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> OCDA was dissolved effective February 1, 2012 in accordance with ABX1 26 and Health and Safety Code 34172.

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

Orange County Public Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to provide financial assistance to the County by financing the acquisition, construction, and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types. With the passage of ABX1 26 dissolving redevelopment agencies statewide effective February 1, 2012, the Authority will not issue any new debt.

<u>South Orange County Public Financing Authority</u> The Authority is a joint powers authority of the County and Community Facilities District 88-2 of the County of Orange (Lomas Laguna), formed to provide for the financing of public capital improvements. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

A. Reporting Entity (Continued)

Blended Component Units (Continued)

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

County Service Areas, Special Assessment Districts, and Community Facilities Districts The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts ("special districts") is the County's governing body. Among its duties, it approves the special districts' budgets, 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.

<u>Discretely Presented Component Unit</u>

Children and Families Commission of Orange County The Commission is administered by a governing board of nine members, who are appointed by the Board. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County, funded by additional State taxes on tobacco products approved by California voters via Proposition 10 in November 1998. The Commission is presented as a discretely presented component unit of the County because, although the County Board has no control over the revenues, budgets, staff, or funding decisions made by the Commission, the appointed Commission members serve at the will of the Board members who appoint them. For details regarding the Commission's extraordinary item and impact of AB99, refer to the Commission's separate financial statements. 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/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, accumulated depreciation, amortization and accumulated amortization are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

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

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

Government-Wide Financial Statements

GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB Statement No. 34), 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, 2012, the County's governmental activities reported restricted net assets of \$1,190,309 restricted for pension benefits related to the Orange County Retirement System (OCERS) Investment Account, capital projects, legally segregated funds restricted for grants and other purpose, and regional park endowment. Restricted Net Assets for business-type activities amounted to \$140,354 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, 2012, the County reported \$47,853 of net assets restricted by enabling legislation related to the Airport's PFC.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-Wide Financial Statements (Continued)

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

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

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

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

Fund Financial Statements

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

The County reports the following major governmental funds:

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

<u>Roads</u> This fund accounts for proceeds restricted 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. Intergovernmental revenues, along with property taxes restricted for flood control activities, provide most of this fund's revenues.

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

Fund Financial Statements (Continued)

Other Public Protection This fund accounts for revenues restricted 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 debt service 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. Monies are collected through landfill disposal 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 ten 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 316 individual trust and agency funds for FY 2011-12. 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, decedents' property held for escheatment. Beginning this fiscal year, the County accounts for the former redevelopment agency as a private-purpose trust fund for the OCDA Successor Agency.

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

Fund Financial Statements (Continued)

Investment Trust

Orange County Investment Pool

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

Orange County Educational Investment Pool

These funds are used to account for assets, consisting primarily of cash and investments, of school and community college 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 pension and 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, 2012, the County reported \$213,745 of deferred revenue, and \$54,654 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.

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.

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund Financial Statements (Continued)

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," 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) natural gas 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 recommended 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 "Adopted 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 adjustments to 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
- 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, are 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.
- The County reclassified to the General Fund all the activities of certain special revenue funds which no longer meet the definition of a special revenue fund in accordance with GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54).
- 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- In June 2012, a loan repayment was made to Waste Management from the General Fund in connection with various information technology capital projects. The County recorded an adjustment to revenue to correctly reflect the loan balance.
- 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 County reclassified the rebates that were recorded as credit expenditures in investment administrative fees to revenues since the original expenditures were recorded and measured against appropriations in a completed past fiscal year.

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:

Revenues and Other Financing Sources	 General Fund	Roads	Flood Control District	P	Other Public rotection
Total Revenues and Other Financing Sources from the Budgetary					
Comparison Statements	\$ 2,729,294	\$ 93,080	\$ 240,146	\$	51,639
Differences-budget to GAAP:					
Change in unrealized gain/(loss) on investment (Note 4)	(70)	(196)	(186)		(72)
GASB 31adjustment to report redirected investment					
income as transfers (Note 4)					98
GASB 33 adjustment of revenue accruals for 60 day recognition period	(283)	(3,447)	453		1,307
GASB 34 adjustment to record Public Purpose Trust Fund's monies					
as revenue in benefitting fund	(2,489)		(34)		
Adjustment to eliminate intrafund transfers	(9,790)		(65,002)		(1,163)
Reclassification of loan repayment from OC Public Library to					
the General Fund	(338)				
Adjustment of Loan repayment from General Fund					
to OC Waste Management	(12)				
Reclassification of direct billing reimbursements paid by fund for the					
benefit of other funds	(9,543)	(392)	(95)		
Reclassification of other revenues to an expenditure for portion of					
ARC funded by the County Investment Account with OCERS	(11,000)				
Reclassification of the prior year rebate amounts that were recorded					
in FY 11-12 for Investment Administrative Fees	135	53	132		61
Revenues and Other Financing Sources for non-budgeted					
funds are excluded in the Budgetary Comparison Statements					(14)
Certain budgeted special revenue funds do not meet the criteria for					
separate reporting and are reported within the General Fund in the					
GAAP financial statements	47				
Total Revenues and Other Financing Sources as reported on the Statement					
of Revenues, Expenditures, and Changes in Fund Balances	\$ 2,695,951	\$ 89,098	\$ 175,414	\$	51,856

D. Budget Adoption and Revision (Continued)

Expenditures/Encumbrances and Other Financing Uses	General Fund	Roads	Flood Control District	F	Other Public Protection
Actual expenditures and Other Financing Uses from the Budgetary					
Comparison Statements	\$ 2,666,795	\$ 124,246	\$ 184,756	\$	46,550
Differences-budget to GAAP:					
GASB 31adjustment to report redirected investment					
income as transfers (Note 4)					98
Adjustment of expenditure accruals for timing	3,078	137	(197)		(32)
Adjustment to eliminate intrafund transfers			(65,002)		(1,162)
Reclassification of direct billing reimbursements paid by fund for the					
benefit of other funds	(9,544)	(393)	(95)		
Reclassification of loan repayment from Waste Management to					
the General Fund	(28,160)				
Reclassification of other revenues to an expenditure for portion of ARC					
funded by the County Investment Account with OCERS	(11,000)				
Reclassification of the prior year rebate amounts that were recorded					
in FY 11-12 Investment Administrative Fees	135	53	132		61
Certain budgeted special revenue funds do not meet the criteria for					
separate reporting and are reported within the General Fund in the					
GAAP financial statements	7				
Expenditures/Encumbrances and Other Financing Uses for non-budgeted					
funds are excluded in the Budgetary Comparison Statements					549
Total Expenditures and Other Financing Uses as reported on the Statement of					
Revenues, Expenditures and Changes in Fund Balances	\$ 2,621,311	\$ 124,043	\$ 119,594	\$	46,064

E. Fund Balance

Effective for Fiscal Year 2011, the County implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" (GASB 54) for financial statement purposes. The intent of this statement is to enhance 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 balance sheet reports the following five different classifications of fund balance:

Nonspendable Fund Balance Amounts that are not in a spendable form, such as long-term receivables, inventory or prepaid costs, or that are required to be maintained intact, such as the corpus of an endowment fund. The County's Regional Park Endowment Permanent Fund reports the original donation as nonspendable in accordance with donor requirements.

<u>Restricted Fund Balance</u> Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

<u>Committed Fund Balance</u> Amounts constrained to specific purposes by a formal action of the highest level of decision making authority. The constraint remains binding unless the government takes the same highest-level action to remove or change the constraint. The Board of Supervisors (the Board) is the County's highest level of decision-making authority. The highest level of formal action to commit resources is an ordinance.

<u>Assigned Fund Balance</u> Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Board has delegated authority to the County Purchasing Agent through the Codified Ordinances of the County of Orange. Assigned fund balance includes fund balance appropriated at the end of the fiscal year to fund a projected excess of expected expenditures over expected revenues, approved unexpended contract amounts that will be liquidated with existing resources and resources constrained by the County for a specific purpose that are neither restricted nor committed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

<u>Unassigned Fund Balance</u> Residual amounts within the General Fund in excess of what can be properly classified in one of the four other fund balance classifications. Within all other governmental funds, unassigned fund balance is comprised of the negative residual in excess of what can be properly classified as nonspendable, restricted or committed.

In the hierarchy for spending, when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the County's policy is to spend restricted fund balance before unrestricted fund balance. When committed, assigned and unassigned fund balance is available for the same specific purpose, the County's policy is to expend fund balance according to the following priority: committed, assigned, and then unassigned.

Below are detailed descriptions within each fund balance classification reported in the balance sheet:

		General Fund		Roads		Flood Control District	P	Other Public rotection	Teeter Plan Obligation Commercial Paper Program Note	Go	Other overnmental Funds	Go	Total vernmental Funds
Nonspendable:	_		_		_		_		_	_		_	
Inventory	\$	546	\$	-	\$	392	\$	352	\$ -	\$	-	\$	1,290
Prepaid costs		222,414		3,111		3,340		1,185	-		14,496		244,546
Endowment		-		-		-		-	-		181		181
Long-Term Advances													
to Other Funds		2,500		-		-		-	-		-		2,500
Total Nonspendable Fund Balance	\$	225,460	\$	3,111	\$	3,732	\$	1,537	\$ -	\$	14,677	\$	248,517
Restricted for:													
General Government		42		-		-		-	-		307,607		307,649
Public Protection		23,365		-		384,260		120,610	-		16,341		544,576
Public Ways and Facilities		-		69,134		-		-	-		10,121		79,255
Health and Sanitation		1,090				-		-	-		185,366		186,456
Public Assistance		1,839		-		-		-	-		79,444		81,283
Education		· -		-		-		-	-		8,213		8,213
Recreation and Cultural Services		_		-		-		-	-		136,975		136,975
Total Restricted Fund Balance	\$	26,336	\$	69,134	\$	384,260	\$	120,610	\$ -	\$	744,067	\$	1,344,407
Assigned to:													
General Government		12,591									673		13,264
Public Protection		23,867		-		-		2 156	-		0/3		27,023
		,		-		-		3,156	-		761		,
Public Ways and Facilities		2,461 887		-		-		-	-				3,222
Health and Sanitation				-		-		-	-		4,500		5,387
Public Assistance		7,140		-		-		-	-		22,989		30,129
Recreation and Cultural Services		-		-		-		-	-		11,821		11,821
Capital Projects:													
Property Tax Software Developmen	nt	731		-		-		-	-		-		731
Computer Upgrade		2,200		-		-		-	-		-		2,200
Los Pinos Land Acquisition		445		-		-		-	-		-		445
Criminal Justice Facilities		5,000		-		-		-	-		-		5,000
Central Utilities Facility													
Replacement Reserve		238		-		-		-	-		-		238
Immigration and Customs													
Enforcement Court Modular		5,000		-		-		-	-		-		5,000
Deferred Maintenance for													
Public Facilities		39,888		-		-		-	-		-		39,888
Total Assigned Fund Balance	\$	100,448	\$	-	\$	-	\$	3,156	\$ -	\$	40,744	\$	144,348
Unassigned to:													
General Government		990		-		-		-	(3,016)		-		(2,026)
Total Unassigned Fund Balance	\$	990	\$	-	\$	-	\$		\$ (3,016)	\$	-	\$	(2,026)
Total Fund Balances	\$	353,234	\$	72,245	\$	387,992	\$	125,303	\$ (3,016)	\$	799,488	\$	1,735,246

E. Fund Balance (Continued)

Annually, the Board adopts a five-year Strategic Financial Plan (SFP). The County of Orange 2011 Strategic Financial Plan includes a policy for Fund Balance Available (FBA) that eliminates FBA as a funding source for the next year's budget as a significant step toward reducing structural reliance on one-time funds. Positive variances in estimated FBA are to be added to Strategic Reserves, consistent with the Board policy, and necessary to improve cash position.

F. Deposits and Investments

The County maintains two cash and investment pools: the Orange County Investment Pool (OCIP) and the Orange County Educational Investment Pool (OCEIP), 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. In addition, the County maintains certain other non-pooled specific investments.

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with outside services to provide pricing for the fair value of investments in the portfolio.

Other than proceeds held by the County in the OCIP, proceeds from County-issued bonds are held by trustees and are invested in instruments authorized by the respective trust agreements including medium-term notes, mutual funds, investment agreements, repurchase agreements, and U.S. Government securities. Short-term investments are reported at cost, while long-term investments, such as U.S. Government securities are stated at fair value. The trustee uses an independent service to value those securities, which are 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 straightline 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 of the County Pool (see Note 4, Deposits and Investments) as undistributed and unrealized gains.

The investments in the Retiree Medical Defined Benefit Trust are managed by the Orange County Employees Retirement System (OCERS) and are reported at fair value. Refer to Note 18 "Retirement Plans" to obtain OCERS stand-alone annual financial statements.

G. 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 nonspendable for amounts equal to the inventories on hand at the end of the fiscal year, as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures/expenses when issued to user departments/agencies.

H. Prepaid Costs

The County pays for certain types of services in advance, such as pension costs and rents, and recognizes these costs in the period during which services are provided. Prepaid costs in the fund financial statements include \$244,546 for governmental funds and \$10,164 for proprietary funds, which primarily consist of the FY 2012-13 Annual Required Contribution pre-payment of \$246,122. Prepaid costs in the enterprise funds also include insurance of \$98 for John Wayne Airport and a deferred charge of \$1,573 reported for OC Waste and Recycling, 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. In accordance with GASB Statement No. 54, fund balances are classified as nonspendable for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds.

Prepaid costs in the government-wide financial statements also include the prepaid costs reported in the fund financial statements, as well as the County's Investment Account with OCERS for future pension costs of \$96,604 (see Note 18 for additional information regarding this pension investment asset for the OCERS Pension Plan).

I. Capital Assets

Capital assets are defined as assets of a long-term character that are intended to be held or used in operations, such as land, structures and improvements, equipment, 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
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

I. Capital Assets (Continued)

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 and incurred but not reported claims, including allocated and unallocable loss adjustment expenses. For additional information, refer to Note 16, Self-Insurance.

K. Property Taxes

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

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

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

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

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2012 is allocated to and recorded in the corresponding funds for reporting purposes.

California

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Property Taxes (Continued)

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, 2012, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.7% 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 2011-12 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 departments 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 2011-12:

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. Currently, the County is not involved in these types of OPEB plans.

In June 2011, GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53." This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. 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 instruments.

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

In November 2010, GASB issued Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements." This statement addresses issues related to service concession arrangements (SCA), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which 1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility) in exchange for significant consideration and 2) the operator collects and is compensated by fees from third parties. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the County to implement this statement in FY 2012-13.

In November 2010, GASB issued Statement No. 61, "The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34." This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012, which requires the County to implement this statement in FY 2012-13.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Effects of New Pronouncements (Continued)

In December 2010, GASB issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." The objective of this statement is to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The requirements of this statement are effective for periods beginning after December 15, 2011, which requires the County to implement this statement in FY 2012-13.

In June 2011, GASB issued Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the County to implement this statement in FY 2012-13.

In March 2012, GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires the County to implement this statement in FY 2013-14.

In March 2012, GASB issued Statement No. 66, "Technical Corrections—2012—an Amendment of GASB Statements No. 10 and No. 62." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires the County to implement this statement in FY 2013-14.

O. Effects of New Pronouncements (Continued)

In June 2012, GASB issued Statement No. 67, "Financial Reporting for Pension Plans—an Amendment of GASB Statement No. 25" which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statements No. 25, "Financial Reporting for Defined Benefit Pension Plans," and No. 50, "Pension Disclosures," as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013, which requires the County to implement this statement in FY 2013-14.

In June 2012, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27" which also results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers," as well as the requirements of Statement No. 50, "Pension Disclosures," as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which requires the County to implement this statement in FY 2014-15.

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.

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

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, Land Use Rights (Permanent), 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; Infrastructure and Accumulated Depreciation; and Land Use Rights (Amortizable)

2. EXTRAORDINARY ITEMS

Extraordinary items are significant transactions or other events that are both unusual in nature and infrequent in occurrence. They are reported in a separate category in the government-wide Statement of Activities and Statement of Change in Fiduciary Net Asset. The County reports the following extraordinary item for the fiscal year ended June 30, 2012:

On December 29, 2011, the California Supreme Court upheld the constitutionality of ABX1 26 (The "Dissolution Act") eliminating the redevelopment agencies in State of California effective February 1, 2012. A Private-Purpose Trust Fund was created accordingly to accept the role serving as a successor agency with respect to the assets and liabilities of the former OCDA.

As of the fiscal year ended June 30, 2012, prior to the recording of the dissolution, the final seven months of the activities of OCDA are reported in the governmental funds of the County. After the date of the dissolution, the assets and activities are reported in the newly established private-purpose trust fund in the Statement of Fiduciary Net Asset and Statement of Changes in Fiduciary Net Assets. In addition, the impact of the movement of assets and liabilities of the OCDA from the governmental funds to a private-purpose trust fund resulted in reporting an extraordinary loss in the governmental funds and an extraordinary gain in the private-purpose trust fund.

