs (USDC Case no. SACV 09-941 CJC (MLGx)). When the federal lawsuit was dismissed on jurisdictional grounds, AOCDS filed a lawsuit in State Court to challenge the temporary layoffs. AODCS argues that the decision to implement the temporary layoffs constituted a breach of the applicable labor agreement. AOCDS seeks a writ of mandate to remedy the alleged breach. The matter has been assigned to Judge Luis Lavin in Los Angeles. The County takes the position that the decision to impose the temporary layoffs was an exercise of fundamental managerial prerogative, permitted under the labor agreement. However, if the Superior Court concludes that the decision to impose the layoffs violated the union's contract, the County could be required to provide backpay to the approximately 135 affected employees.

<u>GMC Engineering v. OC Public Works</u> GMC Engineering, Inc., etc. v. Orange County Public Works, etc., et al., was served on the Clerk of the Board on October 29, 2010. The complaint alleges damages in excess of \$1,500 as detailed below. This case arises out of a construction contract on the Katella Avenue Smart Street Improvement Project ("Project").

Plaintiff GMC Engineering, Inc. ("GMC") was the original contractor on the Project who entered into a contract with OC Public Works ("OCPW") on June 25, 2009. The Project involves the construction of storm drains, sound walls, and other improvements. The original contract amount was \$7,557. The original contract period was 280 working days, or 409 calendar days. Based on the date that OCPW gave the notice to proceed, OCPW regarded the original contract completion date based on the start date to be September 29, 2010.

Estimated Liability for Litigation and Claims (Continued)

GMC Engineering v. OC Public Works (Continued)

GMC claimed that its work had been delayed by the fact that numerous utility relocations that needed to be performed along the Project route by others either had not yet been completed or were completed later than OCPW had anticipated at the time the contract was awarded. GMC took the position that no work could be performed on the Project until all utility relocations had been completed. OCPW acknowledged that the utility relocations took longer than originally anticipated and that there was delay in the construction resulting from the utility relocation delays. OCPW disagreed, however, with GMC's assertion that no work could be performed until all utilities have been relocated. OCPW pointed to certain provisions of the contract specifications that expressly recognize that utility relocations would occur during the contract period and took the position that GMC was required to work around the utility relocations and fit them into its overall work plan. As a result, OCPW directed GMC to proceed with portions of the work (such as sound walls) which were not affected by the delays of the utility relocations. But GMC did not proceed with the work, and took the position that it would not proceed in a piecemeal approach and that it needed to be able to proceed with the main work under the contract.

In its complaint in the lawsuit, GMC alleges the right to recover more than \$1,500 for alleged lost business and profits, statutory penalties for alleged violation by the County of the prompt pay provisions of Business and Professions Code section 7108.5 and Public Contract Code sections 7107 and 10262.5, and attorney's fees in excess of \$150, all based on alleged causes of action for breach of contract and breach of implied warranty.

At the time GMC walked off the job, almost no work had been performed on the Project. As a result, OC Public Works obtained the Board's authority to advertise for bids for a replacement contractor. On October 5, 2010, the Board awarded a contract for completion of the Project to M.S. Construction Management Group. The County may incur additional costs or damages through the engagement of M.S. Construction Management Group to complete work on the Project, but the amount of such costs or damages will not be quantifiable until work on the Project is finished. As such costs or damages are determined, there may be a need and basis to file a cross-complaint against GMC in the lawsuit. It is difficult to predict the County's potential liability at this time since discovery has yet to begin in the lawsuit.

Morrison Pump Company, Inc., v. SSC Construction, Inc.; Cross-complaint by SSC Construction, Inc. against OCFCD, County, and OC Public Works
The above-referenced cross-complaint was served by Cross-complainant SSC Construction, Inc. ("SSC") on the Clerk of the Board on November 29, 2010. This case arises out of a construction contract between the Orange County Flood Control District ("OCFCD") and SSC on the Los Alamitos Pump Station Project ("Project"). SSC's cross-complaint against OCFCD and the County of Orange alleges damages in excess of \$1,300 as detailed below. SSC is asserting that it has suffered damages as a result of delays in the completion of this project and asserts that those delays are not SSC's fault. In the cross-complaint, SSC also asserts additional claims, including claims for indemnity and contribution in which SSC claims that its failure to pay its subcontractor, Morrison Pump Company, Inc. ("Morrison Pump") – which is the plaintiff in the action who is suing SSC for recovery on its subcontract – is a result of the OCPW's refusal to pay all amounts invoiced for the pumps until the pumps are modified to meet the Project plans and specification.

On June 26, 2007, the Board of Supervisors awarded a contract to SSC in the amount of \$21,707 for the construction of the Project. The Project is ongoing and it is anticipated that if no further delays are encountered it will be completed in approximately August 2011. The Project encountered a number of complications, which were by and large unforeseeable to OC Public Works ("OCPW"), that have caused major delays to the construction schedule. SSC alleges that it was not responsible for the delays and that despite its efforts and the efforts of OCFCD to mitigate damages, SSC has suffered delay damages including but not limited to increased direct and indirect costs. SSC filed a claim seeking reimbursement of a portion of those delay damages resulting from some of the initial delays. OCPW has reviewed the claim and disputes significant portions of SSC's alleged damages. The claim was denied in November of 2009.

