

**COUNTY OF ORANGE  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2003**

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**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. Reporting Entity

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

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

Blended Component Units

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

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

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A. Reporting Entity (Continued)

Blended Component Units (Continued)

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

Orange County Public Financing Authority The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to provide financial assistance to the County by financing the acquisition, construction, and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

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

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

Discretely Presented Component Unit

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 disclose long-term liabilities and capital assets. Depreciation expense and accumulated depreciation are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the current financial resources measurement focus. Fund financial statements are shown 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 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, and 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 consolidated total column presented for the primary government. Likewise, the primary government is reported separately from certain legally separate component units 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 debts are settled. These resources may not be readily available or spendable and consequently are classified into the following categories of net assets in the government-wide financial statements:

- *Net Assets Invested in Capital Assets, Net of Related Debt* – This amount is derived by subtracting the outstanding debts incurred by the County to buy or construct capital assets from the net amount for capital assets shown in the Statement of Net Assets. Capital assets cannot readily be sold and converted to cash.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Government-Wide Financial Statements (Continued)

- 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. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service for governmental activities payments. At June 30, 2003, the County reported restricted net assets of \$982,861 restricted for the following purposes:

Restricted for:	Amount
Capital projects	\$ 209,994
Debt service	61,066
Legally segregated special revenue funds restricted for grants and other purposes	711,714
Regional park endowment	87
	\$ 982,861

Restricted Net Assets for business-type activities amounted to \$279,629 and are restricted for the use of Airport and Waste Management activities, including debt service.

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

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

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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 set forth minimum criteria (specified minimum percentages of the assets, liabilities, revenues or expenditures/expenses of a fund category and of the governmental and enterprise funds combined) for the determination of major funds. In addition to funds that meet the minimum criteria, any other governmental or enterprise fund that the government believes is of particular importance to financial statement users may be reported as a major fund.

The County reports the following major governmental funds:

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

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

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

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

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Fund Financial Statements (Continued)

Flood Control District – This fund accounts for the planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins and other flood control infrastructure.

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

The County reports the following major proprietary enterprise funds:

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

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

Additionally, the County reports the following fund types:

Internal Service Funds – The County of Orange reports eight 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.

Fiduciary Fund Types – The County of Orange has a total of 255 trust and agency funds. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, investment trust or educational investment trust fund is used. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, as are the proprietary fund and fiduciary fund financial statements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets or on the Statement of Fiduciary 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.

Additionally, only the interfund transfers between governmental and business-type activities are reported in the Statement of Activities.

Proprietary Funds

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

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

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

Enterprise funds are used to report activities that provide services for which fees are charged to external users. The County has two enterprise funds: John Wayne Airport Enterprise Fund and Integrated Waste Management Enterprise Fund. The principal operating revenues of the John Wayne Airport and Waste Management enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tiedown fees and (2) disposal fees charged to users of the waste disposal sites, respectively.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Funds (Continued)

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.

Governmental Funds

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

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

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

Revenues that are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are received later than 60 days, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, while the receivable and deferred revenue are eliminated. For the year ended June 30, 2003, the County reported deferred revenue of \$217,240 in the governmental funds' Balance Sheet, of which \$86,774 represents the amount of intergovernmental revenues unavailable for revenue recognition.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Funds (Continued)

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

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.

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 on a separate page which explains the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

D. Budget Adoption and Revision

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

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**(Dollar Amounts in Thousands)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budget Adoption and Revision (Continued)**

As described in more detail under Note 1.B, the major special revenue funds reported by the County are:

- *Roads*
- *Public Library*
- *Tobacco Settlement*
- *Refunding & Recovery COPs and Debt Prepayment*
- *Flood Control District*
- *Harbors, Beaches, and Parks*

Budgetary comparison information for nonmajor governmental funds is presented in the "Budgetary Comparison Schedules" in the supplemental information section.

**E. Cash and Investments**

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

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

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

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

The pools value participants' shares using an amortized cost basis. Specifically, the pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. At June 30, 2003, there is no material difference between pool participants' shares valued on an amortized cost basis compared to fair value.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

F. Inventory of Materials and Supplies

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

G. Prepaid Costs

The County pays for certain types of services in advance such as insurance premiums and rents and recognizes these costs in the period during which services are provided. Applicable fund balances are reserved for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds. At June 30, 2003, the County has prepaid costs of \$169,096 in the Statement of Net Assets, which primarily consist of the County's Investment Account with the Orange County Employees Retirement System (OCERS) for future pension costs of \$162,632. See Note 18 for additional information regarding this pension investment asset for the County's Retirement Plans.

H. Land and Improvements Held for Resale

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

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, 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.