Because of the different measurement focus of the governmental funds (current financial resources measurement focus) and the measurement focus of the trust funds (economic resources measurement focus), the extraordinary loss recognized in the governmental funds is not the same amount as the extraordinary gain that is recognized in the fiduciary fund financial statement. The differences are summarized in the following table:

2. EXTRAORDINARY ITEMS (Continued)

			Govern	ment-wide		
		OCDA	State	ments	00	CDA Total
	Go	vernmental	(Full	Accrual	Ext	raordinary
		Funds	Adjus	stments)		Loss
Extraordinary Loss						
OCDA Fund Level Adjustments	\$	(113,615)	\$	-	\$	(113,615)
Bond issuance costs		-		(1,005)		(1,005)
Extraordinary Gain						
Accrued bond interest amount		-		734		734
Amortization of bond issuance premium		-		190		190
Long-term debt amount		-		44,057		44,057
Total Extraordinary Gain/(Loss)	\$	(113,615)	\$	43,976	\$	(69,639)
	-				-	
Successor Agency (Private-Purpose Trust Fund)						
Extraordinary Gain					\$	69,639

3. DEFICIT FUND EQUITY

The Teeter Plan Obligation Commercial Paper Program Note Fund reported a deficit fund balance of \$3,016. The deficit fund balance decreased by \$5,058 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, penalty and interest 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 \$66,530 and \$27,625, 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 and Property and Casualty Risk ISF increased by \$11,594 and \$8,946, respectively, from the previous fiscal year, due to an increase in the actuarial determined liability amount and an increase 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

The Treasurer is responsible for authorizing all County bank accounts and pursuant to California Government Code (CGC) Sections 27000.1 – 27000.5, 27130 – 27137 and 53600 – 53686, is responsible for conducting County investment activities of the County's investment pooled funds in addition to various individual investment accounts outside of the pooled funds. These public funds are called the Orange County Investment Fund (OCIF). Within the OCIF, the Treasurer maintains an Orange County Investment Pool (OCIP) and an Orange County Educational Investment Pool (OCEIP), which are "external investment pools" wherein moneys of the County and other legally separate external entities, which are not part of the County Reporting Entity, are commingled (pooled) and invested on the participants' behalf. In addition, the Treasurer maintains the John Wayne Airport Investment Pool and other separately managed investments. The County's Investment Pools are not registered with the Securities and Exchange Commission (SEC) as an investment company.

The Treasurer further invests pooled funds from the OCIP and OCEIP into the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF) and the Extended Fund. On November 10, 2011, Standard & Poor's (S&P) affirmed an AAA Principal Stability Fund Rating (AAAm) for the OCMMF and the OCEMMF. The two money market funds are required to maintain a Net Asset Value (NAV) of between \$0.995 and \$1.005 to maintain an AAAm rating. Neither the Money Market nor the Extended Fund has any legally binding guarantees of share values.

The maximum maturity of investments for the two Money Market Funds is 13 months with a maximum weighted average maturity (WAM) of 60 days. The maximum maturity of the Extended Fund is five years. The Investment Policy Statement (IPS) provides that the Extended Fund shall have duration not to exceed a leading 1-3 Year index +25%.

Pursuant to CGC Sections 27130-27137, the Board has established a Treasury Oversight Committee (TOC) that monitors and reviews the IPS annually and also ensures that the Treasurer has an audit annually, which includes limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the County Superintendent of Schools, or their respective designees, and two public members.

The investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner which will provide maximum security of principal invested, with secondary emphasis on providing adequate liquidity to Pool Participants, and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

Investments with the Treasurer totaled \$5,729,089 as of June 30, 2012 consisting of: \$3,069,131 for the OCIP, \$2,603,008 for the OCEIP and \$56,950 for Specific Investments.

A. Deposits

CGC 53652 et. seq. and the IPS prescribe the amount of collateral that is required to secure the deposit of public funds. The pledge to secure deposits is administered by the California Superintendent of Banks. Collateral is required for demand deposits at 110% of all deposits not covered by federal depository insurance (FDIC) 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 and confirmed as part of the annual audit by the County Auditor Controllers Office of the Statement of Assets held by the County Treasury. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is

A. Deposits (Continued)

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. FDIC is available for interest-bearing funds deposited at any one financial institution up to a maximum of \$250. In addition, from July 1, 2011 through June 30, 2012, no collateral was required as the FDIC provided unlimited coverage for noninterest-bearing transaction accounts in accordance with Section 343 of the Dodd-Frank Act. Of the total deposits, 100% of deposits totaling \$24,400 were covered by FDIC and no additional collateral was required to secure the public funds deposits.

Custodial Credit Risk - Deposits

The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. The County's deposits are not exposed to custodial credit risk, since all of its deposits are covered by FDIC.

Total County deposits and investments at fair value as of June 30, 2012, are reported as follows:

Deposits:

Imprest Cash	\$	2,141
Deposit Overdraft	*	(75,773)
Total Cash Overdrafts	-	(73,632)
Investments:		, ,
With Treasurer		5,729,089
With Trustee		485,916
Total Investments		6,215,005
Total Deposits and Investments	\$	6,141,373
Total County deposits and investments are reported in the following funds:		
Governmental Funds	\$	1,766,265
Component Unit		83,033
Fiduciary Funds		3,409,330
Proprietary Funds		882,745
Total Deposits and Investments	\$	6,141,373

B. Investments

The CGC Section 53601, 53635, Board ordinances and resolutions, the County's IPS, the bond indenture documents, trust agreements, and other contractual agreements govern the investments that may be purchased and may include certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality, and timing to minimize the risk of loss. The IPS adds further restrictions to permitted investments from the CGC. As of June 30, 2012, the Treasurer was in full compliance with the more restrictive IPS and therefore, was also in compliance with CGC. The following table provides a summary listing of the authorized investments as of June 30, 2012.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Type of Investment	CGC % of Funds Permitted	Orange County IPS (%)	CGC Maximum Final Maturity	Orange County IPS Maximum Final Maturity (Long-Term- Extended-Fund)	Orange County IPS Maximum Final Maturity (Short-Term – Money Market Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities	100%	100% total, no more than 30% in one issuer	5 Years	5 Years	397 Days
Municipal Debt	100%	30% total, no more than 5% in one issuer except 10%- County of Orange	5 Years	5 Years	397 Days
Medium-Term Notes	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days
Bankers Acceptances	40%, 30% in a single issuer	40% total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% in a single issuer	40% total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	30% total, no more than 5% in one issuer	5 Years	5 Years	397 Days
Repurchase Agreements	100%	20% total, no more than 5% in one issuer	1 Year	1 Year	1 Year
Money Market Mutual Funds	20%, 10% in a single fund	20% total, no more than 10% in one fund	N/A	5 Years	397 Days

Additional Restrictions

The current IPS expressly prohibits leverage, reverse repurchase agreements as defined by CGC, structured notes, structured investment vehicles, and derivatives. All investments must be United States dollar denominated. No investment may be purchased from an issuer that has been placed on credit watch-negative by any of the Nationally Recognized Statistical Rating Organization (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 "AA" or "Aa2" by S&P and Fitch or Moody's.

Repurchase agreements can only be entered into with entities prescribed in CGC Section 53601. The securities underlying the agreements must be delivered to the County's custodial banks.

Investments by the Treasurer are stated at fair value. Investments in the OCIF are marked to market on a daily basis. If the NAV of the Money Market Fund for either the OCIP or the OCEIP is less than \$0.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$0.995 and \$1.005.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school and community college districts are required by legal provisions to deposit their funds with the County Treasurer. The OCEIP consists entirely of public school and community college districts' funds and therefore includes 100% involuntary participants. At June 30, 2012, the OCIP includes approximately 9.69% of involuntary participant deposits including funds for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

B. Investments (Continued)

Investment Disclosures
The following table presents a summary of the County's investments and the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2012 (NR means Not Rated).

				Interest Rate		Weighted Average Maturity		% of
With Treasurer:	Fair Value		Principal	Range (%)	Maturity Range	(Years)	Rating (1)	Portfolio
County Investment Pool (2)								
U.S. Government Agencies		_						
FNMA Bonds	\$ 644,630	\$, -	0.16-3.55%	07/02/12-05/23/17	1.890	AA	21.00%
Federal Farm Credit Bank	362,280		361,947	0.12-2.04%	07/02/12-03/21/14	0.249	AA	11.80%
FHLB Discount Notes	99,993		100,000	0.05-0.07%	07/27/12-07/31/12	0.079	AA	3.26%
FHLB Bonds	592,491		588,807	0.14-0.80%	07/24/12-05/23/17	1.098	AA	19.30%
FHLMC Bonds	516,369		514,952	0.07-1.67%	07/15/12-09/21/16	1.328	AA	16.83%
Commercial Paper	64,998		65,000	0.10-0.11%	07/02/12-07/11/12	0.024	A-1	2.12%
Negotiable Certificates of Deposit	99,000		99,000	0.31-0.60%	07/09/12-06/14/13	0.302	A-1	3.23%
Medium-Term Corporate Notes								
Corporate Notes	208,377		205,664	0.17-2.14%	07/16/12-06/01/14	0.515	AA	6.79%
Corporate Notes	14,428		13,775	2.00-2.16%	06/01/14	1.921	AAA	0.47%
Municipal Debt	87,428		86,885	0.65-1.55%	02/01/13-08/15/13	1.002	Α	2.85%
U.S. Treasuries	138,122		138,037	0.06-0.83%	07/02/12-01/31/14	0.800	AA	4.50%
Money Market Mutual Funds	241,015		241,015	0.02-0.05%	07/02/12	0.005	AAA	7.85%
	\$3,069,131	\$	3,058,263			0.984 (6)	•	100.00%
Educational Pool (2)							į	
U.S. Government Agencies								
FNMA Discount Notes	\$ 34,997	\$	35,000	0.07-0.12%	07/27/12-08/31/12	0.101	AA	1.35%
FNMA Bonds	586,819		585,512	0.14-3.55%	07/02/12-05/03/17	1.719	AA	22.54%
Federal Farm Credit Bank	309,348		309,078	0.12-2.99%	07/02/12-03/21/14	0.219	AA	11.89%
FHLB Discount Notes	10,498		10,500	0.07-0.15%	07/11/12-10/30/12	0.175	AA	0.40%
FHLB Bonds	542,710		539,703	0.09-0.80%	07/02/12-05/23/17	0.969	AA	20.85%
FHLMC Discount Notes	24,999		25,000	0.05%	07/10/12	0.129	AA	0.96%
FHLMC Bonds	374,825		373,708	0.10-1.67%	07/26/12-09/21/16	1.509	AA	14.40%
Commercial Paper	9,999		10,000	0.13%	07/23/12	0.063	A-1	0.38%
Negotiable Certificates of Deposit	107,220		106,975	0.24-0.59%	08/24/12-06/14/13	0.249	A-1	4.12%
Medium-Term Corporate Notes	,		,-					
Corporate Notes	176,593		174,270	0.06-2.14%	07/16/12-06/01/14	0.502	AA	6.78%
Corporate Notes	11,757		11,225	2.00-2.16%	06/01/14	1.921	AAA	0.45%
Municipal Debt	73,559		73,115	0.65-1.55%	02/01/13-08/15/13	0.990	Α	2.83%
U.S. Treasuries	134,031		133,963	0.04-0.83%	07/26/12-01/31/14	0.661	AA	5.15%
Money Market Mutual Funds	205,653		205,653	0.02-0.05%	07/02/12	0.001	AAA	7.90%
	\$2,603,008	\$	2,593,702			0.952 (6)		100.00%

B. Investments (Continued)

With Treasurer:	Fa	air Value	F	rincipal	Interest Rate Range (%)	Maturity Range	Average Maturity (Years)	Rating (1)	% of Portfolio
Specific Investments (2)									
U.S. Government Agencies									
FNMA Bonds	\$	11,211	\$	11,200	0.15-3.55%	07/02/12-03/14/13	0.043	AA	19.69%
Federal Farm Credit Bank		9,427		9,425	0.16-2.99%	07/02/12-03/27/13	0.056	AA	16.55%
FHLB Bonds		10,901		10,900	0.13-0.35%	07/02/12-06/21/13	0.298	AA	19.14%
FHLB Discount Notes		1,350		1,350	0.09-0.11%	07/03/12-08/10/12	0.074	AA	2.37%
FHLMC Bonds		2,773		2,770	0.16-0.19%	07/15/12-03/21/13	0.050	AA	4.87%
FHLMC Discount Notes		834		834	0.17%	10/11/12	0.301	AA	1.46%
GNMA Bonds		117		117	6.25%	09/20/29	17.236	AA	0.21%
Commercial Paper		4,139		4,140	0.10-0.22%	07/02/12-10/09/12	0.070	A-1	7.27%
Negotiable Certificates of Deposit		4,250		4,250	0.20-0.59%	07/09/12-06/14/13	0.308	AA	7.46%
Medium-Term Corporate Notes									
Corporate Notes		2,956		2,921	0.18-0.40%	09/15/12-12/28/12	0.376	AA	5.19%
Municipal Debt		1,500		1,500	0.75%	08/01/12	0.088	Α	2.63%
Repurchase Agreements		1,082		1,082	6.20%	08/15/19	7.129	AA	1.90%
Money Market Mutual Funds		6,410		6,410	0.02-0.05%	07/02/12	0.011	AAA	11.26%
	\$	56,950	\$	56,899			0.309 (6)	_	100.00%
With Trustees:						•		•	
Restricted Investments with Trustees (2)								
U.S. Government Agencies									
FNMA Medium-Term Notes	\$	186,650	\$	98,498	Variable	09/01/16-09/01/21	6.670	AA	48.99%
FNMA Discount Notes		7,412		7,205	Variable	11/21/12	0.390	P-1	1.95%
Commercial Paper		5,434		5,445	0.33%	01/29/13-02/08/13	0.600	P-1	1.43%
U.S. Treasuries		17,104		16,300	0.38-9.00%	10/31/12-11/15/18	1.850	AA	4.49%
U.S. Treasury Strips		341		54	Variable	11/15/18	6.380	AAA	0.09%
Guaranteed Investment Contracts		25,302		25,302	4.27-5.01%	07/01/13-01/17/17	3.250	NR	6.64%
Money Market Deposit Accounts		12,824		12,824	Variable	07/01/12	0.000	NR	3.37%
Money Market Mutual Funds									
Money Market Mutual Funds (3)		71,869		71,869	Variable	07/01/12	0.000	AAA	18.86%
Money Market Mutual Funds		48,085		48,084	Variable	07/01/12	0.000	NR	12.62%
Stable Value Fund		5,951		5,951	Variable	07/01/12	0.000	NR	1.56%
	\$	380,972	\$	291,532		-	3.590 (6)	_	100.00%
With External Orange County						=		=	
Retirement System (OCERS):									
Restricted Investments (4)	\$	99,886	-						

(1) The County obtains credit ratings from S&P, Moody's, and Fitch. The ratings indicative of the greatest degree of risk have been disclosed.

Amount includes OCDA's former assets that are now transferred to the Successor Agency.

5,058

(6) Portfolio weighted average maturity.

Fund (LAIF):

Restricted Investment (5)

⁽²⁾ Legend: FNMA – Federal National Mortgage Association, FHLMC – Federal Home Loan Mortgage Corporation, FHLB – Federal Home Loan Bank, GNMA – Government National Mortgage Association

⁽⁴⁾ The Retiree Medical Trust Reports \$99,886 of restricted investments with OCERS. Refer to Note 17 on obtaining OCERS Financial Statements. For the ratings of the restricted investments held with OCERS, refer to their most recently issued financial statements available at http://www.ocers.org/finance/finance.htm.

⁽⁵⁾ The Law Library fund reports \$5,058 of restricted investments with LAIF. 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.

B. Investments (Continued)

Investment in County of Orange Taxable Pension Obligation Bonds 2012, Series A

On January 18, 2012, the OCMMF, OCEMMF, Extended Fund and John Wayne Airport Investment Pool purchased a portion of the County issued Taxable Pension Obligation Bonds 2012, Series A (2012 POBs) in the principal amount of \$61,500. The POBs were issued with fixed coupon rates from .75% to .95% and maturities from August 2012 through June 2013. The obligation of the County to pay principal and interest on the 2012 POBs is imposed by law and is absolute and unconditional. As of June 30, 2012, the outstanding principal amount of the 2012 POBs invested in OCIF is \$61,500. The bonds are rated A+ by S&P. The County's investment in the 2012 POBs is disclosed herein as Municipal Debt.

Temporary Transfers and Bridge Transfers to Orange County School Districts

In April 2012, the County Treasurer received requests from ten Orange County school districts to make temporary transfers as required by state law and authorized by the Board Resolutions 11-195 for temporary transfers and 12-010 for bridge transfers. The resolutions authorize the County Treasurer to make temporary transfers to school districts to address their short-term cash flow needs. The loans are secured by tax receipts to be received by the County Treasurer as the banker for the school districts and will be repaid no later than October 31, 2012. At June 30, 2012, the outstanding temporary transfers from the OCEIP totaled \$147,000. At June 30, 2012, the outstanding bridge transfers from the OCIP totaled \$23,832 and are reported as a receivable for financial reporting.