Estimated Liability for Litigation and Claims (Continued)

Morrison Pump Company, Inc., v. SSC Construction, Inc.; Cross-complaint by SSC Construction, Inc. against OCFCD, County, and OC Public Works (Continued)

One of SSC's subcontractors on the Project was Morrison Pump who supplied and installed large engine driven pumps for the Project. The Project plans and specifications clearly called for pumps with bronze impellers. The pumps delivered to the Project site did not meet those specifications in that they included stainless steel impellers. OCPW staff has refused to agree to a deviation from the specifications permitting stainless steel impellers and has insisted that SSC change the impellers to bronze before the Project will be accepted by OCPW. OCPW has taken deductions from payments to SSC in the total amount of approximately \$253, which is the estimated cost of replacing the stainless steel impellers with bronze impellers once the replacement impellers have been delivered to the Project site.

Morrison Pump initiated the above-referenced action against SSC for damages related to SSC's failure to pay Morrison Pump for the pumps. OCFCD was not named by Morrison Pump as a party to the action. However, SSC has now brought OCFCD and the County into the action. SSC believes that it is necessary to do so in order to protect its asserted right to seek indemnity from the County parties for Morrison Pump's claims and to assert the other monetary claims SSC is asserting most efficiently in one case pertaining to the Project. Thus, in SSC's cross-complaint, SSC alleges a number of causes of actions against the County parties in order to seek recovery of more than \$1,300 in alleged damages arising from the delays and to be indemnified against Morrison Pump's claims. It is too early in the case to assess the likelihood of success in defending against SSC's claims.

Estimated Pollution Remediation Obligations

GASB 49 requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The County has identified several environmental sites at John Wayne Airport (JWA) and OC Waste and Recycling (OCWR) for which a pollution remediation liability has been recorded in the County's financial statements. The following describes the nature of the obligating events, and the estimated liability as they relate to JWA and OCWR.

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

In 2008, the sites were sampled as part of an assessment and the results revealed that the soil and groundwater were still impacted by chemical pollutants. In an effort to increase the removal of the chemicals, the Airport's environmental consultant reevaluated the sites and recommended a change to the remediation plan. The consultant calculated the new estimated pollution remediation liability based on a more active method of remediation that includes remedial technologies such as soil vapor extraction, dual phasing sparging and bioremediation. The Airport plans on implementing the new remediation method in the fiscal year ending June 30, 2011, and the sites are estimated to be remediated in about six to ten years. The Airport is still performing tests on the sites and the results could possibly affect the estimated pollution remediation liability as well as a change to the remedial technologies used to remediate the sites. The Airport has reported a liability of \$1,482 based on management's assessment and the results of the consultant's evaluation.

Estimated Pollution Remediation Obligations (Continued)

John Wayne Airport (JWA)

In 1995, the Airport entered into a Memorandum of Understanding (MOU) with one of its fixed-based operator (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. The expected pollution remediation recoveries for the Old Fuel Farm site are realizable and a receivable in the amount of \$394 is reported in the Statement of Net Assets as part of accounts receivable.

The estimated pollution remediation obligation as of June 30, 2010 is:

Old Fuel Farm Site	\$ 787
Former Fire Station # 33 Site	695
JWA Pollution Remediation Obligation	\$ 1,482

Orange County Waste & Recycling (OCWR)

Four closed sites were identified and the remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The Pollution Remediation Obligation ending balance for the fiscal year ending June 30, 2010, after deducting actual Pollution Remediation expenses incurred is \$5,944.

Cannery Former Refuse Disposal Station A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City, requiring the City to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, the City and the Huntington Beach City School District (School District) issued the Notices of Intent to Sue under the Resource Conservative and Recovery Act, and the Comprehensive Environmental Response, Compensation, and Liability Act to the County in 2004. The City's and School District's claims were tolled until June 2006 under a tolling agreement with the County. The City, County and School District entered into a Settlement Agreement in 2007, whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas. Pursuant to the Settlement Agreement, the County is currently installing a landfill gas collection and control system at the site. The remaining cost to the County for on-going engineering and quality assurance/quality control is \$17.

The County retained responsibility for the operation, maintenance, and monitoring of the landfill gas collection and control system installed at the site. Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, length of time that waste has been buried, and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years. The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$411.

Total obligation for landfill gas remediation at the Cannery site over the anticipated 15-year operational period is \$428.

Estimated Pollution Remediation Obligations (Continued)

Lane Road Former Refuse Disposal Station The site located in the City of Irvine and owned by NGP Realty Sub, L.P. and others was leased and operated by the County as a refuse disposal facility from 1961 until its closure in 1964. An investigation revealed that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order to the property owner requiring them to remedy the landfill gas exceedances, and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, a claim was filed with the CEO Risk Management. The County entered into a Settlement Agreement with the property owners in 2005 whereby, the County funded the construction of a landfill gas collection and control system, including a carbon treatment element, for the eastern portion of the site. After verification that the system was operating as planned, the County assumed ownership of the system and responsibility for its operation, maintenance and monitoring in 2008. Also in 2008, it was discovered that landfill gas was elevated in the northern portion of the site. Pursuant to the Settlement Agreement, the County designed and constructed an upgrade and enhancement to the existing landfill gas system to control landfill gas migration on the northern portion of the site. The County anticipates that the cost to operate and maintain the landfill gas collection system at the site for the first full year of operation is \$150.