<b>Asset Type</b>	<b>Capitalization Threshold</b>
Land	\$ 0
Structures and Improvements	\$ 150
Equipment	\$ 5
Infrastructure	\$ 0

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

I. Capital Assets (Continued)

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

Structures and Improvements	10 to 50 years
Equipment	3 to 20 years
Infrastructure	
Flood Channels	50 to 99 years
Roads	10 to 20 years
Bridges	50 years
Trails	20 years
Traffic Signals	15 years
Harbors	20 to 50 years

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

J. Self-Insurance

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

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**(Dollar Amounts in Thousands)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. Property Taxes (Continued)

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

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

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

The County also records collections of disputed property taxes, such as those paid for properties for which the values have been appealed to the local Assessment Appeals Boards, within the unapportioned tax liability accounts in the property tax unapportioned funds. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or distributed to the tax-receiving agencies. As of June 30, 2003, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 0.97 percent of the combined beginning secured and unsecured property tax roll charge.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**K. Property Taxes (Continued)**

The following are significant dates on the property tax calendar:

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

**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 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 2002-03 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Federal Office of Management and Budget Circular A-87. The County has elected to allocate indirect costs to agencies within the General Fund that were not billed in FY 2002-03 in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

O. Effects of New Pronouncements

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

In June 2003, GASB issued Technical Bulletin (TB) No. 2003-1 "*Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*". This TB supersedes TB 94-1 and clarifies guidance on derivative disclosures, pending the results of the GASB's project on reporting and measurement of derivatives and hedging activities. This TB applies to derivatives that are not reported at fair value on the Statement of Net Assets. It provides an updated definition of derivatives; and it also provides disclosure requirements for the government's objective for entering into the derivative, as well as the derivative's terms, fair value and risk exposures. These disclosure requirements are intended to provide information to financial statement users that will enhance their understanding of the significance of derivatives to a government's net assets and will assist them in assessing the amounts, timing, and uncertainty of future cash flows. The County has analyzed its investments and financings and has confirmed that the County is not involved in any derivative activities; therefore, there are no additional disclosures required as a result of TB 2003-01.

In March 2003, GASB issued Statement No. 40, "*Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*". This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. This statement is effective for financial periods beginning after June 15, 2004. The County Treasurer is planning to implement the new reporting requirements for the fiscal year 2003-04 financial statements.

In May 2003, GASB issued Statement No. 41, "*Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34*". This statement is effective for fiscal periods beginning after June 15, 2002, and clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. Orange County does not have these types of significant budgetary perspective differences and is therefore unaffected by GASB Statement No. 41.

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.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Several asset or liability line items in the Governmental Funds' Balance Sheet and the Proprietary Funds' Statement of Net Assets are combined into one line item in the 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 Statement of Net Assets.

<i>Statement of Net Assets Line Item</i>	<i>Corresponding Governmental and Proprietary Funds' Balance Sheet or Statement of Net Assets Line Item</i>
Cash and Cash Equivalents	Pooled Cash/Investments; Cash Equivalents/Specific Investments; Imprest Cash funds; and Cash/Cash Equivalents
Restricted Cash and Cash Equivalents	Restricted Cash and Investments with Trustee; Restricted Pooled Cash/Investments – Closure and Postclosure Costs
Receivables (net)	Accounts, Taxes, Interest/Dividends, Deposits, Notes and Loans Receivable; Allowance for Uncollectible Receivables; and Due from Other Governmental Agencies
Prepaid Costs	Prepaid Costs and Bond Issuance Costs
Capital Assets – Not Depreciated	Land and Construction in Progress
Capital Assets – Depreciable, Net of Accumulated Depreciation	Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; and Infrastructure and Accumulated Depreciation

**2. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS**

The following fund has deficit net assets:

<u>Internal Service Fund</u>	<u>Deficit</u>
Workers' Compensation	<u>\$ 56,837</u>

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS**

Deposits and investments (including repurchase agreements) totaled \$5,119,855 as of June 30, 2003. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Restricted Pooled Cash/Investments – Closure & Postclosure Care Costs, Restricted Pooled Cash/Investments, Cash/Cash Equivalents, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."

The Treasurer maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The Investment Policy Statement (IPS) establishes a Money Market Fund and an Extended Fund as components of the County and Educational Pools. The maximum maturity of investments under the Money Market Fund is 13 months with a maximum weighted average of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months.