Refunds of Treasury Administrative Fees to OCIP and OCEIP Participants

During the fiscal year ended June 30, 2012, the County Treasurer finalized the review of the FY 2007-08 through FY 2010-11 treasury administrative fee cost studies and processed a net treasury administrative fee refund of \$2,700 to the pool participants for these years based on their balances during each period.

Interest Rate Risk - Investments

This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, investments of longer maturities are more sensitive to changes in market interest rates. Declines in the fair value of investments are managed by limiting the length of the maturity of the securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment policy. Actual weighted average days to maturity by investment type for the funds invested in the County Pool are presented in the preceding table.

The OCIP funds of \$3,069,131 and the OCEIP funds of \$2,603,008 portfolio at June 30, 2012, have over 41.04% and 44.71%, respectively of the investments maturing in six months or less, 53.68% and 50.21% respectively, maturing between one and three years and 5.28% and 5.08% respectively, maturing from three to five years.

As of June 30, 2012, variable-rate notes comprised 24% and 25% of the OCIP and the OCEIP 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 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 OCIP and the OCEIP was \$3,338,864 and \$2,986,426, respectively with an annual average yield of 0.54% and 0.52%, respectively, for the year ended June 30, 2012.

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

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

At June 30, 2012, the OCMMF and the OCEMMF totaled \$1,410,997 and \$1,251,825, respectively. In accordance with the Board formally approved IPS, the County Treasurer manages investment related risk for deposits and investments by limiting the WAM to 60 days in the Money Market Funds. At June 30, 2012, the WAM of the OCMMF was 57 days and the OCEMMF was 58 days. At the same date, the NAV of the Money Market Funds for both pools was \$1.00 (in absolute dollar amounts).

Interest Rate Risk-Duration (Extended Fund)

At June 30, 2012, the Extended Fund (which includes funds from both OCIP and OCEIP) balance was \$3,009,317. Of this amount, the OCIP owned 55.10% and the OCEIP owned 44.90%. In accordance with the IPS, the Treasurer manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index (2.14). The portfolio duration for the Extended Fund as of June 30, 2012, was 1.67 years. This was computed using the Macaulay duration method, which calculates the maturity date of callable bonds using their final maturity date.

As of June 30, 2012, the Extended Fund consisted of the following investments:

		Fair Value	Macaulay Duration
Investment Type	(Am	ounts in Thousands)	(In Years)
Medium-Term Corporate Notes	\$	276,318	0.61
Municipal Debt		135,964	1.06
Treasuries		187,154	1.05
U.S. Government Agencies		2,409,881	1.87
Total Fair Value	\$	3,009,317	-
Portfolio Duration			1.67

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. The IPS does not permit investments in uninsured and unregistered securities not held by the County. The Treasurer utilizes third party delivery versus payment (DVP), which mitigates any custodial credit risk. Securities purchased by the Treasurer are held by a third party custodian, Northern Trust, in their trust department to mitigate custodial credit risk. 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 the Treasurer did not have any securities lending during the year (or at year-end).

Credit Risk - Investments

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. 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, 2012, the County's investments were in compliance with the IPS limits.

Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As June 30, 2012, all investments were in compliance with State law and with the IPS. See the preceding table for concentrations of holdings in U. S. government agencies.

Foreign Currency Risk

The IPS requires all securities to be U.S. dollar denominated. The County Pools are not exposed to foreign currency risk.

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

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, 2012:

Entire Pool

Statements of Net Assets

	County Investment Pool			lucational vestment Pool	Total		
	1 001		1 001			Total	
Net Assets Held for Pool Participants	\$	3,126,440	\$	2,513,360	\$	5,639,800	
Equity of Internal Pool Participants Equity of External Pool Participants Undistributed and Unrealized Gain Total Net Assets	\$	2,949,777 175,855 808	\$	2,513,157 203	\$	2,949,777 2,689,012 1,011	
	Φ	3,126,440	Φ	2,513,360	Φ	5,639,800	
Statements of Changes in Net Assets							
Net Assets at July 1, 2011 Net Changes in Investments by Pool	\$	3,144,765	\$	2,949,280	\$	6,094,045	
Participants		(18,325)		(435,920)		(454,245)	
Net Assets at June 30, 2012	\$	3,126,440	\$	2,513,360	\$	5,639,800	

External Pool Portion

Combining Statement of Fiduciary Net Assets

	County Investment Pool			ducational rvestment		Total	
Acceta		POOI		Pool	Total		
<u>Assets</u>							
Pooled Cash/Investments	\$	175,611	\$	2,532,408	\$	2,708,019	
Receivables							
Interest/Dividends		324		4,994		5,318	
Total Assets		175,935		2,537,402		2,713,337	
<u>Liabilities</u>							
Interest Payables				21		21	
Due to Other Governmental Agencies		80		24,021		24,101	
Total Liabilities		80		24,042		24,122	
Net Assets							
Held in Trust		175,855		2,513,360		2,689,215	
Total Net Assets	\$	175,855	\$	2,513,360	\$	2,689,215	

B. Investments (Continued)

Combining Statement of Changes in Fiduciary Net Assets

	County vestment Pool	Educational Investment Pool			Total		
Additions:							
Contributions to Pooled Investments	\$ 390,076	\$	5,781,789	\$	6,171,865		
Other Revenues	38		1,268		1,306		
Interest and Investment Income	671		14,491		15,162		
Less: Investment Expense	 (119)		(2,792)		(2,911)		
Total Additions	390,666		5,794,756		6,185,422		
Deductions:							
Distributions from Pooled Investments	392,189		6,230,676		6,622,865		
Total Deductions	392,189		6,230,676		6,622,865		
Change in Net Assets Held in Trust							
For External Investment Pool	(1,523)		(435,920)		(437,443)		
Net Assets Held in Trust, Beginning of Year	177,378		2,949,280		3,126,658		
Net Assets Held in Trust, End of Year	\$ 175,855	\$	2,513,360	\$	2,689,215		

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									
	В	alance				<u> </u>				Balance
	July	1, 2011	Ir	creases		Decreases	Adju	stments	Jui	ne 30, 2012
Governmental Activities:										
Capital Assets Not Depreciated/Amortized:										
Land	\$	773,474	\$	16,217	\$	(1,115)	\$	(224)	\$	788,352
Land Use Rights (Permanent)		175		924						1,099
Construction in Progress		288,943		81,182		(136,288)		171		234,008
Intangible in progress		25,840		3,269		(4,516)		186		24,779
Total Capital Assets Not										
Being Depreciated/Amortized:	1	,088,432		101,592		(141,919)		133		1,048,238
Capital Assets, Depreciable/Amortizable:										
Structures and Improvements	1	1,121,252		105,909		(5,953)				1,221,208
Equipment		346,441		19,014		(14,704)		(467)		350,284
Softw are		51,743		4,579				(232)		56,090
Land Use Rights (Amortizable)		571						`		571
Infrastructure:										
Flood Channels		963,958		21,213				8,661		993,832
Roads		162,467		2,589		(735)		(450)		163,871
Bridges		75,366		6,705		`(99)				81,972
Trails		49,537		763		`		(6,882)		43,418
Traffic signals		10,668		534						11,202
Harbors and Beaches		37,625		3,549				64		41,238
Capital Assets,				-,-	-					,
Depreciable/Amortizable	2	2,819,628		164,855		(21,491)		694		2,963,686
Less Accumulated Depreciation/Amortization For:										
Structures and Improvements		(522,462)		(54,140)		4,324				(572,278)
Equipment		(271,278)		(17,451)		9,001		(3)		(279,731)
Softw are		(8,661)		(12,050)						(20,711)
Land Use Rights (Amortizable)		(170)		(193)						(363)
Infrastructure:										
Flood Channels		(242,674)		(16,917)						(259,591)
Roads		(78,016)		(18,812)		338				(96,490)
Bridges		(28,048)		(2,999)		99				(30,948)
Trails		(28,466)		(48)						(28,514)
Traffic signals		(9,762)		(423)						(10,185)
Harbors and Beaches		(24,749)		(1,356)						(26,105)
Total Accumulated		, , ,		, ,						
Depreciation/Amortization	(1	1,214,286)		(124,389)		13,762		(3)		(1,324,916)
Capital Assets,		· · /		, , ,		· · · · · ·				, , ,
Depreciable/Amortizable (Net)		1,605,342		40,466		(7,729)		691		1,638,770
Governmental Activities Total Capital Assets, Net	\$ 2	2,693,774	\$	142,058	\$	(149,648)	\$	824	\$	2,687,008

5. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government										
		Balance								Balance	
	Jul	July 1, 2011		Increases		Decreases		Adjustments		e 30, 2012	
Business-Type Activities:											
Capital Assets Not Depreciated:											
Land	\$	38,083	\$		\$		\$		\$	38,083	
Construction in Progress		323,294		79,277		(346,265)		4		56,310	
Total Capital Assets Not Being Depreciated		361,377		79,277		(346,265)		4		94,393	
Capital Assets, Depreciable:											
Structures and Improvements	361,242			344,085		(1,764)	(2,352)			701,211	
Equipment		81,801	81,801 3,030 (3,466) (1,181		(3,466)		(1,181)		80,184		
Infrastructure		495,284		2,096		(5,593)		2,691		494,478	
Capital Assets, Depreciable		938,327		349,211		(10,823)		(842)		1,275,873	
Less Accumulated Depreciation For:											
Structures and Improvements		(177,011)		(14,198)		885				(190,324)	
Equipment		(51,353)		(5,990)		3,189		724		(53,430)	
Infrastructure		(281,751)		(18,410)						(300,161)	
Total Accumulated Depreciation		(510,115)		(38,598)		4,074		724		(543,915)	
Capital Assets, Depreciable (Net)		428,212		310,613		(6,749)		(118)		731,958	
Business-Type Activities Total Capital Assets, Net	\$	789,589	\$	389,890	\$	(353,014)	\$	(114)	\$	826,351	

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

Government Activities:	
General Government	\$ 18,824
Public Protection	50,690
Public Ways and Facilities	23,422
Health and Sanitation	3,107
Public Assistance	8,480
Education	3,837
Recreation and Cultural Services	12,122
Internal Service Funds' Depreciation	
Expense Allocated to Various Functions	3,907
Total Governmental Activities	
Depreciation/Amortization Expense	124,389
Business-Type Activities:	
Airport	20,985
Waste Management	17,613
Total Business-Type Activities Depreciation Expense	38,598
Total Depreciation/Amortization Expense	\$ 162,987

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

\$3,006 of accounts receivable for governmental activities is not expected to be collected within the next fiscal year. Of this amount, \$2,492 consists of invoices billed by OC Animal Care for dog license fees and penalties. \$405 represents expected recoveries from John Wayne Airport fixed-based operator (FBO) lessees for pollution remediation costs.

Deposits Receivable

\$1,521 in deposits receivable for governmental activities is not expected to be collected within the next fiscal year. Of this amount, \$400 represents a deposit required by the vendor (Cardinal Health) per the price agreement with the Health Care Agency (HCA); the deposit will be returned within 60 days of the expiration of the price agreement. \$756 represents operating funds deposited into a management account administered by Lewis Investment Company, LLC, for payment of costs related to the entitlement of the Greenspot Property located within the City of Highland and \$97 represents condemnation deposits with the court or state.

Notes Receivable

\$29,172 of notes receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, \$27,696 consists of loans to build affordable, low to moderate income, and senior housing. \$892 is from the sale of surplus County property. The remaining \$584 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 the 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

\$95,351 due from other governmental agencies is not expected to be received within the next fiscal year. Of this amount, \$92,490 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; and an allowance for doubtful accounts for SB90 has been established in the government-wide Statement of Net Assets for claims that have been outstanding for more than seven years. \$1,901 is owed by the City of Rancho Santa Margarita for amounts due under their Revenue Neutrality Agreement; it is anticipated the amount will be collected within 3 years. \$372 is owed by the State for the Workforce Investment Act (WIA) Individual Training Accounts; part of the WIA activities includes training for participants to attend training classes at approved schools in order to obtain employment. The remaining \$169 is owed by the State to the HCA for the California Children Services program.

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2012 is as follows:

Due To/From Other Funds:

					Receivabl	e Funds				
			Flood	Other	Other			Compressed	Internal	
Payable	General	Daada	Control	Public	Governmental	A :	Waste	Natural	Service	Tatal
Funds	Fund	Roads	District	Protection	Funds	Airport	Management	Gas	Funds	Total
General Fund	\$ -	\$ 436	\$ 1,170	\$ 3,701	\$ 14,542	\$ 565	\$ 1	\$ 2	\$1,201	\$21,618
Roads	2,113	-	610	-	1	-	-	-	4	2,728
Flood Control										
District	5,430	545	-	-	-	-	11	-	3	5,989
Other Public										
Protection	4,985	-	-	-	3	-	-	-	4	4,992
Teeter Plan										
Obligation										
Commercial										
Paper Program Note	5	_	_	_	_	_	_	_	_	5
o .	3	_	_	_	_	_	_	_	_	3
Other Governmental										
Funds	27,901	115	27	2	112	_	_	-	55	28,212
Airport	2,007	1	9	1	_	_	_	_	508	2,526
Waste	2,007	•	J	•					000	2,020
Management	2,131	_	_	_	1	_	_	_	21	2,153
Compressed	2,101				·					2,100
Natural Gas	16	_	_	_	-	_	_	_	_	16
Internal										
Service										
Funds	1,963	-	-	-	13	-	-	-	1	1,977
Total	\$ 46,551	\$1,097	\$ 1,816	\$ 3,704	\$ 14,672	\$ 565	\$ 12	\$ 2	\$1,797	\$70,216
					JI					

Interfund Transactions between the Primary Government and Component Unit:

Receivable Entity	Payable Entity	Amount
Primary Government – General Fund	Component Unit - OC Children &	\$ 283
	Families Commission	
Component Unit – OC Children &	Primary Government – Other	4
Families Commission	Governmental Funds	

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

Advances To/From Other Funds:

Receivable Entity	Payable Entity	Amount
General Fund	Other Governmental Funds	\$ 2,500

The interfund loan represents an advance to the Courthouse Construction Fund from the General Fund to backfill the deficit as a result of a state audit of court revenues for the period FY 2003-04 through FY 2011-12.

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, 2012, approximates \$54,906.

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, 2012 are as follows:

	Govern	mental	Busi	ness-type			
Fiscal Year(s) Ending June 30	Activ	vities	Activities				
				_			
2013		9,967		34,158			
2014		9,662		32,588			
2015		9,582		30,976			
2016		8,279		20,639			
2017		8,367					
		45,857		118,361			
2018-2022		43,291		46,401			
2023-2027		45,987		15,755			
2028-2032		46,234		3,112			
2033-2037		49,457					
2038-2042		20,877					
2043-2047		627					
		206,473		65,268			
Total future minimum rentals	\$	252,330	\$	183,629			

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$259 (Flood Control District), \$1,765 (OC Parks), \$1,749 (OC Dana Point Harbor), \$22,688 (Airport), \$325 (CEO IT), and \$34 (Other Governmental Funds) for the year ended June 30, 2012.

9. <u>INTERFUND TRANSFERS</u>

Interfund transfers for the year ended June 30, 2012 were as follows:

	Transfer In Funds										
Transfer Out Funds		General Fund	F	Other Public Protection		Other Governmental Funds		Internal Service Funds		Total	
General Fund	\$	-	\$	3,961	\$	64,452	\$	2,276	\$	70,689	
Flood Control District		1,701		-		-		-		1,701	
Other Public Protection		15,803		-		-		-		15,803	
Teeter Plan Obligation Commercial Paper Program Note		10,000		-		-		-		10,000	
Other Governmental Funds		173,974		-		63,990		-		237,964	
Waste Management		11,767		-		-		-		11,767	
Internal Service Funds		44		-		-		-		44	
Total	\$	213,289	\$	3,961	\$	128,442	\$	2,276	\$	347,968	

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) transfer Measure H Tobacco Settlement revenues and Public Safety Sales Tax (PSST) excess revenue in compliance with the specific statutory requirements, (3) make available cash distributions based on the Bankruptcy Recovery Plan, and (4) 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

From the General Fund

- \$34,776 was transferred to the Debt Service Fund in connection with debt service payments for various County debt issues.
- \$10,495 was transferred to Other Governmental Funds to finance the County's 60 percent share of the Social Services Agency Wraparound Program.
- \$9,924 was transferred to Other Governmental Funds to distribute available cash to the remaining claimants of the bankruptcy loss as part of the Bankruptcy Recovery Plan.
- \$3,701 was transferred to Other Public Protection for the annual transfer of PSST excess revenue to meet future public protection needs.
- \$1,718 was transferred to Internal Service Funds for medical reimbursements.
- \$1,400 was transferred to Other Governmental Funds to pay for operating costs and debt service obligations associated with parking facilities.

From Flood Control District

• \$1,701 was transferred to the General Fund for the Watershed Management Program.