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either be inactive or be converted to a passive system. The cost for the operation, maintenance and monitoring of the system will be highest in the full first year of operation when the carbon canisters will likely need more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and less anticipated alternative monitoring requirements. Based on our actual expenditures for Fiscal Year 2009-10, the first full year of operating the landfill gas collection and control system, the anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is reduced to \$3,432.

Total obligation for landfill gas remediation at the Lane Road site over the anticipated 25-year operational period is \$3,582.

<u>San Joaquin Former Refuse Disposal Station</u> The site, owned by the University of California at Irvine, was leased and operated by the County as a refuse disposal facility from 1954 to 1961. In 1996, a portion of the site was sold to the Food and Drug Administration. Levels of methane gas that exceed regulatory limits were detected on the property. As both parties expressed an interest in avoiding costly litigation, the County entered into negotiations to cooperatively address site concerns, resulting in a Cooperative Agreement with the University that was approved by the Board in May 2005. Pursuant to the Cooperative Agreement, the County constructed a landfill gas collection and control system, including a carbon treatment element. It is anticipated that the cost to operate and maintain the landfill gas collection system at the site for the first full year of operation is \$154.

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The anticipated cost to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is \$1,736.

The total obligation for landfill gas remediation at the San Joaquin site over the anticipated 15-year operational period is \$1,890.

Estimated Pollution Remediation Obligations (Continued)

<u>La Veta Former Refuse Disposal Station</u> Located in the City of Orange, La Veta is a former burn, dump and refuse disposal station leased to and operated by the County from 1946 to 1956. The site has multiple owners and was developed into a YMCA facility, apartments, a mobile home park, and a small amount of open space. Recently, the County learned that the Californian Department of Toxic Substances Control (DTSC) and the United States Environmental Protection Agency previously performed limited soil and groundwater testing at the site. According to DTSC, the results of these tests indicate that further site assessment is warranted. DTSC has requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County is conducting a series of additional site investigations and assessments. Upon completion of these site assessments and based on the results contained therein, it is possible that DTSC will renew its request for a Voluntary Cleanup Agreement. The County is currently performing a complete environmental assessment of the site, under oversight by the DTSC. The remaining cost for performing the site assessment work is \$44.

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

The estimated pollution remediation obligation as of June 30, 2010 is:

Cannery	\$ 428
Lane Road	3,582
San Joaquin	1,890
La Veta	44
OCWR Pollution Remediation Obligation	\$ 5,944

18. <u>RETIREMENT PLANS</u>

Orange County Employees Retirement System (OCERS)

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

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

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

Orange County Employees Retirement System (OCERS) (Continued)

Plan Description (Continued)

OCERS issues an audited stand-alone annual financial report for each year ending December 31, which can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

According to OCERS most recent public report dated December 31, 2009, entities paying into the OCERS, also known as plan sponsors, include the County of Orange, City of San Juan Capistrano, Orange County Cemetery District, Orange County Children and Families Commission, Orange County Department of Education (closed to new members), OCERS, Orange County Fire Authority, Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Public Law Library, Orange County Sanitation District, Orange County Superior Court, Orange County Transportation Authority, Transportation Corridor Agencies, University of California, Irvine Medical Center and Campus (closed to new members). The County payments represent approximately 86% of the total plan sponsor payments into OCERS. As of December 31, 2009, OCERS was 68.77% funded (69.11% for County of Orange rate groups). A schedule of funding progress for OCERS is included in Required Supplemental Information (RSI) section.

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

Non-vested Supplemental Targeted Additional Retiree Cost of Living Adjustment (STAR COLA) benefits are also paid by OCERS to eligible retirees and survivors. Pursuant to Government Code Section 31874.3 of the County Employees Retirement Law of 1937, the OCERS Board has the sole authority to grant STAR COLA each year. The OCERS Board understands that granting STAR COLA may increase the UAAL and therefore asks for comments from plan sponsors prior to voting on this issue. Retirees who have lost more than 20% of their purchasing power since retirement are eligible for this benefit, and currently, approximately 768 retirees who retired before April 1, 1981, and their survivors receive the STAR COLA. The STAR COLA benefits are excluded from the actuarial valuation, and are funded annually through current employer contributions.

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

Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS's responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2009-10, employer's contributions, as a percentage of covered payrolls, were 21.83% for General members, 39.52% for Safety-Law Enforcement members and 31.39% for Safety-Probation members.