The primary investment objectives of the Treasurer's investment activities in order of priority are: protecting the safety of principal invested, meeting participants' liquidity needs, attaining a money market rate of return, and attempting to stabilize at a \$1.00 net asset value for the County Money Market Fund and the Educational Money Market Fund. These external investment pools contain deposits, repurchase agreements, and investments. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

**A. Deposits**

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

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

At June 30, 2003, the carrying amount of overdraft of the County's demand deposits was \$82,668 and the related bank balance was \$23,784, of which \$200 was insured by FDIC insurance with the remainder collateralized as described above. The County had \$298,817 in maturing securities the following business day to cover outstanding checks. In addition, the County had imprest cash funds in the amount of \$1,640, of which \$1,252 was insured by FDIC insurance, with the remainder collateralized as described above.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

A. Deposits (Continued)

In addition, the County held a portion of its Restricted Cash and Investments with Trustee and non-pooled investments in the form of non-participating Bank Investment Contracts (BICs). These BICs are considered deposits with financial institutions and amount to \$13,185, of which \$1,511 is collateralized for non-pooled investment BICs and \$11,570 is uncollateralized for Restricted Cash and Investment BICs. The collateralized BICs and the uncollateralized BICs are FDIC insured for \$100 and \$100, respectively.

B. Investments

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

External Investment Pools

The County Treasurer sponsors two external investment pools; the County Pool and the Educational Pool. Both pools consist of a Money Market Fund and an Extended Fund.

The County Treasurer has a written IPS specifically for the separately managed County and Educational Investment Pools. The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/P1/F1) as provided by at least two of the following nationally recognized rating agencies: Standard & Poor's Corporation, Moody's Investors Service, Inc., or Fitch Ratings ("Fitch"), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank or U.S. Dollar denominated Euro CD's (30%); bankers' acceptances (40%); money market mutual funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); and repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%). The IPS authorizes the County Treasurer to enter into securities lending agreements (as defined by section 53601 and 53601.7(f)(4) of the California Government Code) where the final maturity does not exceed 92 days. In addition, no investment may be purchased from an issuer that has been placed on credit watch – negative by any of the three nationally recognized rating agencies, or whose credit rating by any of the three nationally recognized rating agencies is less than the minimum rating required by the IPS for that class of security. All permitted investments are required to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Section 53601. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers, and also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

B. Investments (Continued)

External Investment Pools (Continued)

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

The County Treasury Oversight Committee, established in December 1995, which consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools, and two public members, conducts treasury oversight. On November 7, 2002, Fitch reaffirmed the Pools' rating of "AAA/V1+". On August 6, 2002, Moody's Investor Service assigned credit ratings of Aaa and MR1 market risk ratings to the County and Educational Investment Pools. The Pools are not registered with the Securities and Exchange Commission.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100 percent involuntary participants. At June 30, 2003, the County Pool includes approximately 4.26 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

As of June 30, 2003, floating rate notes comprised 7.50% and 3.11% of the County Pool and Educational Pool, respectively. Interest received on floating rate notes will rise or fall as the underlying index rate rises or falls. The use of floating rate notes in the County and Educational Pools is such that they hedge the portfolios against the risk of increasing interest rates, which reduces the fair value of the portfolio.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

**B. Investments (Continued)**

Condensed Financial Statements

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2003:

	<u>County Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<b><u>Statement of Net Assets</u></b>			
Net assets held for pool participants	\$ 3,112,298	\$ 2,013,487	\$ 5,125,785
Equity of internal pool participants	\$ 2,901,411	\$ --	\$ 2,901,411
Equity of external pool participants	210,887	2,013,487	2,224,374
Total Net Assets	<u>\$ 3,112,298</u>	<u>\$ 2,013,487</u>	<u>\$ 5,125,785</u>
<b><u>Statement of Changes in Net Assets</u></b>			
Net assets at July 1, 2002	\$ 2,349,894	\$ 1,758,582	\$ 4,108,476
Net change in investments by pool participants	762,404	254,905	1,017,309
Net Assets at June 30, 2003	<u>\$ 3,112,298</u>	<u>\$ 2,013,487</u>	<u>\$ 5,125,785</u>

Summary External Pool Financial Disclosures

Selected summary disclosures for each external pool as of June 30, 2003, are presented below:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
<u>County Pool</u>					
U.S. Government Agencies	\$ 864,189	\$ 862,839	Discount, 1.3-6.25%	07/03/03-06/12/06	344
Bankers' Acceptances	22,908	23,000	Discount	07/18/03-12/17/03	51
Commercial Paper	796,151	798,067	Discount	07/01/03-11/21/03	36
Negotiable Certificates of Deposit	456,002	456,000	0.93-2.00%	07/08/03-05/17/04	93
Medium-Term Notes	287,100	284,592	1.13-7.25%	08/01/03-02/03/06	74
Repurchase Agreements	100,000	100,000	1.38%	07/01/03	1
Money Market Mutual Funds	25,365	25,365	Variable	07/01/03	1
	<u>\$ 2,551,715</u>	<u>\$ 2,549,863</u>			<u>153</u>
<u>Educational Pool</u>					
U.S. Government Agencies	\$ 879,138	\$ 881,206	Discount, 1.3-6.25%	07/03/03-06/12/06	160
Bankers' Acceptances	34,058	34,243	Discount	08/25/03-09/22/03	71
Commercial Paper	659,069	661,055	Discount	07/01/03-12/15/03	47
Negotiable Certificates of Deposit	250,264	250,000	0.93-1.37%	07/03/03-09/25/03	39
Medium-Term Notes	138,833	137,608	1.13-7.25%	08/01/03-02/03/06	56
Repurchase Agreements	70,000	70,000	1.38%	07/01/03	1
Money Market Mutual Funds	17,146	17,146	Variable	07/01/03	1
	<u>\$ 2,048,508</u>	<u>\$ 2,051,258</u>			<u>93</u>