From Other Public Protection

- \$6,934 was transferred to the General Fund to support the Sheriff Department's operations.
- \$8,289 was transferred to the General Fund for the reimbursement of various County programs as follows:
 - \$5,569 for District Attorney programs
 - \$2,720 for the Clerk-Recorder's information technology, capital acquisitions, and/or improvements

9. INTERFUND TRANSFERS (Continued)

Routine Transfers (Continued)

From Teeter Plan Obligation Commercial Paper Program Note

 \$10,000 of excess penalties and interest from delinquent tax payments were transferred to the General Fund.

From Other Governmental Funds

- \$130,436 was transferred to the General Fund for the reimbursement of various County programs as follows:
 - \$97,079 for Proposition 63, Mental Health Services Act expenses
 - \$18,120 for the Social Services Agency Wraparound Program
 - \$11,807 for emergency medical services
 - \$3,430 for the Center for Disease Control pandemic flu H1N1 costs
- \$25,352 of tobacco settlement monies were transferred to the General Fund to finance HCA's various health care programs and Sheriff Department's operational costs.
- \$3,495 of bond proceeds were transferred to the General Fund for the Cogeneration Plant at the County's Central Utility Facility.
- \$1,291 was transferred to the OCDA Debt Service fund for debt service payments related to the Low and Moderate Income Housing Program.

From Enterprise Funds

• \$11,767 due primarily to the net proceeds and interest earnings from the Out-of-County Waste Importation Program was transferred to the General Fund for Recovery Certificates of Participations Lease Financing as part of the Bankruptcy Recovery Plan.

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

Non-Recurring Transfers

From the General Fund

- \$2,055 was transferred to the Capital Project Fund for various capital projects at the Sheriff's Department.
- \$2,000 was transferred to the Capital Project Fund to implement audit findings of the State Controller's audit of Court revenues for the periods of FY 2003-04 through FY 2011-12.
- \$1,400 was transferred to the Capital Project Fund for the cost incurred in housing ICE detainees in the County jail system.

From Other Governmental Funds

- \$31,815 was transferred to the Housing Successor Fund to record the transfer of assets and liabilities from the Orange County Development Agency, which was dissolved effective February 1, 2012.
- \$28,217 was transferred to a capital project fund to implement the use of tax increment funds from the Neighborhood Development and Preservation Project to fund the Community Stabilization Program.
- \$5,791 was transferred to the General Fund for reimbursement of Juvenile Justice Center debt service payments.
- \$4,557 was transferred to the General Fund to pay for the ongoing operational costs in the Sheriff's Department.
- \$2,398 was transferred to a debt service fund for reimbursement of debt service obligations associated with parking facilities.
- \$2,301 was transferred to the General Fund to acquire 100 acres of land from Saddleback Vineyards Inc.

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 \$214,795 provided by Wells Fargo Bank, National Association, 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 12, 2011, the County redeemed \$96,520 of its \$156,900 CP outstanding at June 30, 2011, and issued an additional \$58,384 in CP. The additional CP financed the purchase of delinquent property tax receivables associated with the Teeter Plan. Proceeds of this CP issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll. Commencing July 12, 2011, the principal and interest on the CP notes are paid with the amounts drawn upon an irrevocable transferable direct-pay letter of credit issued by Wells Fargo Bank, which replaces a letter of credit previously provided by Dexia Credit Local. As of June 30, 2012, the outstanding principal amount of the CP notes was \$118,764.

2011-2012 Tax and Revenue Anticipation Notes Series A

On July 1, 2011, the County issued its 2011-2012 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, 2012. The Notes are secured by a pledge of certain general fund monies. The County paid the notes on June 29, 2012.

Taxable Pension Obligation Bonds, 2011 Series A

On March 15, 2011, the County issued Taxable Pension Obligation Bonds, 2011 Series A (the "2011 POBs") in the principal amount of \$275,920. The 2011 POBs were issued in order to prepay the County's FY 2011-12 pension obligation. The 2011 POBs were purchased by the Treasurer at a rate of 1.82% for investment in the County Pool. The 2011 POBs were issued as convertible capital appreciation bonds, with a fixed rate, a maturity date of June 27, 2012, and an optional put feature, which allows the Treasurer upon 90-days notice to liquidate the investment on April 13, 2012. The obligation of the County to pay principal and interest on the 2011 POBs is imposed by law and is absolute and unconditional. The County paid the bonds on June 27, 2012.

Taxable Pension Obligation Bonds, 2012 Series A

On January 18, 2012, the County issued Taxable Pension Obligation Bonds, 2012 Series A (the "2012 POBs") in the principal amount of \$229,880. The 2012 POBs were issued in order to prepay the County's FY 2012-13 pension obligation. The 2012 POBs were issued as standard bonds, with five fixed rate tranches, and a final maturity date of June 28, 2013. The obligation of the County to pay principal and interest on the 2012 POBs is imposed by law and is absolute and unconditional. As of June 30, 2012, the outstanding principal amount of the 2012 POBs reported in the General Fund was \$229,880.

Refer to Note 4, Deposits and Investments, and Note 18, Retirement Plans, for additional information.

Description	3alance ly 1, 2011	D F	suances & Discount/ Premium nortization	Accreted Interest	F	Retirements	Balance ne 30, 2012	D	Amounts ue within 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	\$ 156,900	\$	58,384	\$ -	\$	(96,520)	\$ 118,764	\$	118,764
County of Orange 2011-2012 Tax and Revenue Anticipation Notes, Series A Date Issued: July 1, 2011									
Interest Rate: 2.00% Original Amount: \$150,000 Maturing in installments through June 29, 2012			150,000			(150,000)			
County of Orange Taxable Pension Obligation Bonds, 2011 Series A Date Issued: March 15, 2011 Interest Rate: 1.82% Original Amount: \$275,920 Maturing in installments through June 27, 2012	277,416		-	(1,496)		(275,920)			
County of Orange Taxable Pension Obligation Bonds, 2012 Series A Date Issued: January 18, 2012 Interest Rate: 0.75% to 0.95% Original Amount: \$229,880 Maturing in installments through June 28, 2013	<u></u>		229,880	<u></u>		<u></u>	229,880		229,880
Total	\$ 434,316	\$	438,264	\$ (1,496)	\$	(522,440)	\$ 348,644	\$	348,644

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, 2012, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$5,309,621. 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, 2012, the outstanding principal amount, including the premium of the 2005 Recovery Bonds, and interest were \$54,724 and \$5,101, respectively.

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, 2012, the outstanding principal amount, including the premium of the Series 2005 Bonds, and interest were \$133,819 and \$17,973, respectively.

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

Revenue Bonds Payable and Certificates of Participation

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, Certificates of Participation (COPs) representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the \$33,579 Refunding COPs (Civic Center Parking Facilities Project), which are payable through December 2018. At June 30, 2012, the outstanding principal amount and interest of the Refunding COPs were \$3,422 and \$14,805, respectively.

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

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, 2012, the outstanding principal amount, including the premium of the Series 2006 Bonds, and interest were \$23,263 and \$3,883, 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.

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.

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, 2012, the outstanding principal amounts for the Series 1996A and 1997A Pension Bonds were \$22,659 and \$24,864, respectively.

Airport Revenue Refunding Bonds, Series 2003

In July 1987, the County issued the Airport Revenue Bonds, Series 1987 (1987 Bonds) in the principal amount of \$242,440 to finance the construction of new facilities at John Wayne Airport. In July 1993, the County issued the Airport Revenue Refunding Bonds, Series 1993 (1993 Bonds) in the principal amount of \$79,755 to partially refund the 1987 Bonds. In April 1997, the County issued the Airport Revenue Refunding Bonds, Series 1997 (1997 Bonds) in the principal amount of \$135,050 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 the 1997 Bonds, in the amount of \$44,155.

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 interest expense incurred and the amount included as part of the cost of capital assets under construction for the 2003 Bonds for the fiscal year ended June 30, 2012, were \$1,332. As of June 30, 2012, the outstanding principal amount, including premium, and interest for the 2003 Bonds were \$27,755 and \$4,939, 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

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Airport Revenue Refunding Bonds, Series 2003 (Continued)

debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2012, the principal and interest paid and total net revenues were \$4,576 and \$35,580, respectively

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 consists 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. For the fiscal year ended June 30, 2012, the interest expense incurred and the amount included as part of the cost of capital assets under construction for the 2009A Bonds were \$1,276 and \$1,231 respectively, and for the 2009B Bonds were \$3,783 and \$3,638, respectively. As of June 30, 2012, the outstanding principal amount, including premium and discount, of the 2009A and 2009B Bonds were \$65,593 and \$157,469, respectively, and the outstanding interest were \$55,219 and \$98,029, respectively.

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, 2012, the principal and interest paid and total net revenues were \$15,867 and \$46,775, respectively. The total net revenues include \$11,195 of PFC revenue.

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, including the premium of the Series 1997 Bonds, and interest on these bonds as of June 30, 2012, were \$13,679 and \$728, respectively. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120% of the aggregate debt service expense payable in such fiscal year.

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, 2012, \$15,790 of legally defeased debt remains outstanding.

Fiscal Year 2011-12 Debt Obligation Activity

During FY 2011-12, the following events concerning County debt obligations took place:

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.

On April 25, 2012, the South Orange County Public Financing Authority (SOCPFA) issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2012, in the principal amount of \$34,380, to redeem the outstanding OCPFA Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, fund a Reserve Fund, and pay costs relating to the issuance of the bonds.

Lease Revenue Refunding Bonds, Series 2012 (Juvenile Justice Center Facility)

On April 25, 2012, the SOCPFA issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2012 Bonds, in the principal amount of \$34,380, payable through June 2019, with a premium of \$2,927. The Lease Revenue Refunding Bonds were issued to redeem the outstanding OCPFA Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, fund a Reserve Fund, and pay costs relating to the issuance of the bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,579. This difference is reported as a deferred amount on refunding of 2012 Lease Revenue Bonds. There is no current year amortization amount for the deferred amount on refunding. The refunding resulted in a reduction of debt service payments over the next 7 years by \$14,735 and obtained an economic gain of \$8,180. As of June 30, 2012, the outstanding principal amount, including the premium of the Series 2012 Bonds, and interest were \$37,307 and \$5,856, respectively.

The bonds are special obligations of the SOCPFA payable solely from and secured by the base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2012, between the SOCPFA 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.

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.

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of ABX1 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under ABX1 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations (as defined in the law). The OCDA Successor Agency assumed the dissolved RDA's enforceable obligations, which include bond debt obligations. The FY 2011-12 NDAPP Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation

Fiscal Year 2011-12 Debt Obligation Activity (Continued)

<u>Tax Allocation Refunding Bonds, Series 2001 (Neighborhood Development and Preservation Project)</u> (Continued)

Payment Schedule (ROPS) and were approved by the successor agency oversight board and the State Department of Finance, and are to be paid to bondholders according to the debt service schedule.

Effective with the OCDA dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the successor agency.

Refer to Note 12, Conduit Debt Obligations and Successor Agency Debt, for additional information.

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.

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of ABX1 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under ABX1 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations (as defined in the law). The OCDA Successor Agency assumed the dissolved RDA's enforceable obligations, which include bond debt obligations. The FY 2011-12 SAHP Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation Payment Schedule (ROPS) and were approved by the successor agency oversight board and the State Department of Finance, and are to be paid to bondholders according to the debt service schedule.

Effective with the OCDA dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the successor agency.

Refer to Note 12, Conduit Debt Obligations and Successor Agency Debt, for additional information.

Schedule of Long-Term Debt Obligations, Fiscal Year 2011-12

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2012, were as follows:

Description	Balance uly 1, 2011	Issuances and Discount/ Premium Amortization		irement Insfers	Balance June 30, 2012	Amounts Due within One Year
·	 ary 1, 2011				 Julie 30, 2012	
Governmental Funds:						
County of Orange Refunding Recovery Bonds - 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 1, 2015. Deferred Amount on Refunding	\$ 71,194 (4,166)	\$ (1,305) 1,042	\$ (*	15,165) 	\$ 54,724 (3,124)	\$ 17,325 (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 2011-12 Principal and Interest: \$61,173 FY 2011-12 Total Pledged Revenues: \$35,697						
Maturing in Installments Through July 1, 2017. Deferred Amount on Refunding	191,819 (13,842)	(4,120) 2,129	(!	53,880)	133,819 (11,713)	19,699 (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 2011-12 Principal and Interest: \$2,600 FY 2011-12 Total Pledged Revenues: \$2,770 Maturing in Installments Through December 1, 2018.	4,064			(642)	3,422	600
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 2011-12 Principal and Interest: \$2,161 FY 2011-12 Total Pledged Revenues: \$8,891						
Maturing in Installments Through September 1, 2022. Deferred Amount on Refunding	19,379 (657)	(249) 55	('	19,130) 602		

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2011-12 (Continued)

Description	Balance uly 1, 2011	D F	suances and Discount/ Premium nortization	etirements/ Fransfers	Ju	Balance ine 30, 2012	Du	mounts e within ne Year
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 2011-12 Principal and Interest: \$49,058 FY 2011-12 Total Pledged Revenues: \$35,697 Maturing in Installments Through June 1, 2019. Deferred Amount on Refunding	\$ 47,355 (1,748)	\$	(2,530)	\$ (44,825) 1,748	\$	 	\$	
South Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds - Series 2012 Date issued: April 25, 2012 to refund the 2002 Juvenile Justice Center bond issue Interest Rate: 1.00% to 5.00% Original Amount: \$34,380 FY 2011-12 Principal and Interest: \$0 FY 2011-12 Total Pledged Revenues: \$0 Maturing in Installments Through June 1, 2019. Deferred Amount on Refunding			37,307 (1,579)	 		37,307 (1,579)		4,545 (226)
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 2011-12 Principal and Interest: \$4,202 FY 2011-12 Total Pledged Revenues: \$35,697 Maturing in Installments Through June 1, 2018.	26,340		(62)	(3,015)		23,263		3,380
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 2011-12 Principal and Interest: \$2,957 FY 2011-12 Total Pledged Revenues: \$6,072 Maturing in Installments Through September 1, 2023. Deferred Amount on Refunding	29,430 (1,143)		(1,230) 92	(28,200) 1,051		 		

Subtotal - Governmental Funds

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2011-12 (Continued)

Description	Balance July 1, 2011	Issuances and Discount/ Premium Amortization	Retirements/ Transfers	Balance June 30, 2012	Amounts Due within One Year
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1996 A: Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB) Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB) To Refund the Taxable POBs Series 1994 A Interest Rate: CIB - 7.47% to 7.72% Interest Rate: CAB - 8.09% to 8.26% Original Amount: CIB - \$81,680 Original Amount: CAB - \$40,000 Maturing in Installments Through September 1, 2010 (CIB) and September 1, 2016 (CAB). County of Orange Taxable Refunding Pension Obligation Bonds - Series 1997 A: Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB) Date Issued: June 14, 1997 - Capital Appreciation Bonds (CAB) To Refund the Taxable POBs Series 1994 A Interest Rate: CIB - 5.71% to 7.36% Interest Rate: CAB - 7.33% to 7.96% Original Amount: CIB - \$71,605 Original Amount: CAB - \$65,318 Maturing in Installments Through September 1, 2010 (CIB) and September 1, 2021 (CAB).	\$ 29,197	\$	\$ (6,538)	\$ 22,659	\$ 6,195

\$ 422,705

29,550

\$ (168,613)

283,642

51,750

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2011-12 (Continued)

Description	Balance July 1, 2011	Issuances and Discount/ Premium Amortization	Retirements/ Transfers	Balance June 30, 2012	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 2011-12 Principal and Interest: \$4,576 FY 2011-12 Total Pledged Revenues: \$35,580 Maturing in Installments Through July 1, 2018. Deferred Amount on Refunding (2003 Airport Revenue Bonds)	\$ 31,167 (2,554)	\$ (247) 637	\$ (3,165) 	\$ 27,755 (1,917)	\$ 3,531 (530)
Airport Revenue Bonds - Series 2009A and 2009B: Date Issued: July 9, 2009 Interest Rate: 3.00% to 5.75% Original Amount: \$233,115 FY 2011-12 Principal and Interest: \$15,867 FY 2011-12 Total Pledged Revenues: \$46,775 Maturing in Installments Through July 1, 2039.	228,070	(322)	(4,686)	223,062	6,206
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 2011-12 Principal and Interest: \$7,191					
FY 2011-12 Total Pledged Revenues: \$13,743 Maturing in Installments Through December 1, 2013. Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue	20,006	(21)	(6,306)	13,679	6,659
Bonds) Subtotal - Enterprise Funds	(85) 276,604	72 119	(14,157)	(13) 262,566	(11) 15,855
Total	\$ 699,309	\$ 29,669	\$ (182,770)	\$ 546,208	\$ 67,605

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:

	Governmental Funds				Enterpr		
Fiscal Year(s) Ending June 30	Principal		Interest		Principal	Interest	Total
2013	\$ 52,803	\$	36,755	\$	15,905	\$ 12,793	\$ 118,256
2014	50,802		26,563		17,304	12,072	106,741
2015	52,053		23,866		10,660	11,512	98,091
2016	38,909		35,230		11,040	11,069	96,248
2017	54,721		35,652		11,555	10,533	112,461
2018-2022	31,988		57,788		52,100	44,452	186,328
2023-2027					55,678	31,258	86,936
2028-2032					48,785	15,895	64,680
2033-2037					24,005	7,910	31,915
2038-2040					17,635	1,420	19,055
Total	 281,276		215,854	•	264,667	158,914	920,711
Add: Premium / (Discount) Less: Deferred Amount	18,782				(171)		18,611
on Refunding	 (16,416)				(1,930)		(18,346)
Principal Payable, Net	\$ 283,642	\$	215,854	\$	262,566	\$ 158,914	\$ 920,976

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2012, were as follows:

	Balance July 1, 2011		Δ	Additions	Reductions/ Transfers		Balance June 30, 2012			ue w ithin Ine Year
Governmental Activities:										
Bonds and COPs Payable:										
Revenue Bonds	\$	294,805	\$	34,380	\$	(149,050)	* \$	180,135	\$	26,680
Certificates of Participation		4,064				(642)		3,422		600
Pension Obligation Bonds		54,680				(7,157)		47,523		9,598
Recovery Bonds		65,361				(15,165)		50,196		15,925
Add: Premium/(Discount) on Bonds Payable		25,351		2,927		(9,496)	*	18,782		2,344
Less: Deferred Amount on Refunding		(21,556)		(1,579)		6,719	*	(16,416)		(3,397)
Total Bonds & COPs Payable, Net		422,705		35,728		(174,791)		283,642		51,750
Interest Accretion on Capital										
Appreciation Bonds Payable		167,358		13,867				181,225		
Other Long-Term Liabilities:										
Compensated Employee Absences										
Payable		173,824		129,105		(128,105)		174,824		88,842
Arbitrage Rebate Payable		884		226		(719)		391		,
Capital Lease Obligations Payable		76,074				(4,319)		71,755		4,357
Insurance Claims Payable		188,393		123,148		(107,929)		203,612		54,151
Net Pension Obligation		639		229		(928)		(60)		
SARI Line Obligation		33,999		10,000		(3,671)		40,328		
Total Other Long-Term Liabilities		473,813		262,708		(245,671)		490,850	-	147,350
Total Governmental Activities		<u> </u>					-			
Long-term Liabilities	\$	1,063,876	\$	312,303	\$	(420,462)	\$	955,717	\$	199,100

^{*} Includes amount transferred to the Successor Agency from the Orange County Development Agency.