Orange County Employees Retirement System (OCERS) (Continued)

Funding Policy (Continued)

Effective June 28, 2002, Safety member's, including Probation Services employees, rate of contribution was modified to provide an annuity equal to 3% of the member's "final compensation" for each year of service rendered at age 50. Law enforcement management, executives in the Sheriff and District Attorney Departments and employees represented by the Association of Orange County Deputy Sheriffs hired after April 9, 2010, will receive retirement benefits based on a 3% at age 55 retirement formula.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General Members who work for the County of Orange (approximately 14,000) became eligible for the benefit formula of 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General Members, the employee associations agreed to pay the costs of the difference between retirement benefits at the prior formulas and the new 2.7% at age 55 formula and also for the annual amortization of the unfunded liability created by the retroactive application of the increased benefit. New employees hired after May 7, 2010, have the option of selecting either 2.7% at age 55 or 1.62% at age 65. The 1.62% at age 65 option includes a voluntary defined contribution component (see section below) with an employer match. This option is available to employees represented by the Orange County Employees Association, Alliance of Orange County Workers, the International Union of Operating Engineers and nonrepresented employees such as Executive Management. Members of the American Federation of State, County and Municipal Employees (AFSCME), which represents approximately 1,081 employees, did not elect the 2.7% at age 55 retirement formula and remain at the previous benefit formulas. The benefit formulas for AFSCME are an annual annuity equal to: 2% of the "final compensation" for each year of service rendered at age 57 for Tier I General members; and 1.6667% of the member's "final compensation" for each year of service rendered at age 57.5 for Tier II General members.

Actuarial Valuation and Funding Methodology: OCERS is funded pursuant to the Entry Age Normal funding method. The annual required contribution for the current year was determined as part of an actuarial valuation performed by Segal Company as of December 31, 2007. The actuarial assumptions currently used in valuing the plan include, but are not limited to, (i) an investment return assumption of 7.75%, (ii) a policy to amortize OCERS Unfunded Actuarial Accrued Liability (UAAL) as of December 31, 2004, over a 30-year period on a closed basis, (iii) amortizing any increases or decreases in UAAL that arise in the future years due to actuarial gains or losses over separate 15-year periods, (iv) increases or decreases due to assumption changes are amortized over separate 30-year periods, (v) all amortizations conducted on a level percent of pay basis, and (vi) a 3.5% inflation assumption. According to the 2007 Valuation, the aggregate employer contribution rate is 24.32%. The aggregate member employee rate, some of which are contributed by the sponsor under existing bargaining agreements, is 10.67%. The aggregate rates are for all of OCERS, and the County makes up approximately 85% of OCERS.

Subsequent to the 2008 actuarial valuation, OCERS became aware of incomplete salary data being provided to the actuary for completion of the 2008 Valuation. The salary data provided by OCERS did not include certain premium pay items that are pensionable. The Actuarial Accrued Liability (AAL) was increased by approximately \$228,000, effective December 31, 2009, due to this reporting error by OCERS. Of the approximately \$228,000 increase in AAL, approximately \$118,000 is attributable to the County, while the remaining increase is attributable to other entities that pay into OCERS. Beginning July 1, 2010, the employer rate for safety employees will increase 2.11% and non-safety rates will increase .28% due to this reporting error by OCERS.

In September 1994, the County issued \$320,000 of pension obligation bonds, of which \$318,000 in proceeds were paid to OCERS. OCERS maintains the proceeds in a County Investment Account. Amounts in the County Investment Account have been used to fund a portion of the County's contributions over time, pursuant to agreements between OCERS and the County, which allows the County significant discretion in applying the credit. As of June 30, 2010, \$100,668 of such proceeds remains available for future credits to the County's pension obligations. For the fiscal year ended June 30, 2010, the County utilized \$11,000 of the County Investment Account to meet its Annual Required Contribution.

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial Valuation and Funding Methodology (Continued)

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

Orange County Employees' Retirement System Schedule of County Contributions

Fiscal Year Ended	С	County ontribution	 RS Investment unt Contribution	otal Annual Required contribution	Percentage Contributed
6/30/2008	\$	253,620	\$ 11,000	\$ 264,620	100%
6/30/2009		256,531	36,500	293,031	100%
6/30/2010		279,574	11,000	290,574	100%

County Administered Pension Plans

County of Orange - 401(a) 1.62 Retirement Defined Contribution Plan

<u>Plan Description:</u> On April 20, 2010, the County Board of Supervisors approved and adopted the resolution implementing the 1.62% at 65 retirement formula for certain eligible employees and established the County of Orange 401(a) 1.62 Defined Contribution Plan for the benefit of employees who have elected the 1.62% at 65 retirement formula. The Board has the authority to amend the plan. The plan is intended to comply with the requirements of section 401(a) and is intended for retirement. The employee acquires a vested interest in the employer contribution account upon attaining early retirement age or normal retirement age for any reason of death or disability. If an employee terminates prior to early or normal retirement date other than death or disability, the employee is entitled to a vested interest of 100% of the employer contribution after five years of service. Funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the early or normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2010, the plan had no participants.

<u>Funding Policy:</u> This plan is a defined contribution plan funded entirely by employer contributions. As of June 30, 2010, County provides up to a 100% match per pay period of the employee's voluntary contribution to the Internal Revenue Section 457 element of the 1.62 Defined Contribution Plan up to 2% of base salary.

Teachers Insurance and Annuity Association of America (TIAA) serves on behalf of the County as the third party administrator of the plan and will hold all plan assets in trust. Plan participants will self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2010, the value of plan assets was zero.