Changes in Long-Term Liabilities (Continued)

	Balance July 1, 2011		Additions		Reductions/ Transfers		Balance June 30, 2012		Due within One Year	
Business-Type Activities:										
Bonds Payable:										
Revenue Bonds	\$	278,824	\$		\$	(14,157)	\$	264,667	\$	15,907
Add: Premium/(Discount) on Bonds Payable		419				(590)		(171)		489
Less: Deferred Amount on Refunding		(2,639)				709		(1,930)		(541)
Total Revenue Bonds Payable, Net		276,604				(14,038)		262,566		15,855
Other Long-Term Liabilities:										
Compensated Employee Absences										
Payable		5,218		4,098		(4,038)		5,278		2,480
Arbitrage Rebate Payable		322		108				430		281
Landfill Site Closure/Postclosure										
Liabilities *		163,328		5,394		(1,665)		167,057		1,665
Pollution Remediation Obligation **		13,348		1,840		(878)		14,310		607
Total Other Long-Term Liabilities		182,216		11,440		(6,581)		187,075		5,033
Total Business-Type Activities										
Long-Term Liabilities	\$	458,820	\$	11,440	\$	(20,619)	\$	449,641	\$	20,888

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

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2012, is \$174,824 compared with \$173,824 at June 30, 2011. Employees are entitled to be 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.

OC Flood Control District, Santa Ana Regional Interceptor (SARI) Line Loans New Obligation for FY 2011-12

On June 12, 2007, the Board approved a financing agreement between the Orange County Flood Control District (OCFCD) and Orange County Sanitation District (OCSD) for an amount of up to \$60,000. Concurrently, the Board also approved a financing agreement between the OCFCD and the Santa Ana Watershed Project Authority (SAWPA) for up to \$10,000. The loan proceeds will be used for the relocation of the SARI Line between Prado Dam and Weir Canyon Road for the following public benefits: protection of the sewer line from erosion, increased Prado Dam water releases, protection of the water supply, and uninterrupted use of the sewer line by residents. The total SARI Line Project cost is not expected to exceed \$100,000. The OCFCD would contribute \$30,000 that would be expended over the estimated three year period it will take to complete the SARI Line Project. As part of the terms of the agreement, the OCFCD agrees to pay SAWPA and OCSD as State subvention funding is received by OCFCD. Repayment installments will be made within 30 days of OCFCD's receipt of State subvention funding in an amount equivalent to 10% of the funds received being paid to SAWPA and 60% of the funds received being paid to OCSD. The OCFCD is required to repay the entire loan to OCSD and SAWPA no later than July 1, 2022, regardless of whether OCFCD receives any State subvention funds. For funds loaned by OCSD, interest shall accrue on the unpaid balance from July 1, 2018, at an annual interest rate of 3% until the unpaid balance is repaid. As for funds loaned by SAWPA, interest shall accrue on any such unpaid balance from July 1, 2018, at the State of California Local Agency Investment Fund interest rate in effect on July 1, 2018.

^{**} Refer to Note 17 for additional information regarding the increase in Pollution Remediation Obligation.

OC Flood Control District, Santa Ana Regional Interceptor (SARI) Line Loans New Obligation for FY 2011-12 (Continued)

In April 2011, OCFCD received a \$36,000 loan from OCSD. The loan amount is recorded on the government-wide Statement of Net Assets as due to other governmental agencies. In May 2011, the Board awarded the construction contract for the SARI Yorba Linda Spur in the amount of \$7,210, and the Board awarded the construction contract for the SARI Mainline in the amount of \$42,000 in August 2011. In addition, OCFCD received a \$10,000 loan from SAWPA in August 2011. As of June 30, 2012, the total outstanding loan principal was \$40,328.

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. 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, 2012, amounted to \$538,880.

12. CONDUIT DEBT OBLIGATIONS AND SUCCESSOR AGENCY DEBT

Single and Multi-Family Housing Bonds

From 1980 through 2012, 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, 2012, there were 33 series of bonds outstanding, with an aggregate principal amount payable of \$413,937.

OCDA Successor Agency Bond Debt

On December 29, 2011, the California Supreme Court issued an opinion in California Redevelopment Association (CRA) v. Matosantos, upholding the constitutionality of ABX1 26, eliminating Redevelopment Agencies (RDA) statewide effective February 1, 2012. Under ABX1 26, a successor agency was created for each dissolved RDA, including OCDA, and charged with winding down the dissolved RDA's operations and performing enforceable obligations (as defined in the law). The OCDA Successor Agency assumed the dissolved RDA's enforceable obligations, which include bond debt obligations. The fiscal year 2011-12 NDAPP and SAHP Refunding Bonds debt service obligations appeared on the OCDA Successor Agency Recognized Obligation Payment Schedule (ROPS) and were approved by the successor agency oversight board, the State Department of Finance, and were paid to bondholders according to the debt service schedule.

Effective with OCDA's dissolution on February 1, 2012, the assets and liabilities (including bond debt) were transferred to and reported in a private-purpose trust fund of the County. This transfer and reporting structure reflect the custodial role accepted by the successor agency. As of June 30, 2012, the outstanding principal amount, including premium and interest on the OCDA Successor Agency bonds were \$45,713 and \$14,033, respectively.

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.

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
2013	\$ 1,217	\$ 27,356	\$ 28,573
2014	12	21,186	21,198
2015	3	19,305	19,308
2016		17,300	17,300
2017		10,408	10,408
2018 - 2022	 	 18,373	 18,373
Total	\$ 1,232	\$ 113,928	\$ 115,160

Total expenditures for equipment rentals and operating leases incurred for FY 2011-12 was \$41,942.

Capital Leases

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

Land	\$ 18,707
Equipment	133
Less: Accumulated Depreciation	(23)
Structures & Improvements	80,377
Less: Accumulated Depreciation	(28,134)
Total	\$ 71,060

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, 2012:

Fiscal Year Ending June 30	
2013	\$ 9,802
2014	9,832
2015	8,574
2016	8,762
2017	8,987
2018-2022	43,625
2023-2027	20,033
Total Minimum Lease Payments	109,615
Less: Amount Representing Interest	(37,859)
Present Value of Net Minimum	
Lease Payments	\$ 71,755

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, 2012 was \$167,057. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (26.54% for FRB, 69.35% for Olinda Alpha and 22.73% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. The 22.73% amount for Prima Deshecha represents the cumulative amount of landfill capacity used for both Zone 1 and Zone 4. This amount was segregated to more accurately reflect the greater usage to date of Zone 1 in relation to the closure and postclosure care costs. OCWR will recognize the remaining estimated cost of closure and postclosure care of \$177,956 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2011 dollars (using the 2011 inflation factor of 1.021). 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.

In compliance with Title 27- Environmental Protection of California Code of Regulations, OCWR makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," 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, 2012, a total of \$90,037 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 prefunded for postclosure care.

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

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

The County has established a procedure for encumbering appropriations for purchase orders, contracts, and other commitments authorizing delivery of merchandise or rendering of services. An encumbrance system reduces the possibility of commitments being made in excess of budgeted appropriations due to the lag time between issuance of purchase orders, contracts, and other obligations, and the actual provision of services or goods and subsequent receipt of invoices and billings from the vendors and contractors. In accordance with GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," the County's total significant encumbrances for governmental funds in the aggregate are reported as follows, at June 30, 2012:

General Fund	\$ 43,256
Roads	26,180
Flood Control District	83,333
Other Public Protection	2,260
Other Governmental Funds	 19,587
Total Encumbrances for Governmental Funds	\$ 174,616

At June 30, 2012, the County's total commitments for major contracts entered into for computer software in development, equipment, land, and structures and improvements were as follows, listed by fund within governmental or business-type activities:

Project Title		Significant Commitments		
Governmental Activities:				
General Fund				
Replacement of Boiler Feedpumps at the Central Utility Facility	\$	1,318		
		1,318		
Roads				
Antonio Parkway Widening Project - Ladera Planned Community to Ortega Highway		6,147		
17th Street Pavement Rehabilitation & Landscape Improvements - Prospect Avenue				
to Newport Avenue		2,171		
Antonio Parkway Landscaping		1,285		
		9,603		
Flood Control District				
Santa Ana River Interceptor Line Project		36,500		
East Garden Grove Wintersburg Channel Haster Retarding Basin Project		25,167		
Los Alamitos Pump Station: New Pump and Pump House		3,271		
Fletcher Retarding Basin Project - From Santa Ana River to Upstream				
Fletcher Retarding Basin		2,966		
Edinger Storm Channel Improvement		1,941		
	<u>—</u>	69,845		

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Project Title		Significant Commitments		
Governmental Activities (Continued):				
Other Governmental Funds				
Purchase of Law Enforcement Vehicles	\$	1,466		
Laguna Niguel Library Expansion Project		1,155		
		2,621		
Business-Type Activities:				
Airport				
Seismic Remediation Elevated Roadway Project		2,927		
Airline Offices Tenant Improvements		1,859		
Common Use Passenger Processing System (CUPPS)		1,445		
		6,231		
Waste Management				
Phase C3 Liner Project at Prima Landfill		7,378		
Construction Management, Construction Quality Control, Archaeo/Paleo Services				
for Prima Landfill		2,400		
Olinda Drainage Channel Improvements and Repairs		1,436		
Frank R. Bowerman Construction Management, Construction Quality Control				
Slide/Buttress		1,271		
		12,485		
Total Commitments	\$	102,103		

In addition, the County is involved in the Santa Ana River Mainstem Project (SAR). 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/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 was initiated in 1989, the U.S. Army Corps of Engineers (COE) considered this flood plain to constitute the worst flood threat west of the Mississippi River as to impacts to the population and property. The Project involves a combination of flood channel improvements and constructing new channels in Orange, San Bernardino, and Riverside counties, construction of the 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 \$2,088,000. OCFCD's combined cost share is estimated to be \$1,802,318 for the entire Santa Ana River Project. As of June 30, 2012, the OCFCD has expended about \$499,837 on the Santa Ana River Project.

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 Santa Ana River 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 Santa Ana River 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 completed in June 2011. Several environmental mitigation studies and restoration/pre-

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

servation projects are underway in all three counties. All property right acquisitions for the Seven Oaks Dam and along the lower Santa Ana River 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 January 2013. The OCFCD has awarded the construction contract on August 9, 2011 for the 4 miles of Santa Ana River Interceptor Line (SARI) relocation project, which is expected to be completed by January 2014. A separate construction contract for the Yorba Linda Spur, a component of the SARI relocation project, was awarded on May 3, 2011, and was completed in November 2012. Construction of the Auxiliary Embankment (an extension of the Prado Dam) was initiated in November 2010 at a cost of \$13,800 and is expected to be completed in September 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, 2012, the OCFCD has submitted \$306,723 in claims, and received \$258,871 in reimbursements. An additional \$43,163 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, 2012, of approximately \$91,015. Of this amount, \$15,390 was appropriated by the State for FY 2012-13, and therefore was accrued as revenue in the government-wide financial statement. Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid, subject to available funding, with the remaining 10% paid after an audit by the State Controller's Office.

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

OCFCD is also seeking deferral of a portion of its cost share obligations for the Prado Dam Project as allowed through Section 103(a)(4) of the Water Resources Development Act (WRDA) of 1986. Under this Section, OCFCD may have the ability to defer payment of a portion of its cost share obligations (those which exceed 30% of total project costs), until after project completion, and reimburse the Federal Government over a period of 15 years after the project is finished. The steps necessary to exercise this Section of WRDA 1986 are being discussed between OCFCD and COE.

16. SELF-INSURANCE

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

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention. The Workers' Compensation Program ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to \$20,000.

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 was only one instance in FY 2010-11 in which the County had sustained a loss that impacted its excess insurance coverage.

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 2.84% in the Workers' Compensation ISF and 1.93% in the Property and Casualty Risk ISF 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, claims experience, and funding for the Worker's Compensation program. 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, actual number of positions from a biweekly County payroll report, and funding for the Property and Casualty Risk program. The rate calculations for Workers' Compensation and Property and Casualty Risk ISFs are based upon guidelines established by the State Controller's Office for cost plan allocations.

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

The County's Premier Wellwise, Wellwise Retiree, Premier Sharewell, and Sharewell Retirees have no lifetime coverage maximums. 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 covered by law is up to 26 weeks and up to an additional 51 weeks of benefits coverage through the Federal-State Extended Duration 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' mpensation	operty & sualty Risk	mployment surance	Ith & Other surance	Total
Unpaid Claims, Beginning of FY 2010-11	\$ 122,453	\$ 41,990	\$ 3,722	\$ 10,949	\$ 179,114
Claims and Changes in Estimates	40,825	17,884	2,762	60,976	122,447
Claim Payments	 (26,763)	(21,994)	(2,738)	(61,673)	(113,168)
Unpaid Claims, End of FY 2010-11	\$ 136,515	\$ 37,880	\$ 3,746	\$ 10,252	\$ 188,393
Claims and Changes in Estimates	37,413	22,801	(389)	63,323	123,148
Claim Payments	 (27,677)	(16,003)	(1,824)	(62,425)	(107,929)
Unpaid Claims, End of FY 2011-12	\$ 146,251	\$ 44,678	\$ 1,533	\$ 11,150	\$ 203,612

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.

Retired Employees Association of Orange County, Inc. v. County of Orange In late 2006, the County determined that due to a large unfunded liability, the current Retiree Medical Program needed to be changed. These changes were challenged in two separate lawsuits filed by Orange County's retirees. The first, Retired Employees Association of Orange County, Inc. ("REAOC") v. County of Orange, filed in November 2007, sought declaratory and injunctive relief contesting the splitting of the pool for purposes of determining health insurance premiums. The Board authorized County Counsel to retain the law firm of Meyers Nave Riback Silver & Wilson ("Meyers Nave") to handle this litigation and the Harris case discussed below.

In the REAOC case, on June 19, 2009, the Federal Court ruled in the County's favor on Cross-Motions for Summary Judgment. Plaintiff appealed that decision and oral argument was heard at the Ninth Circuit Court of Appeal on June 10, 2010.

On June 29, 2010, the Ninth Circuit issued an "Order Certifying a Question to the Supreme Court of California," asking that Court to provide an answer as to the following question:

"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."

The California Supreme Court accepted that referral. Oral argument before the Court was heard on October 3, 2011 and on November 21, 2011 the Court issued its findings stating:

"In response to the Ninth Circuit's inquiry, we conclude that, under California law, a vested right to health benefits for retired employees can be implied under certain circumstances from a county ordinance or resolution. Whether those circumstances exist in this case is beyond the scope of the question posed to us by the Ninth Circuit."

Additionally, the Court found that courts must look to the legislation in question to determine the parties' contractual rights and obligations and whether any implied contract can be inferred from it. The Court found that in order to create a binding contractual right, the legislation (i.e., the resolution here) must "clearly evidence a legislative intent to create private rights of a contractual nature enforceable against the governmental body." The Court also found that "implied rights to vested benefits should not be inferred without a clear basis in the contract or convincing extrinsic evidence." Significantly, the Court reaffirmed the existence of a presumption against finding a legislative intent to create private contractual or vested rights, which the proponent of the rights asserted must overcome:

"Thus, it is presumed that a statutory scheme is not intended to create private contractual or vested rights and a person who asserts the creation of a contract with the state has the burden of overcoming that presumption." (Walsh v. Board of Administration (1992)).

Estimated Liability for Litigation and Claims (Continued)

Retired Employees Association of Orange County, Inc. v. County of Orange (Continued)

The Ninth Circuit remanded the case to the District Court for further proceedings in light of the California Supreme Court's decision. Outside counsel believes it is unlikely Plaintiff will be able to meet the burden of proof on the implied contract theory when the case returns to the District Court. Supplemental briefs have now been filed with the District Court regarding the impact, if any, of the Supreme Court's decision on the prior ruling in the County's favor by the District Court. Oral argument on the issue was held on May 21, 2012. On August 13, 2012, the District Court again granted summary judgment in favor of the County, ruling that no implied contract rights existed in favor of the retirees.

Plaintiffs again appealed the court's decision to the Ninth Circuit. REAOC's opening brief is due February 19, 2013 and the County's responding brief is due March 21, 2013. The outcome of the appeal cannot be predicted at this time; however, should Plaintiff succeed in its overall efforts, this lawsuit could have a significant financial impact on the County.

<u>Gaylan Harris</u>, et al. v. County of Orange The second case, related to the REAOC case discussed above, was filed as a class action on behalf of County retirees on January 22, 2009 by retired employee Gaylan Harris. The issues and claims in Harris are, for the most part, the same as or similar to those raised in the REAOC matter described above. Based on the Court's ruling in REAOC, the County filed a motion to dismiss the Harris action. That motion was heard on June 14, 2010. For a period of months, the Court in Harris delayed ruling on the motion in hopes of learning the outcome of the Ninth Circuit appeal in REAOC. However, because the Ninth Circuit in the REAOC case delayed its own ruling on that appeal in order to refer the issue of implied contract under California law to the California Supreme Court, the Court in Harris went forward and ruled on the County's motion for judgment on the pleadings. On March 29, 2011, the Court granted the County's motion as to all claims and judgment was entered in the County's favor.

On April 22, 2011, the Plaintiffs appealed this decision to the Ninth Circuit. After fully briefing the case, the parties argued the matter on October 11, 2011. The Ninth Circuit then requested briefing from the parties on the impact, if any, of the California Supreme Court's decision in the REAOC case described above. On January 20, 2012, the County filed its letter brief addressing the impact of the Supreme Court's ruling and responding to the question of why the Harris case should not also be remanded to the district court for further proceedings in coordination with the REAOC matter.

On June 8, 2012, the Court issued its ruling reversing and remanding the case to the District Court for further proceedings. In response to the Ninth Circuit's opinion, Plaintiff's counsel filed a Request for Clarification on a point of law. The County filed its response on July 9, 2012, requesting that the Court deny Plaintiff's request. On July 23, 2012, the Ninth Circuit denied Plaintiff's request for clarification. The Ninth Circuit then returned the case back to the District Court. Upon remand, Plaintiff's filed an amended complaint. In response, the County filed a Motion to Dismiss. Arguments on the County's motion will be heard on January 17, 2013.

Given the fact that the judgment in the related REAOC matter is not yet final, it is difficult to predict the County's potential liability in the two cases at this time, but should the Plaintiffs prevail, these lawsuits could have significant financial impact on the County.

<u>County of Orange v. Asfour Family Corporation</u> Under a County Ordinance, property developers must pay a development impact fee as a condition of the issuance of a construction permit. The development impact fee is designed to defray the costs of construction of bridges, freeways, and major thoroughfares. The San Joaquin Transportation Corridor Agency ("TCA"), which manages a toll road in Orange County, assessed approximately \$1,000 in development impact fees on lessees of the County for their related construction at the new Terminal C at County-owned John Wayne Airport. The County collected fees from the lessees and transferred a portion of the fees to the TCA. The County has been advised that the assessment of these fees is illegal since fees cannot be assessed against government property.

Estimated Liability for Litigation and Claims (Continued)

County of Orange v. Asfour Family Corporation (continued)

In February 2012, with the Board's authority, the County filed an interpleader action and deposited approximately \$160 with the Court for a determination as to whether those fees (which were the only collected fees the County continued to hold) should be sent to the TCA or returned to the lessees. The interpleader action named the TCA and the interested lessees as defendants. The County will ask the Court to rule that the funds should be returned to those lessees wanting their fees refunded. There may be related future litigation involving the remaining fees TCA assessed.

TCA has since filed a cross-complaint against the County and all the original defendants to this action, as well as against Southwest Airlines and Frontier Airlines, alleging causes of action for breach of contract (specific performance and damages) and writ of mandate against the County and declaratory relief as to all the cross-defendants. On June 14, 2012, the court denied in part and sustained in part the County's demurrer to TCA's cross-complaint, granting TCA leave to amend.

Trial in the action is scheduled for April 29, 2013. The County has filed its answer to TCA's First Amended Cross-Complaint and is currently engaged in discovery. It is too early to assess the exposure of the County to any affirmative recovery by the TCA in the action.

Morrison Pump Company, Inc., v. SSC Construction, Inc.; Cross-complaint by SSC Construction, Inc. against OCFCD, County, and OC Public Works On June 26, 2007, as the governing body of the Orange County Flood Control District ("District"), the Board awarded a contract to SSC Construction, Inc. ("SSC") in the amount of \$21,707 for the construction of the Los Alamitos Pump Station Project ("Project"). The Project is still ongoing after having encountered a number of complications, which were by and large unforeseeable to OCPW. Such complications have caused major delays in the construction schedule. In the above referenced litigation and in Government Code claims filed with the County, SSC asserts that it was not responsible for any of the delays and that it has suffered substantial delay costs for which it alleges a right to be compensated by the District.

SSC filed its first claim for the initial period of delay on July 13, 2009. In that claim, SSC asserted the right to recover delay damages for the period covered by the claim in the amount of \$1,050. OCPW has reviewed the claim and disputes significant portions of SSC's alleged damages. In August, 2009, the District denied the claim. Then on November 9, 2010, SSC filed an "amendment" to its prior claim. The second claim addressed a specific issue regarding the installation of steel impellers, totaling \$250. SSC had recently been sued in the above referenced lawsuit by its subcontractor, Morrison Pump, for SSC's alleged failure to pay for the impellers. SSC filed the amendment to the claim against the County shortly thereafter in order to assert claims relating to the Morrison Pump matter. On December 23, 2010, the County denied that second claim.

Meanwhile, on November 29, 2010, SSC served the District with a cross-complaint in the Morrison Pump lawsuit. SSC's cross-complaint alleges damages in excess of \$1,300 (which is the combined amount of its two claims). 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, is a result of the District's refusal to pay SSC until the impellers are modified to meet the Project plans and specifications.

Settlement discussions occurred from January through April 2011. The goal of those discussions was to reach a partial settlement of the portion of SSC's delay claims that are not subject to reasonable dispute. Although no agreement could be reached with SSC as to a partial settlement, on May 17, 2011, the Board approved the issuance of a unilateral change order for additional payment to SSC in the amount of \$778. That payment was made and should satisfy the undisputed portion of SSC's delay claims for the approximate 8-month period of delay ending July 31, 2008 and should mitigate the District's exposure to late payment claims, costs and fees relating to those delay claims. The partial settlement does not cover, and leaves for litigation, SSC's claims for extended home office overhead and delay claims relating to Morrison Pump's delivery of nonconforming impellers.

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)

In early 2012, SSC served on the County a new claim, asserting the right to recover more than \$2,700 in additional compensation on the project through August 2011, about half of which is composed of asserted home office overhead costs incurred through August 2011. County Counsel anticipates this claim and any others that arise during the remainder of SSC's involvement in the project will be pursued through the pending lawsuit.

Pretrial discovery and preparation are ongoing. The previously scheduled trial date of June 4, 2012 was vacated. A new trial date will likely be scheduled once SSC's role on the project is finished.

During recent discovery, counsel for the District learned that Morrison Pump informed SSC of Morrison's position that the pumps as installed by SSC have a high probability of being damaged or failing during critical flood control pumping. This creates an additional issue, which may require consideration of expensive mitigation measures on the District's part to test and perhaps even replace the pumps if they are found to be defective.

It is too early in the process of discovery and investigation to accurately quantify the total exposure of the District to the claims being pursued by SSC.

County Counsel and the law firm of Sheppard Mullin Richter & Hampton, LLP are representing the County in this action. On November 27, 2012, the County received a new Government Claim filed by SSC against the County. The new claim seeks reimbursement for extra work performed by SSC on the heat exchangers for the project. The County asserts SSC has been paid all it is owed for this work. SSC's new claim will most likely be added to the pending litigation. The amount of the claim is unknown; SSC only states it exceeds \$10.

Orange County Flood Control District v. Altfillisch Construction Company On June 22, 2010, the Board of Supervisors authorized initiation of a condemnation action to acquire property interests required by the Orange County Flood Control District ("District") for the Prado Dam Project in real property owned by Altfillisch Construction Company. The property is used by the owner primarily for storage of heavy construction equipment. On July 6, 2010, outside counsel at California Eminent Domain Law Group filed the action in Riverside County Superior Court. Also pursuant to Board authority, the firm made a deposit of estimated just compensation in the amount of \$3,950 with the State Treasury's Condemnation Deposits Fund. The property owner has now withdrawn the deposit. The issue to be determined in the action is whether the owner is entitled to any additional compensation.

As required by the Eminent Domain law, the parties exchanged valuation data on February 28, 2012. The District's trial appraiser has opined that the applicable fair market value of the property interests the District is acquiring is \$2,143. The property owner's trial appraiser has opined that the property interests are worth \$18,811.

Trial in the case began on July 2, 2012. After approximately 20 days of trial spread over eight weeks, a Riverside County jury returned a verdict on August 27, 2012, finding that the Owner was entitled to receive \$15,005 as compensation for the fair market value of the Property.

As authorized by the Board of Supervisors in closed session on September 25, 2012, County Counsel and outside trial counsel engaged in post-trial mediation of the case in an effort to settle the matter for less than the judgment amount. As a result of that mediation, the parties reached a settlement for modification and reduction of the judgment amount to \$12,000. The judgment has now been fully paid by the Flood District and a satisfaction of judgment was executed by the Owner's attorney. This brings this matter to a conclusion. The County has accrued a liability of \$12,000 in the government-wide financial statements.

Estimated Liability for Litigation and Claims (Continued)

<u>Fair Labor Standards Act ("FLSA") Actions Brought by AOCDS</u> The County and the Sheriff's Department have been sued in a series of federal actions under the FLSA by AOCDS and its members. These cases have included *Jeffrey Weaver v. County of Orange*, *Margaret Reed v. County of Orange*, and *Herbert Siegmund*, et al. v. County of Orange, et al.

The *Reed* case was a purported class action brought on behalf of more than six hundred (600) Sheriff's Deputies who allegedly shared a common set of complaints regarding alleged violations of the FLSA. The County successfully brought a motion to decertify the class of plaintiffs. As a result of that motion, the Federal Court in *Reed* decertified the alleged class as to all but one class claim for pay during periods before and after deputies' work shifts when they "don and doff" their uniforms. On May 12, 2010, the Court granted a County motion and dismissed the donning and doffing claims as well. This left just a single plaintiff, Margaret Reed, to pursue her individual claims. However, the *Reed* plaintiffs have filed an appeal of that ruling with the Ninth Circuit.

Plaintiffs' counsel then attempted to avoid the effect of the Court's ruling in *Reed* by filing the *Weaver* case, alleging the same claims as in *Reed* on behalf of more than six hundred (600) former *Reed* class members in their individual capacities. The Court rejected that attempt and granted the County's motion in *Weaver* to strike and dismiss all named class plaintiffs from the complaint, and reduced the case to a complaint by a single deputy, Jeffrey Weaver.

However, in making that ruling in the *Weaver* case, the Court tolled the statute of limitations applicable to the claims of the dismissed individual plaintiffs for sixty (60) days (until July 2, 2010). As a result, 128 individual actions were filed. The Court in those actions urged all parties to all of these actions to engage in mediation. As a result of negotiations, an agreement was reached entitling each named plaintiff to \$8 of back pay.

On January 21, 2012, Plaintiff's filed a motion for preliminary settlement approval with the Court on those terms. At the hearing Plaintiff's counsel indicated that he believed they could get all but one or two plaintiffs to accept the terms of the settlement. The Court granted preliminary approval of the settlement and ordered that formal opt-in/opt-out notices be sent to all plaintiffs.

Although Plaintiff's counsel were unable to achieve 100% participation of the individual plaintiffs and Reed plaintiffs and despite the fact that only about 10% of the non-plaintiffs opted into the settlement of their claims, the Board of Supervisors approved the settlement and directed counsel and staff to proceed with its consummation.

Based on the Board's approval, plaintiffs' attorneys filed their motion for settlement approval with the court on May 14, 2012. The final approval of the settlement was entered by the Court on June 4, 2012 and Judgment was entered on June 25, 2012. Plaintiffs' counsel report that 127 of 129 individual plaintiffs (leaving 2 optouts), 526 of the 545 Reed Appeal plaintiffs (leaving 19 opt-outs), and 198 non-plaintiff's opted into the settlement. The plaintiffs who opted-out of the settlement had until August 10, 2012 to re-file their cases in order to avoid any further running of the statute of limitations. No new actions were filed. The remaining cases do not pose significant liability to the County. The County has accrued a liability of \$629 in the fund-level financial statements.

County of Orange v. Horizons Construction Co. and First National Insurance In January 2009, the Board of Supervisors awarded a contract ("the Agreement") for \$3,655 to Horizons Construction Co. International, Inc. ("Horizons") to construct the Prima Deshecha Landfill Office Building ("the Project"). The Project consists of constructing a 10,200 square foot "green" office building as well as certain exterior paving, landscaping, and related site work. The Project is managed through OC Waste and Recycling ("OCWR"). Horizons fell behind during construction and made numerous requests for extensions of the completion date. OCWR determined that certain delays were not the fault of the contractor, and extended the completion date by 50 additional days but denied other requests by Horizons' for additional time. With the additional time granted Horizons, all

Estimated Liability for Litigation and Claims (Continued)

County of Orange v. Horizons Construction Co. and First National Insurance (Continued)

work should have been completed no later than September 30, 2010. Horizons failed to meet this deadline. Horizons blames the delays on OCWR and continues to assert that they are entitled to be compensated for delay related damages.

Horizons also submitted numerous change order requests asserting that it was entitled to additional compensation for work that it asserts was additional work not adequately described in the plans and specifications for the Project or work it asserts constituted unknown conditions. The vast majority of those change order requests were denied by OCWR on the recommendation of the OCWR's construction management firm as unjustified. Horizons continues to assert it is entitled to additional compensation for these rejected change order requests.

Significant aspects of Horizons' work have been substandard. Horizons' substandard work includes a misapplied stain to the concrete floors, cracking in concrete; significant water leakage in the building through unprotected openings at the roof line, defective grout and control joints in the concrete block walls, improperly applied waterproofing and improperly sealed window openings. Horizons' poor construction resulted in severe mold growth resulting in substantial remediation costs to OCPW. Further there are missing HVAC control panels, incomplete sliding door assemblies and many more items of defective or incomplete work by Horizons.

In addition to the poor construction, Horizons failed to meet key deadlines in their own schedule which further delayed the project, ultimately resulting in OCPW terminating Horizons performance of certain portions of the exterior site work and taking over those portions of work.

On June 7, 2011, the Board authorized County Counsel and outside counsel at the firm of Sheppard Mullin Richter & Hampton, LLP to file suit against Horizons and its surety, First National. On November 4, 2011, the County filed its Complaint for (1) Recovery on Performance Bond; (2) Breach of Contract; and (3) Negligence in Superior Court for the County of Los Angeles against Horizons' and First National. All parties were served with the complaint on November 7, 2011.

On November 7, 2011, Horizons delivered its own claim to OCWR and the Clerk of the Board. The claim asserted a right to recover more than \$1,900 in claimed damages. The County prepared a detailed response, denying the claim in its entirety.

Then, in June 2012, when Horizons filed its answer to the County's complaint, Horizons also filed a cross-complaint against the County, in which it is entitled to recover more than \$2,700 in damages. Horizons also cross-complained against three of its subcontractors for indemnity. Horizons alleges that if it is found liable to the County for any amount, then the subcontractors are liable to Horizons for that amount. At the same time, several subcontractors have filed separate actions against Horizons (and the County under the stop notice procedures) for collection of alleged unpaid amounts. It is likely that those actions will be consolidated into the main action.