<u>Administrative Cost:</u> There are no separate recordkeeping or administrative fees charged to the participants. The investment management fees charged for the 401(a) funds managed by TIAA will be deducted from the earnings each quarter.

County of Orange 401(a) Defined Contribution Plan

<u>Plan Description:</u> Effective January 1999, as amended and restated on December 13, 2005, the Board established the County of Orange 401(a) Plan for the benefit of eligible employees, Elected Officials, which included members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association, and certain other employee classifications as defined in the plan document. The Board also has the authority to amend the plan. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new

County Administered Pension Plans (Continued)

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

Plan Description (Continued)

administrative managers included in the Executive Policy Unit effective June 23, 2006. The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2010, the plan has 725 active participants and 17 inactive participants.

<u>Funding Policy:</u> This plan is a defined contribution plan funded entirely by employer contributions. County contributions to the plan vary according to employee classification and range from 3% to 8% of bi-weekly compensation. Additional County contributions equal to 1.5% of compensation are made on behalf of certain employees electing not to participate in OCERS. Total contributions for the year ended June 30, 2010, were \$956 by the County and zero by the employees. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. Plan participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2010, the value of plan assets was \$8,673.

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

Extra-Help Defined Benefit Plan

<u>Plan Description</u>: The plan is a single-employer defined benefit retirement plan for employees performing services based on less than half-time or as extra-help. Eligible employees of this plan are not covered by OCERS or Social Security. Initially, the normal retirement benefits for a participant who retired on or after the normal retirement date was a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the final 30 years of credited service. The current normal retirement benefits for a participant who retires on or after the normal retirement date is the present value (or lump sum value) of the monthly annuity described previously. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The Board has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

The plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. This plan subsequently froze benefit accruals effective November 21, 2008. As of that date, the normal retirement benefit was changed to a single lump sum distribution. As of June 30, 2010, the plan consists of 70 active plan participants, 253 terminated plan participants entitled to but not yet receiving benefits, and 30 retirees receiving benefits.

The plan financial statements are prepared using the accrual basis of accounting. Plan participant and County contributions are recognized in the period in which contributions are due, pursuant to the plan documentation and as may be required by statutory requirements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan.

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

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

<u>Funding Policy:</u> Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, the County has contributed \$1,593. The annual required contribution is equal to:

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

Plan participants do not contribute to the fund effective November 21, 2008 (the date of the freeze). Note that effective November 21, 2008 the normal cost is \$0 due to the plan freeze.

The County charges a benefits administration fee to County agencies, which funds the cost of administering all of the County benefit programs, including the Extra-Help Defined Benefit Retirement Plan. The County Treasurer charges its normal investment management fee related to the Pension Trust Fund's participation in the County Pool.

Annual Pension Cost: GASB Statement No. 27 requires the County to have an actuarial valuation performed at least biennially to determine the plan's annual pension cost. The plan's annual pension cost was calculated using the data and assets as of June 30, 2010. The actuarial assets are valued at market value. The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution using the projected unit credit actuarial cost method, which is (a) normal cost, (b) minus employee contribution, (c) plus 30-year of the UAAL. Based on the actuarial report dated July 1, 2010, interest on the net pension obligation is \$42.

For the fiscal year ended June 30, 2010, the County's annual required contribution was \$156. The actuarial assumptions included (a) 6.5% investment return, net of administrative expenses: (b) The 417(e) lump sum basis used for ERISA-governed plans, including the phase-out of the 30-year treasury rate; the look-back month is November: and (c) RP2000 Mortality Tables projected to 2010 with no collar distinction for males and females. The UAAL is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years. Multi-year trend information about the funding progress is presented in the RSI section following the notes to the basic financial statements.

		_	ounty Defined Benefit lle of Funding Progre			
Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (c=b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (c/d)
6/30/2010	\$ 4,923	\$ 7,091	2,168	69.4%	N/A ¹	N/A

¹ The plan froze benefits effective November 21, 2008; therefore, there is no covered payroll for future plan years.

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Annual Pension Cost (Continued)

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

Actuarially Determined Contribution (A)	\$ 156
Interest on Net Pension Obligation	42
Adjustment to (A)	(46)
Annual Pension Cost	152
Contributions Made	(157)
Increase/Decrease in Net Pension Obligation	(5)
Net Pension Obligation, Beginning of Year	652
Net Pension Obligation, End of Year	\$ 647

The table below shows the County's annual pension costs, the percentages contributed, and the net pension obligations for the current fiscal year and each of the two prior fiscal years.

Orange County Defined Benefit Plan Schedule of Employer Contributions

Fiscal Year	County	Total Annual	Percentage	Net Pension	
Ended	 Contribution	 Pension Cost	 Contributed	 Obligation	
6/30/2008	\$ 225	\$ 217	\$ 104%	\$ 660	
6/30/2009	242	234	103%	652	
6/30/2010	157	151	104%	647	

Extra-Help Defined Contribution Plan

<u>Plan Description:</u> Effective March 1, 2002, as amended and restated on December 13, 2005, the Board established a Defined Contribution Plan to replace the Defined Benefit Retirement Plan for new employees hired on or after March 1, 2002, and supplements the benefits of the Extra-Help Defined Benefit Retirement Plan for employees hired prior to March 1, 2002. Eligible employees of this plan are not covered by OCERS or Social Security. This plan is a tax-deferred retirement plan, established in accordance with Internal Revenue Code sections 457 and 3121 and is intended to comply with the Omnibus Budget Reconciliation Act of 1990. The Board has the authority to amend the plan. As of June 30, 2010, there were 2,899 active participants and 218 inactive participants in the plan.

The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return.

If a participant's employment status changes from a part-time or extra-help employee to a permanent full-time employee or a part-time employee working 20 hours or more per week, those participants may elect to transfer the balance to the County's 457 Defined Contribution Plan or leave the balance in the plan until they are no longer employed with the County.

County Administered Pension Plans (Continued)

Extra-Help Defined Contribution Plan (Continued)

<u>Funding Policy</u>: Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in the Stable Value Fund offered through Great West Retirement Services, which is designed to protect principal and maximize earnings. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. There is no additional contribution made by the County. Total employee contributions for the year ended June 30, 2010, were \$864 by the employees and zero by the County. As of June 30, 2010, the value of plan assets was \$4,427.

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

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered retirement funds, condensed financial statements are presented below as of and for the year ended June 30, 2010:

	Total	С	tra-Help Defined nefit Plan	tra-Help Defined ntribution Plan	D	101(a) Defined Intribution Plan
Statements of Net Assets						
<u>Assets</u>						
Pooled Cash/Investments	\$ 4,827	\$	4,827	\$ 	\$	
Restricted Cash and Investments with Trustee	13,100			4,427		8,673
Receivables:	4.0		4.0			
Interest/Dividends	16		16			
Due from Other Governmental Agencies	647		647			
Total Assets Held in Trust	18,590		5,490	4,427		8,673
<u>Liabilities</u>						
Accounts Payable	274		274			
Total Liabilities	274		274	 		
Net Assets						
Held In Trust	18,316		5,216	4,427		8,673
Total Net Assets Held in Trust	\$ 18,316	\$	5,216	\$ 4,427	\$	8,673

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Condensed Financial Statements (Continued)

			Ex	ktra-Help	Extra-Help Defined			401(a) Defined
				Defined		ntribution	Coi	ntribution
		Total	Ве	nefit Plan		Plan		Plan
Statements of Changes in Net Assets								
Additions:								
Contributions to Pension Trust:								
Employer	\$	1,113	\$	157	\$		\$	956
Employee		859		(5)		864		
Interest and Investment Income		733		46		182		505
Less: Investment Expense		(5)		(5)				
Total Additions		2,700		193		1,046		1,461
Deductions:							<u> </u>	
Benefits Paid to Participants		1,306		558		506		242
Total Deductions		1,306		558		506		242
Change in Net Assets Held in Trust for								
Employee's Retirement		1,394		(365)		540		1,219
Net Assets Held in Trust at July 1, 2009		16,922		5,581		3,887		7,454
Net Assets Held in Trust at June 30, 2010	\$ ^	18,316	\$	5,216	\$	4,427	\$	8,673

19. POSTEMPLOYMENT HEALTH CARE BENEFITS

County of Orange Retiree Medical Plan

<u>Plan Description:</u> The County of Orange Third Amended Retiree Medical Plan (the Retiree Medical Plan) is a single employer defined benefit Other Postemployment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the Board. The Board is also the authority for amending the Retiree Medical Plan. The Retiree Medical Plan is not required by the County Employees Retirement Law of 1937 ("CERL") – the statute governing County employee retirement benefits. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums. The Retiree Medical Plan specifically states that it does not create any vested right to the benefits. Currently, there are pending lawsuits regarding the Retiree Medical Plan; please refer to Note 17, Estimated Liability for Litigation, Claims, and Pollution Remediation for additional information.

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

The monthly Grant amount is determined by a formula that multiplies a base number by the number of years of qualifying County employment up to a maximum of 25 years. The base number for calendar year 2009 was 17.69 (absolute dollars) per year of County service, and the maximum monthly Grant was \$442.25 (absolute

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

dollars). The base number for calendar year 2010 is \$18.22 (absolute dollars) per year of County service, and the maximum monthly Grant is \$455.50 (absolute dollars). The amount of the Grant is netted against the monthly health plan premium and/or reimburses Medicare premiums paid by the retiree for retiree and dependent coverage with the retiree obligated to pay the remaining balance. Any grant in excess of the monthly health plan and/or Medicare premium payable is forfeited.

The Grant is reduced by 50% once the retiree becomes Medicare A and B eligible. Retirees who were age 65 or Medicare A and B eligible on the effective date are not subject to the Medicare reduction. The Grant is also reduced by 7.5% for each year of age prior to age 60 and increased by 7.5% for each year of age after age 60 up to age 70 for employees retiring after the effective date. The effective date varies by labor agreement. Safety employees and disability retirements are exempt from the age adjustment. The base number for the Grant is adjusted annually based on a formula defined in the Retiree Medical Plan document with a maximum increase/decrease of 3%. Surviving dependents of a deceased employee or retiree eligible for the Grant are entitled to receive 50% of the Grant that the employee/retiree was eligible to receive.