In September 2012, counsel for the County filed a cross-complaint against Horizons for filing false claims, which affect two or more of the claims presented in the case by Horizons. Now that the pleadings are set in the case, counsel for the County is now in the process of engaging expert trial consultants, having them analyze the County's damages in the case, conducting discovery and analysis of the claims and defenses of Horizons and its surety.

As this case is still in the discovery stage, the County's exposure to liability and its chances of obtaining significant recovery of its own against Horizons and its surety are difficult to estimate.

Estimated Liability for Litigation and Claims (Continued)

<u>Stueve Bros. Farms, LLC v. County of Orange, Orange County Flood Control District, and Board of Supervisors</u> This inverse condemnation action was served on the Clerk of the Board on January 24, 2012. As explained below, this action has been dismissed without prejudice for the time being, subject to a tolling agreement entered into between the parties, in order to allow the parties to explore the possibility of a resolution without litigation. However, in light of the uncertainty of such discussions and the possibility that the action may be re-filed, we are reporting this action as part of this report.

This action arose from the Orange County Flood Control District's ("OCFCD") Prado Dam Project ("Project"). The Board authorized County Counsel to engage the law firm of Murphy & Evertz and its principal eminent domain attorney, John Murphy, to defend the County, OCFCD and the Board against this action.

The property that was the subject of this inverse condemnation action is a former dairy property that lies within the current Project boundaries and within the projected inundation area once the Project is completed and the elevation of the dam and spillway is raised. The owner of the subject property, Stueve Bros. Farms, LLC ("Stueve") founded the Alta Dena Dairy. The Stueve Property consists of approximately 270 acres, 129 of which are already burdened by an existing flowage easement held by the U.S. Government (i.e., the Corps of Engineers). Stueve claimed in the complaint that the ongoing Project and OCFCD's alleged delays in pursuing acquisition of the subject property impaired its use and development of the property in a way that amounts to an unconstitutional "taking," resulting in so-called "precondemnation damages" and severance damages, among other allegations. Stueve sought a judgment against OCFCD and the County for damages totaling \$60,000.

Initial analysis of the case indicated that the lawsuit lacked merit. But if Stueve were to re-file the action and prevail, this would force OCFCD to acquire the subject property and to pay Stueve fair market value which would be determined by a judge or jury. The court or jury might also award precondemnation damages and/or severance damages that Stueve proves it has incurred as a result of the Project and the alleged taking of its property. If Stueve were to prevail, it would also likely recover its attorney's fees incurred in the action (which is one primary difference between inverse condemnation actions and conventional eminent domain actions where attorney's fees are more difficult for a property owner to recover).

In light of the uncertain status of potential settlement discussions, and the fact that no discovery or detailed legal analysis of the basis for the Stueve Farms claims has been conducted, it is not possible at this time to provide a reliable assessment of potential liability.

<u>California Department of Finance, et al. v. Jan Grimes, etc.</u> The State of California Department of Finance and the Chancellor of the State Community College District system filed suit in late April, seeking a writ of mandate and injunction to compel the County's "Interim Auditor-Controller," Jan Grimes (whose title is actually Chief Deputy Auditor-Controller) ("A-C"), to revert to the calculation of the Vehicle License Fee Adjustment Amount (VLFAA) that included the historical offset or reduction of the County's share of VLFAA by the amount of Vehicle License Fee revenues ("VLF") that had been set aside for the County in 1995 under AB 1096. The method of calculating VLFAA that was implemented by former A-C David Sundstrom in January 2012 (at the Board's request) results in an increase in the County's share of VLFAA of approximately \$73,500 per year. The A-C independently developed this calculation in consultation with Tom Hiltachk of the firm Bell, McAndrews & Hiltachk ("BMH"). The Board of Supervisors authorized the A-C to be represented in the action by the BMH firm.

The Board also authorized Best, Best & Krieger ("BBK"), as special litigation counsel for the County, to take steps to join the County in the lawsuit either through a stipulation or a motion to intervene. The existing parties to the case stipulated to allow the County and the local community college districts to intervene in the case. The County filed its complaint in intervention that will preserve the County's defense to the action, including potential offset of any liability by the amount of any prior shortfall in what the County should have been receiving in VLFAA due to the set-aside of VLF.

Estimated Liability for Litigation and Claims (Continued)

California Department of Finance, et al. v. Jan Grimes, etc. (Continued)

The case is assigned for all purposes to Orange County Superior Court Judge Robert Moss. The court has scheduled the hearing on the merits in the case for January 28, 2013. A briefing schedule has been agreed on that will call for briefing by all parties between November 21, 2012 and January 11, 2013.

If the Plaintiff's prevail in the lawsuit, this will mean a loss of revenue to the County of approximately \$73,500 per year (based on the most recent annual calculation). Because the outcome of the case is dependent on complex issues of constitutional and statutory interpretation and construction, some of which may be issues of first impression, the chances of success in the action cannot be reliably estimated at this time.

County of Orange vs. RxAmerica On December 5, 2012, the County filed an action against a subsidiary of CVS/Caremark, RxAmerica, LLC ("RXA"). The purpose of the litigation is to recover more than \$5,600 in overbillings and/or impermissible charges from 2007 through June 30, 2012 by RXA for prescription services provided by RXA under a contract with the County's Health Care Agency ("HCA") pertaining to HCA's Medical Services for Indigents program and Behavioral Health Services program. As part of the contract, RXA and HCA had agreed to a medication formulary that listed the agreed-upon services and the condition to fill prescriptions outside this formulary. The contract also required RXA to submit to an independent annual audit, performed by a HCA contract auditor. The audit findings for the period July 1, 2007 to June 30, 2012 revealed that RXA did not follow its contractual obligations, resulting in an overcharge of approximately \$5.600 over the contract period. Despite repeated efforts by HCA to resolve the outstanding audits, RXA did not clear the findings. Consequently, HCA did not pay RXA's invoices corresponding to May and June 2012. This amounted to approximately \$3,800. HCA obtained the Board of Supervisors' permission to file a lawsuit for the remaining \$1,800. Accordingly, on December 5, 2012, HCA filed a complaint as stated above. While it is probable that RXA will file a cross-complaint against the County for the \$3,800 HCA has withheld in payments which RXA claims it is due, the County claims it does not owe anything to RXA and, in fact, is owed an additional \$1.800 from RXA.

As this case is still in the initial pleading stage, the County's exposure to liability due to any possible cross-complaint is difficult to determine at this time.

Association of Orange County Deputy Sheriff's v. County of Orange, Orange County Sheriff's Department, Orange County Sheriff Sandra Hutchens, et al. On August 17, 2010, the Association of Orange County Deputy Sheriffs ("AOCDS") filed an action in Orange County Superior Court against the County and the Sheriff seeking to enjoin the Sheriff from further implementing the staffing of Orange County jails with a new classification of non-sworn employees, Correctional Services Assistants ("CSAs" – who are part of the OCEA bargaining unit), to perform functions in the jails that AOCDS alleged had been historically performed by sworn Deputies/members of AOCDS. A hearing on AOCDS's preliminary injunction motion occurred on September 24, 2010, before Judge Makino. Despite County Counsel's strong arguments, the court granted the injunction. On September 28, 2010, the Board authorized County Counsel to pursue an appeal of the injunction. In conjunction with the filing of that appeal, County Counsel also sought and received from the Court of Appeal an order staying the effect of the Superior Court's preliminary injunction during the pendency of the appeal.

On September 28, 2011, the Court of Appeal issued its decision affirming the trial court's order enjoining the CSA program pending hearing on the merits of AOCDS's petition for writ of mandate. The Court of Appeal concluded that the trial court had not abused its discretion in granting the preliminary injunction. The Court concluded that the "work" being performed by CSAs in the Orange County jails is work that was historically performed by deputies in the jail. Based on this conclusion, the Court expressed the opinion that AOCDS demonstrated a likelihood of success on the merits because transferring "work" from the members of one bargaining unit to members of another bargaining unit (CSAs are represented by OCEA) is a subject of mandatory bargaining under the Meyers-Milias-Brown Act (MMBA) and the operative MOU between AOCDS and the County.

Estimated Liability for Litigation and Claims (Continued)

Association of Orange County Deputy Sheriff's v. County of Orange, Orange County Sheriff's Department, Orange County Sheriff Sandra Hutchens, et al. (Continued)

The Court of Appeal also concluded that AOCDS had demonstrated it was likely to suffer greater harm during the pendency of the trial than the County because use of the CSAs in the jail would necessarily reduce the number of AOCDS members; the court indicated that a union can be "harmed" by a diminution of its membership. Moreover, the Court concluded the AOCDS members were harmed because using CSAs in positions previously occupied by a deputy Sheriff reduced the "shift options" available to deputy Sheriffs. The Court of Appeal was dismissive of the Sheriff's asserted harm relating to the budgetary impacts of having to reverse course on a staffing plan that included use of CSAs in the jails and having to staff such vacant positions with overtime deputies. The Court's opinion was final on October 28, 2011, and the Court of Appeal ordered that its earlier stay of the Superior Court's preliminary injunction was lifted as of that date.

A trial date of March 26, 2012, was scheduled by the trial court. However, in March 2012, AOCDS was allowed by the court to file a First Amended Complaint that added a cause of action for damages. At that time, the damages sought were poorly defined and appeared to be nominal and of little consequence. The Court allowed the filing of that amendment but bifurcated the case so that the trial would proceed initially only on the AOCDS writ of mandate petition, with the damages claim to be heard later.

The trial went forward as scheduled. Over the course of two weeks, the Court (Judge Franz Miller presiding) heard four and a half days of live testimony and almost five hours of closing arguments. On April 9, 2012, Judge Miller issued his ruling from the bench. The Court ordered the County and AOCDS to meet and confer regarding the impacts of the CSA classification on the wages, hours, and other terms and conditions of employment of AOCDS members working the jails. The Court found that the zipper clause in the AOCDS MOU did not allow AOCDS to declare that an issue is subject to meet and confer but then refuse to meet and confer until the contract is open for negotiations.

On June 20, 2012, the Court issued a writ of mandate in the form requested by County Counsel, over the objections of AOCDS. The writ ordered the County and AOCDS to meet and confer regarding the issue of the use of CSAs in the jails and ordered the Sheriff to file a return to the writ with the Court by July 5, 2012. County Counsel filed a writ return on July 5, 2012 detailing the Sheriff's efforts to meet and confer (AOCDS was refusing to meet and confer) and requesting that the writ be discharged because the County has complied with the writ to the fullest extent possible. AOCDS filed a notice of appeal from the court's order. Briefing on the appeal is now underway.

In the bifurcated "damages" portion of the case, on or about October 16, 2012, AOCDS filed and served a Third Amended Complaint in which it alleges a new and expanded claim for damages. AOCDS now alleges that the Sheriff violated the preliminary injunction issued by the Superior Court by continuing to station new CSAs in the jails during the pendency of the Sheriff's appeal of the injunction order (i.e., during the period when the Court of Appeal had issued a stay of the effect of the injunction). AOCDS claims that it sustained special damages and consequential damages exceeding \$2,000 as a result of the Sheriff's "negligent and/or reckless" violation of the injunction. County Counsel will argue that no violation of the preliminary injunction occurred, inasmuch as no CSAs were placed in the jails after the Court of Appeal lifted the stay of the effect of the Superior Court's injunction on October 28, 2011. Until that date, the effect of the Superior Court's injunction had been stayed while the matter was on appeal. AOCDS is expected to argue that the Court of Appeal's lifting of the stay on the injunction somehow means that the Sheriff must undo and reverse the implementation of the CSA staffing program in the jails that occurred during the pendency of that appeal prior to October 28, 2011.

While the Sheriff denies liability and denies that any violation of the preliminary injunction occurred, it is difficult to provide any reliable estimate of the outcome of the damages portion of the case at this time. County Counsel continues to defend this case for the Sheriff.

Estimated Pollution Remediation Obligations

GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations," 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.

John Wayne Airport (JWA)

In 1988 and 2006, JWA 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, JWA 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, JWA'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. JWA started 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. JWA 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. As of June 30, 2012, JWA has a liability of \$1,208 based on management's assessment and the results of the consultant's evaluation.

In 1995, JWA entered into a Memorandum of Understanding (MOU) with one of its fixed-base 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 \$393 is reported in the Statement of Net Assets as part of accounts receivable.

The estimated pollution remediation obligation as of June 30, 2012 is:

Old Fuel Farm Site	\$ 785
Former Fire Station # 33 Site	692
Less: Year-Ending June 30, 2011 Activity	(103)
Less: Year-Ending June 30, 2012 Activity	(166)
JWA Pollution Remediation Obligation	\$ 1,208

Orange County Waste & Recycling (OCWR)

Five 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 combined pollution remediation obligation ending balance for the fiscal year ending June 30, 2012, after deducting actual pollution remediation expenses incurred is \$13,102.

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCWR) (Continued)

<u>Cannery Former Refuse Disposal Station</u> 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 exceedences 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.

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, the length of time that the wastes have 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 \$71.

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 exceedences, 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.

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 was highest in the full first year of operation when the carbon canisters needed more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and less anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is \$284.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is reduced to \$3,579.

<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.

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCWR) (Continued)

San Joaquin Former Refuse Disposal Station (Continued)

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 cost to operate and maintain the landfill gas collection system at the site for the next year of operation is \$167.

The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is \$1,869.

<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. The remaining cost for performing the site assessment work is \$83.

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.

Forster Former Refuse Disposal Station The site, located in the City of San Juan Capistrano, was formerly leased and operated as a refuse disposal station by the County of Orange from 1958 to 1976. The current owner, Advanced Group 99-SJ, is proposing a change in land use for the property and has notified the County of its position that the County is responsible for re-closure of the site to meet current commercial and redevelopment requirements. The County disputes responsibility for site development related costs. In early 2010, the City of San Juan Capistrano approved the proposed project and certified the Environmental Impact Report (EIR). The EIR was a subject of a citizen's referendum that ultimately resulted in affirmation of the proposed project. Subsequent to the City approval of the proposed development plan, Advanced Group 99-SJ and the County entered into negotiations to resolve issues related to environmental responsibility at the site. These negotiations resulted in a settlement agreement and release of claims, brought about by a threat of litigation over the CEQA approvals. The settlement and release will permit the development of the site, with monies paid by the County for environmental controls to be installed at the site, an operation and maintenance fund and for environmental insurance, subject to conditions such as obtaining grading permits for the site for its actual development. In exchange, indemnification and environmental releases were provided by the developer to the County.

Total obligation by the County for environmental infrastructure and controls at the site as agreed upon in the Settlement Agreement is \$7,500. The entire sum is expected to be released within a five year period, but is dependent upon actions by the owner and regulatory approvals for the project. The County will continue to incur additional costs for work related to the County's current obligation to monitor the groundwater underlying the site. This responsibility will be transferred to the site owner upon completion of one of the settlement agreement milestones, but due to the uncertainty of specific timing, the County is unable to fully estimate the remaining ground water obligations.

The remaining balance for landfill gas remediation at the Forster site is \$7,500. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCWR) (Continued)

The estimated pollution remediation obligation as of June 30, 2012 is:

Cannery	\$ 71
Lane Road	3,579
San Joaquin	1,869
La Veta	83
Forster	7,500
OCWR Pollution Remediation Obligation	\$ 13,102

18. RETIREMENT PLANS

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 (the Board), three members plus one alternate are elected from active County employees, one member is elected from retirees, and the County Treasurer-Tax Collector is a statutory member.

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

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

OCERS issues an audited stand-alone annual financial report for each year ending December 31. The most recent report 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, 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 83% of the total plan sponsor payments into OCERS. According to the most recent actuarial report, OCERS was 67.0% funded as of December 31, 2011. A schedule of funding progress for OCERS is included in Required Supplemental Information (RSI) section.

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

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

Non-vested Supplemental Targeted Additional Retiree Cost of Living Adjustment (STAR COLA) benefits are also paid by OCERS to eligible retirees and survivors. Pursuant to Government Code Section 31874.3 of the County Employees Retirement Law of 1937, the OCERS Board has the sole authority to grant STAR COLA each year. The OCERS Board 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 643 retirees (of which 628 are County 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 2011-12, employer's contributions, as a percentage of covered payrolls, were 27.11% for General members, 46.39% for Safety-Law Enforcement members and 34.07% for Safety-Probation members, as determined by the December 31, 2009, actuarial valuation.

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 non-represented 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

Orange County Employees Retirement System (OCERS) (Continued)

Funding Policy (Continued)

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.

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, 2012, \$96,604 of such proceeds remains available for future credits to the County's pension obligations. For the fiscal year ended June 30, 2012, the County utilized \$11,000 of the County Investment Account to meet its Annual Required Contribution. The County's total contribution to OCERS, including drawdown from the County Investment Account for the years ending June 30, 2012, 2011, and 2010 were \$321,736, \$307,084 and \$290,574 respectively, equal to the required contributions for each year.