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

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

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

Law enforcement management employees who were hired on or after June 19, 2009 are not eligible for the Grant or lump sum payment. Service hour accruals for the Grant calculations for law enforcement employees who were hired before June 19, 2009 were frozen. The qualifying hours of service for calculation of the lump sum payment for law enforcement employees were frozen as of June 23, 2006. A Defined Contribution Plan (Health Reimbursement Arrangement) was established to replace the Grant for new employees, and to supplement the frozen grants for current employees.

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

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

County of Orange Retiree Medical Plan (Continued)

Funding Policy (Continued)

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

Actuarial Methods and Assumptions: The County has contracted with an outside actuarial consultant, Bartel Associates, LLC (Bartel) to prepare a bi-annual actuarial valuation in conformance with GASB Statements No. 43 and 45. The County has received a June 30, 2009 valuation for fiscal years 2009-10 and 2010-11 for the Retiree Medical Plan (the Report). Among the actuarial methods and assumptions used in the Report are:

- The entry age normal actuarial cost method
- Closed period amortization of the UAAL over 30 years as a level percentage of payroll (28 years remaining as of June 30, 2009)
- A 7.75% long-term expected rate of return on funds held in the Trust
- A 3.5% per annum payroll increase assumption
- The assumed annual increases in the monthly grant of 3% for non-AFSCME employees and 5% for AFSCME employees through calendar year 2016. The healthcare trend was assumed to be greater than the annual increase to the Grant through 2016. Therefore, it is the Grant annual increase rather than the healthcare trend that affects the projected benefits and the UAAL. For 2017 +, a healthcare trend of 4.5% was used for AFSCME employees since the trend is lower than the 5% annual adjustment. For non-AFSCME employees, an annual 3% increase is used for the entire 30 year amortization period.
- There are an estimated 25,800 participants in the plan of which 18,683 are employees, 17 are deferred retirees, and 7,100 are retirees.

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

	FY	2009-10
Total Annual Required Contribution	\$	35,148
Interest on Net OPEB Obligation		(3,561)
Amortization on Net OPEB Obligation		2,941
Annual OPEB Cost		34,528
Contribution Made		(32,163)
Adjustment to Contribution Made		11,377
Increase/(Decrease) in Net OPEB Obligation		13,742
Net OPEB Obligation/(Asset), Beginning of year		(57,322)
Net OPEB Obligation/(Asset), End of year	\$	(43,580)

County of Orange Retiree Medical Plan (Continued)

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

The County's annual OPEB Cost, the percentage of annual OPEB cost contribution to the plan, and the NOO for FY 2009-10 and two preceding years were as follows:

Fiscal	Annual	Percentage of	Net
Year	OPEB	Annual OPEB	OPEB
Ended	Cost	Cost Contributed	Obligation/(Asset)
6/30/2008	\$ 31,181	349%	\$ (46,442)
6/30/2009	25,167	143%	(57,322)
6/30/2010	34,528	60% *	(43,580)

^{*} The percentage of Annual OPEB Cost Contributed for FY 2009-10 includes \$11,377 adjustment to contribution made.

Funded Status and Funding Progress: The funded status of the OPEB Plan as of June 30, 2009 is as follows:

Actuarial Accrued Liability (AAL)	\$ 456,005
Actuarial Value of Plan Assets	 94,110
Unfunded Actuarial Accrued Liability (UAAL)	\$ 361,895
Funded Ratio (Actuarial Value of Plan Assets/AAL)	20.6%
Covered Payroll	 1,267,427
UAAL as Percentage of Covered Payroll	28.6%

The above noted actuarial accrued liability was based on the June 30, 2009 actuarial valuation. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial valuations contained in the Report involve estimates of the values of reported amounts and assumptions about the probability of events far into the future and will be subject to continual revision as they reflect a long-term perspective. Assumptions used in the Report also include techniques designed to reduce short-term volatility in AAL and the actuarial value of assets. Current estimates of the funded status and trend information about the funding progress and the employer contributions are presented in the Required Supplemental Information following the notes to the basic financial statements.

County of Orange Health Reimbursement Arrangement (HRA)

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

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

On March 10, 2009, the Board approved the restructuring of the Retiree Medical Benefit and establishment of a Defined Contribution Plan (Health Reimbursement Arrangement) for law enforcement management employees effective June 19, 2009. The HRA replaces the Retiree Medical Plan for new employees, and supplements the current law enforcement management employees' frozen service hour accruals for the Grant.

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

Plan Description (Continued)

The plan is intended to comply with the requirements of sections 105 and 106 of the Code, and meets the requirements of a health reimbursement arrangement as defined under Internal Revenue Service (IRS) Notice 2002-45. The contributions made to reimbursement accounts, any investment gains and qualified medical expenses reimbursed under this plan are intended to be eligible for exclusion from the gross income of eligible employees, participants and retired participants (including the spouses and dependents of each) under Code §105(b). The Plan may be amended by the Employer or the Plan Administrator to comply with federal, state, or local laws, statues, regulations, or guidelines. Reimbursement of qualified medical expenses was deferred until the selection and implementation of the third party administrator. Administration of the HRA by the third party administrator began in August 2009. As of June 30, 2010, the plan had 1,887 active and 19 inactive participants.

<u>Funding Policy:</u> Employer and mandatory employee contributions were effective October 12, 2007 for employees represented by AOCDS and were effective June 19, 2009 for law enforcement management employees. All contributions to the plan are deemed to be employer contributions whether made directly by the employer or as a mandatory employee contribution. Employee contributions for employees represented by AOCDS are mandatory pursuant to the MOU and mandatory pursuant to Board action for law enforcement management employees. For employees represented by AOCDS, the County contributes 3.0% of compensation each pay period. Employees in the plan are required to contribute 2.0% of compensation each pay period. Law enforcement management employees, the County contributes 1.0% of compensation each pay period.

ICMA Retirement Corporation serves on behalf of the County as the third party administrator of the plan and holds plan assets in trust. Plan participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2010, the value of plan assets were \$20.305.

<u>Administrative Cost:</u> There are no separate recordkeeping or administrative fees charged to participants. The management fees for the funds managed by ICMA are deducted from the participants' earnings each quarter.

Condensed Financial Statements:

Separate GAAP-basis reports are not currently available for the defined benefit and contribution plans. In lieu of separately issued financial statements for the County administered postemployment health care benefit trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2010:

Statements of Net Assets

		Tatal	Retiree Medical Plan		Reimbursement Arrangement Plan	
D 1 10 1 11 1	_	Total				
Pooled Cash/Investments	\$	10,248	\$	10,204	\$	44
Restricted Cash and Investments with Trustee		102,787		82,482		20,305
Interest Receivable		47		46		1
Due from Other Governmental Agencies		1,359		1,079		280
Total Net Assets Held in Trust	\$	114,441	\$	93,811	\$	20,630

Condensed Financial Statements (Continued):

Statements of Changes in Net Assets

A LIFE	Retiree Medical Total Plan			Health Reimbursement Arrangement Plan		
Additions:	Φ.	40.450	Φ.	00.400	Φ	0.000
Employer Contributions:	\$	40,456	\$	32,163	\$	8,293
Interest and Investment Income (Loss)		7,003		7,064		(61)
Less: Investment Expense		(19)		(18)		(1)
Total Additions		47,440		39,209		8,231
Deductions:						
Benefits Paid to Participants		25,169		25,062		107
Total Deductions		25,169		25,062		107
Change in Net Assets Held in Trust		22,271		14,147		8,124
Net Assets Held in Trust at July 1, 2009		92,170		79,664	-	12,506
Net Assets Held in Trust at June 30, 2010	\$	114,441	\$	93,811	\$	20,630

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2010:

2010-2011 Tax and Revenue Anticipation Notes Series A: On July 1, 2010, the County issued its 2010-2011 Tax and Revenue Anticipation Notes Series A (the "Notes") in the aggregate principal amount of \$150,000 to finance the seasonal cash flow requirements of the County during the fiscal year ending June 30, 2011. The Notes are secured by a pledge of certain general fund monies and will mature on June 30, 2011.

Teeter Plan Obligation Commercial Paper Program Notes Series A: On July 13, 2010, the County redeemed \$138,100 of its \$210,975 Teeter Plan Obligation Commercial Paper Notes Series A (the "CP") outstanding at June 30, 2010. The remaining CP outstanding after redemption was \$72,875. Also, on July 13, 2010 the County issued an additional \$84,025 in CP for a new outstanding balance of \$156,900. The additional CP issued financed the purchase of delinquent property tax receivables associated with the Teeter Plan. From the proceeds of this issuance, the participating agencies in the Teeter Plan were paid the full amount of their taxes from the secured property tax roll.

Sale of Serpentine Funding Limited (formerly Whistlejacket Capital LLC): On August 19, 2010, the County accepted a bid from Citibank to purchase the County Treasury holdings of Serpentine Funding Limited Restricted P-T Notes (Serpentine). The sale of the Serpentine notes and the distributions from the Receiver and Serpentine has allowed the County to recover 90.5% of the original \$80,000 investment. The amount realized from the sale of Serpentine exceeds the market value which was reported herein at June 30, 2010. On October 20, 2010 and October 27, 2010, the trades with Citibank settled. The realized loss of approximately \$7,600 was allocated to pool participants based on their cash on deposit in February 2008.

<u>State Legislation Impact on the County:</u> On November 2, 2010, California voters approved Proposition 22, 25 and 26, which will affect current and future budgets.

- Proposition 22 prohibits the State from borrowing or taking funds used for transportation, redevelopment, or local government projects, and services.
- Proposition 25 allows the State budget to be approved with a simple majority vote of the Legislature.
 Tax increases and certain fees protected under Proposition 26 (November 2010) still require a two-thirds vote. This proposition is expected to reduce the delay in the annual budget adoption process for the State.
- Proposition 26 requires that certain State and local fees be approved by a two-thirds vote. The County is reviewing this to see if there are impacts to local fees controlled by the county agencies.