On January 18, 2012, the County issued its short-term Taxable Pension Obligation Bonds, 2012 Series A in the amount of \$229,880. The Bond proceeds were combined with \$16,763 in contributions from certain County agencies and departments to prepay the estimated FY 2012-13 actuarially required contribution related to both the amortization of the UAAL and the normal annual contribution to OCERS. In return, the County received a 7.75% discount or \$20,122 on the required employer contribution amount. The discount, combined with the interest and issuance costs, resulted in a net savings of \$17,968 to the County. Refer to Note 4, Deposits and Investments, and Note 10, Short-term Obligation, for additional information.

County Administered Pension Plans

County of Orange - 1.62 at 65 Retirement, 401(a) Defined Contribution Plan

<u>Plan Description:</u> On April 20, 2010, the Board approved and adopted the resolution implementing the 1.62% at 65 retirement formula for certain eligible employees. Effective March 22, 2011, as amended and restated on July 1, 2011, the Board approved the County of Orange 1.62% at 65 Retirement, 401(a) 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 Internal Revenue Code (IRC) Section 401(a) and is intended for retirement. The employee acquires a vested interest in the employer contribution account upon attaining normal retirement age, or early retirement age because of death or disability. If an employee terminates prior to early or normal retirement date for any other reason than death or disability, the employee is only 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, 2012, the plan had 10 participants.

<u>Funding Policy:</u> This plan is a defined contribution plan funded entirely by employer contributions. As of June 30, 2012, the County provides up to a 100% match per pay period of the employee's voluntary contribution to the IRC Section 457 element of the 1.62% Defined Contribution Plan up to 2% of base salary. Total contributions for the year ended June 30, 2012, were \$6 by the County and zero by the employees.

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

County of Orange - 1.62 at 65 Retirement, 401(a) Defined Contribution Plan (Continued)

Funding Policy (Continued)

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, 2012, the value of plan assets was \$6.

Administrative Cost: 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 July 1, 2011, the Board established the County of Orange 401(a) Plan for the benefit of eligible employees, elected officials, which includes members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association, and certain other employee classifications as defined in the plan document. The Board also has the authority to amend the plan. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers included in the Executive Policy Unit effective June 23, 2006. The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2012, the plan has 693 active participants and 26 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 elected officials electing not to participate in OCERS. Total contributions for the year ended June 30, 2012, were \$1,017 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, 2012, the value of plan assets was \$10,873.

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

Extra-Help 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 benefit for a participant who retires on or after the normal retirement date is the present value (or lump sum value) of the monthly annuity of the normal retirement benefit. 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.

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Plan Description (Continued)

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 equal to the greater of the participant's account balance or the present value of their normal retirement benefit. As of June 30, 2012, the plan consists of 57 active plan participants, 242 terminated plan participants entitled to but not yet receiving benefits, and 36 retirees receiving benefits.

The plan financial statements are prepared using the accrual basis of accounting. 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.F and are fully invested in the County Pool as described in Note 4. The plan has not issued separate stand-alone financial statements.

<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 \$2,753. 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. This valuation is currently performed annually. The plan's annual pension cost was calculated using the data and assets as of June 30, 2012. 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 amortization of the UAAL. Based on the actuarial report dated July 1, 2012, interest on the net pension obligation is \$26.

For the fiscal year ended June 30, 2012, the County's annual required contribution was \$239. The actuarial assumptions included (a) 4.0% investment return, net of administrative expenses: (b) The 417(e) lump sum mortality used for ERISA-governed plans and the 30-year Treasury rate with a look-back month of November: and (c) RP2000 Mortality Tables projected to 2018 with no collar distinction for males and females. This plan does not have an inflation rate, projected salary increase or post-retirement benefit increase assumptions, as these factors do not impact the benefits of this frozen plan. The UAAL is being amortized as a level dollar on an open basis. The 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.

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Annual Pension Cost (Continued)

Orange County Defined Benefit Retirement Plan Schedule of Funding Progress

		Actuarial				UAAL as a
	Actuarial	Accrued	Unfunded		Annual	Percentage of
	Value of	Liability (AAL)	Actuarial Accrued	Funded	Covered	Covered
Plan Year	Plan	-Unit Credit	Liability (UAAL)	Ratio	Payroll	Payroll
Ending	Assets (a)	(b)	(c = b-a)	(a/b)	(d)	(c/d)
6/30/2012	\$ 4,033	\$ 8,330	\$ 4,297	48.4%	\$ 2,010	213.8%

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

Actuarially Determined Contribution (A)	\$ 239
Interest on Net Pension Obligation	26
Adjustment to (A)	(36)
Annual Pension Cost	229
Contributions Made	928
Increase/(Decrease) in Net Pension Obligation	(699)
Net Pension Obligation, Beginning of Year	639
Net Pension Obligation/(Asset), End of Year	\$ (60)

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 Pan Schedule of Employer Contributions

		County Intribution	Total Annual Pension Cost		Percentage Contributed	Net Pension Obligation/(Asset)	
6/30/2010	\$	157	\$	151	104%	\$	647
6/30/2011		232		224	104%		639
6/30/2012		928		229	405%		(60)

County Administered Pension Plans (Continued)

Extra-Help Defined Contribution Plan

<u>Plan Description:</u> Effective March 1, 2002, as amended and restated on July 1, 2011, the Board established the Extra-Help Defined Contribution Plan to replace the Extra Help 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 IRC Sections 457 and 3121, is intended to comply with the Omnibus Budget Reconciliation Act of 1990, and meets the requirements to be a Social Security replacement plan. The Board has the authority to amend the plan. As of June 30, 2012, there were 3,143 active participants and 277 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 Section 457 Defined Contribution Plan or leave the balance in the plan until they are no longer employed with the County.

<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, 2012, were \$1,139 by the employees and zero by the County. As of June 30, 2012, the value of plan assets was \$5,951.

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

County Administered Pension Plans (Continued)

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered retirement funds, condensed financial statements are presented below as of and for the year ended June 30, 2012:

Statement of Net Assets		Total	D	ra-Help efined efit Plan	D Cor	tra-Help efined htribution Plan	D	101(a) Defined ntribution Plan	Retir 401(a)	% at 65 ement, Defined ution Plan
Assets Pooled Cash/Investments	\$	4,483	\$	4,483	\$		\$		\$	
Restricted Cash/Investments with Trustee	Φ	4,463 16,830	Φ	4,403	Φ	5,951	Ф	10,873	Φ	6
Receivables:		10,000				0,001		10,073		U
Interest/Dividends		8		8		-		-		-
Total Assets Held in Trust		21,321		4,491		5,951		10,873		6
<u>Liabilities</u>										
Accounts Payable		18		18		-				
Total Liabilities		18		18		-		-		-
Net Assets										
Held in Trust		21,303		4,473		5,951		10,873		6
Total Net Assets Held in Trust	\$	21,303	\$	4,473	\$	5,951	\$	10,873	\$	6
Statements of Changes in Net Assets		Total	D	ra-Help efined efit Plan	D Cor	tra-Help efined tribution Plan	D	101(a) Defined Intribution Plan	Retir 401(a)	% at 65 ement, Defined ution Plan
Additions:										
Contributions to Pension Trust:										
Employer	\$	1,312	\$	289	\$	-	\$	1,017		6
Employee		1,139		-		1,139		-		-
Other Revenues		6		6		-		-		-
Interest and Investment Income		467		20		196		251		-
Less: Investment Expense		(3)		(3)				4.000		
Total Additions		2,921		312		1,335		1,268		6
Deductions:		4.050		540		505		000		
Benefits Paid to Participants		1,653 1,653		519 519		505		629		
Total Deductions		1 003		อาษ		505		629		-
Observation Net Assets Held in Twent ton		1,000		0.0						_
Change in Net Assets Held in Trust for Employees' Retirement		1,268		(207)		830		639		6
<u> </u>		· ·				830 5,121		639 10,234		6

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.

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 2011 was \$18.77 (absolute dollars) per year of County service, and the maximum base monthly Grant was \$469.25 (absolute dollars). The base number for calendar year 2012 is \$19.33 (absolute dollars) per year of County service, and the maximum monthly Grant is \$483.25 (absolute dollars). The amount of the Grant is netted against the monthly health plan premium and/or reimburses Medicare premiums paid by the retiree for retiree and dependent coverage with the retiree obligated to pay the remaining balance. Any grant in excess of the monthly health plan and/or Medicare premium payable is forfeited.

The Grant is reduced by 50% once the retiree becomes Medicare A and B eligible. Retirees who were age 65 and/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.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

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 management 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 management 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 have been 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 for which the County Chief Financial Officer is the Trustee. In addition, OCERS has established an Internal Revenue Code section 401(h) account to invest monies and act as Trustee for benefits paid through the Retiree Medical Trust (except for the lump sum payment). OCERS issues a Comprehensive Annual Financial Report (CAFR) for each fiscal year ending on December 31, which includes the Retiree Medical Trust. The CAFR can be obtained online at www.ocers.org. by request, in writing, to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

The County is currently setting aside contributions of 0.5% for AFSCME, 4.2% for AOCDS, 6.9% for law enforcement management, 2.6% for the Probation Department safety personnel and 2.6% 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 costs to administer the Trust are paid from the Trust.

Actuarial Methods and Assumptions: The County contracts 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 received a June 30, 2011 valuation for fiscal years 2011-12 and 2012-13 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 (25 years remaining as of June 30, 2012)
- A 7.25% long-term expected rate of return on funds held in the Trust
- A 3.75% per annum payroll increase assumption
- A 3.5% per annum general inflation rate assumption
- The assumed annual increases in the monthly grant of 3% for non-AFSCME employees and 5% for AFSCME employees. The healthcare trend was assumed to be greater than or equal to the annual increase to the Grant through 2021 and beyond. Therefore, it is the Grant annual increase rather than the healthcare trend that affects the projected benefits and the UAAL.
- There are an estimated 25,351 participants in the plan of which 17,928 are employees, 27 are deferred retirees, and 7,396 are retirees.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

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 115 and 401(h) Trusts, and changes in the County's NOO for the current year:

	FY	2011-12
Total Annual Required Contribution	\$	41,169
Interest on Net OPEB Obligation		(3,017)
Amortization on Net OPEB Obligation		2,688
Annual OPEB Cost		40,840
Contribution Made		(35,197)
Increase/(Decrease) in Net OPEB Obligation		5,643
Net OPEB Obligation/(Asset), Beginning of year		(41,609)
Net OPEB Obligation/(Asset), End of year	\$	(35,966)

The County's annual OPEB Cost, the percentage of annual OPEB cost contribution to the plan, and the NOO for FY 2011-12 and two preceding years were as follows:

Fiscal	Annual	Percentage of	Net		
Year	OPEB	Annual OPEB	OPEB		
Ended	Cost	Cost Contributed	Obligation/(Asset)		
6/30/2010	\$ 34,528	60%*	\$ (43,580)		
6/30/2011	35,848	95%	(41,609)		
6/30/2012	40,840	86%	(35,966)		

^{*} 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, 2011 is as follows:

Actuarial Accrued Liability (AAL)	\$ 528,639
Actuarial Value of Plan Assets	116,804
Unfunded Actuarial Accrued Liability (UAAL)	\$ 411,835
Funded Ratio (Actuarial Value of Plan Assets/AAL) Covered Payroll	22.1% 1,227,601
UAAL as Percentage of Covered Payroll	33.5%

The above noted actuarial accrued liability was based on the June 30, 2011 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.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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 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.

The HRA is intended to comply with the requirements of Internal Revenue Code (IRC) Sections 105 and 106, 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 IRC Section 105(b). The HRA 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, 2012, the plan had 2,012 active and 294 inactive participants.

Funding Policy: 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 HRA 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 represented by AOCDS are required to contribute 2.0% of compensation each pay period. For law enforcement management employees, the County contributes 1.0% of compensation each pay period. Law enforcement management employees in the HRA are required to contribute 1.0% of compensation each pay period.

ICMA Retirement Corporation serves on behalf of the County as the third party administrator of the HRA and holds HRA assets in trust. HRA participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the HRA. As of June 30, 2012, the value of HRA assets was \$37,583.

<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.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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, 2012:

Statements of Net Assets	Total	Pla	tiree Medical n (Combined and 115 Trusts)	Health mbursement ngement Plan
Assets Pooled Cash/Investments Restricted Cash and Investments with Trustee	\$ 21,691 37,206	\$	21,647	\$ 44 37,206
Restricted Cash with OCERS Interest Receivable Due from Other Governmental Agencies	99,886 51 2,147		99,886 51 1,814	- - 333
Total Asset Held in Trust	160,981		123,398	37,583
<u>Liabilities</u> Due to Other Governmental Agencies	2		2	-
Total Liabilities	2		2	-
Net Assets Held in Trust	160.070		122 206	27 502
Total Net Assets Held in Trust	\$ 160,979 160,979	\$	123,396 123,396	\$ 37,583 37,583
Statements of Changes in Net Assets	Total	Pla	tiree Medical n (Combined and 115 Trusts)	Health mbursement ngement Plan
Additions: Employer Contributions:	\$ 43,159	\$	35,197	\$ 7,962
Other Revenues Interest and Investment Income Less: Investment Expense	 7 303 (56)	. <u></u>	6 137 (56)	1 166 -
Total Additions	43,413		35,284	 8,129
Deductions: Benefits Paid to Participants	27,405		26,882	523
Total Deductions	27,405		26,882	523
Change in Net Assets Held in Trust	16,008		8,402	 7,606
Net Assets Held in Trust at July 1, 2011	 144,971		114,994	29,977
Net Assets Held in Trust at June 30, 2012	\$ 160,979	\$	123,396	\$ 37,583

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2012:

Teeter Plan Obligation Commercial Paper Program Notes Series A: On July 17, 2012, the County redeemed \$69,000 of its \$118,764 Teeter Plan Obligation Commercial Paper Notes Series A (the "CP") outstanding at June 30, 2012. The remaining CP outstanding after redemption was \$49,764. Also, on July 17, 2012 the County issued an additional \$54,209 in CP for a new outstanding balance of \$103,973. The additional CP issued financed the purchase of delinquent property tax receivables associated with the Teeter Plan. Proceeds of this issuance paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll.

<u>Calculation of Property Tax Administrative Fee (PTAF) Litigation:</u> Revenue & Taxation Code Section 95.3 provides for the recovery of the net costs of administering property tax. The code section allows for counties to charge for assessing, collecting, and disbursing property taxes - the property tax administrative fee (PTAF). That same section also governs the allocation of the net administrative cost to each tax receiving jurisdiction by the amount of property tax it is to receive.

In FY 2004-05, two budgetary measures were enacted by the state. These were known as Triple Flip and VLF Swap. Triple Flip is a temporary exchange of a portion of local sales tax (that was diverted to the state to pay its Economic Recovery Bonds) with property tax. VLF Swap is a permanent exchange of vehicle license fees for property tax. Both resulted in an increase in the amount of property taxes allocated to cities and to counties. Starting in fiscal year 2006-07, these revenues were included in the calculation of PTAF, effectively increasing each city's and each county's proportional share of PTAF.

In 2008, the city of Alhambra (along with 47 cities within the county) brought suit against the county of Los Angeles challenging the inclusion of the Triple Flip and VLF Swap in the calculation of PTAF. Following the trial, a referee ruled in favor of Los Angeles County. The cities appealed that decision and the appellate court reversed the prior decision. Los Angeles County then requested and was granted review by the California Supreme Court.

On November 19, 2012, the California Supreme Court agreed with the cities' position, ruling that Triple Flip and VLF Swap property tax revenues should not have been included in the calculation of PTAF. On December 4, 2012, the Court extended the time for it to consider a petition for rehearing that was filed by Los Angeles County to February 15, 2012. If the Court ultimately grants the petition, the decision will be vacated. The decision will not become final until February 15, 2013, unless the Court decides the petition prior to that date.

If the California Supreme Court's decision remains unchanged, Orange County will be precluded from including Triple Flip and VLF Swap revenues in its calculation of the PTAF it charges cities, resulting in reduced PTAF revenues from fiscal year 2012-13 and beyond. In addition, cities may seek recovery of the portion of PTAF pertaining to the inclusion of the Triple Flip and VLF Swap the County collected from fiscal year 2006-07 through 2011-12. The total collected for those years is estimated at close to \$15,000.

Reduction in OCERS Assumed Investment Rate of Return: On December 5, 2012, the OCERS Board voted to reduce the assumed investment rate of return from 7.75% to 7.25%. The reduction will be phased in over a two-year period beginning July 2014 at 7.5% and further reducing to 7.25% effective July 2015. The assumed rate of return reduction will have the impact of increasing contribution rates of members and plan sponsors. For more information regarding the County's retirement system see Note 18, Retirement Plans.

Taxable Pension Obligation Bonds, 2013 Series A: On December 18, 2012, the Board of Supervisors authorized the issuance of the Taxable Pension Obligation Bonds, 2013, Series A (the "2013 POBs") in the principal amount not to exceed \$270,000. The 2013 POBs will be issued to prepay the County's FY 2013-14 pension obligation. The 2013 POBs will be issued as standard bonds, with four or five fixed rate tranches, maturing no later than June 30, 2013. The obligation of the County to pay principal and interest on the 2013 POBs will be imposed by law and is absolute and unconditional. The 2013 POBs are anticipated to be issued on January 14, 2013.