At June 30, 2003, the weighted average maturity of the County Pool was 153 days and the Educational Pool was 93 days. At the same date, the Net Asset Value (NAV) for both the County and Educational Pool was \$1.00. The average daily investment balance of the County Pool and the Educational Pool amounted to \$2.54 billion and \$1.82 billion, with an average effective yield of 1.78% and 1.54%, respectively, for the year ended June 30, 2003.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

B. Investments (Continued)

Level of Custodial Risk

Investments are categorized below as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the County at June 30, 2003. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

LEVEL OF CUSTODIAL CREDIT RISK					
	Category			Not Subject to Categorization	Fair Value
	1	2	3		
<b>County Pool:</b>					
U.S. Government Agencies	\$ 864,189	\$ --	\$ --	\$ --	\$ 864,189
Bankers' Acceptances	22,908	--	--	--	22,908
Commercial Paper	796,151	--	--	--	796,151
Negotiable Certificates of Deposit	456,002	--	--	--	456,002
Medium-Term Notes	287,100	--	--	--	287,100
Repurchase Agreements	100,000	--	--	--	100,000
Money Market Mutual Funds	--	--	--	25,365	25,365
Total Investments in County Pool	2,526,350	--	--	25,365	2,551,715
<b>Educational Pool:</b>					
U.S. Government Agencies	879,138	--	--	--	879,138
Bankers' Acceptances	34,058	--	--	--	34,058
Commercial Paper	659,069	--	--	--	659,069
Negotiable Certificates of Deposit	250,264	--	--	--	250,264
Medium-Term Notes	138,833	--	--	--	138,833
Repurchase Agreements	70,000	--	--	--	70,000
Money Market Mutual Funds	--	--	--	17,146	17,146
Total Investments in Educational Pool	2,031,362	--	--	17,146	2,048,508
<b>Specific Investments:</b>					
U.S. Government Agencies	20,852	--	--	--	20,852
Commercial Paper	11,972	--	--	--	11,972
Negotiable Certificates of Deposit	1,500	--	--	--	1,500
Repurchase Agreements	1,082	--	--	--	1,082
Total Specific Investments	35,406	--	--	32,151	67,557
<b>Investments with Trustees:</b>					
U.S. Government Agencies	--	27,040	--	--	27,040
Guaranteed Investment Contracts	--	--	--	215,760	215,760
Medium-Term Notes	182,146	--	--	--	182,146
Repurchase Agreements	--	14,444	--	--	14,444
Money Market Mutual Funds	--	--	--	80,528	80,528
Total Investments with Trustees	182,146	41,484	--	296,288	519,918
Total Investments	\$ 4,775,264	\$ 41,484	\$ --	\$ 370,950	\$ 5,187,698

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

B. Investments (Continued)

RECONCILIATION OF DEPOSITS AND INVESTMENTS

<u>Total Deposits and Investments – Note 3:</u>	<u>Total</u>
Total Investments	\$ 5,187,698
Total Deposits - Carrying Amount Overdraft	(82,668)
Bank Investment Contracts	13,185
Imprest Cash Funds	<u>1,640</u>
Total Deposits and Investments – Note 3	<u>\$ 5,119,855</u>

<u>Total Deposits and Investments – Financial Statements</u>	<u>Total Governmental Funds</u>	<u>Total Proprietary Funds</u>	<u>Total Fiduciary Funds</u>	<u>Discretely Presented Component Unit</u>	<u>Total</u>
Pooled Cash/Investments	\$ 1,427,697	\$ 373,965	\$ 2,425,922	\$ 141,305	\$ 4,368,889
Cash Equivalents/Specific Investments	--	13,794	--	--	13,794
Restricted Pooled Cash/Investments – Closure and Post Closure Care Costs	--	141,528	--	--	141,528
Restricted Pooled Cash/Investments	--	21,564	--	--	21,564
Cash/Cash Equivalents	--	1,474	--	--	1,474
Imprest Cash Funds	1,333	182	110	15	1,640
Restricted Cash and Investments with Trustee	483,181	37,956	16,868	--	538,005
Investments	6,809	24,830	1,322	--	32,961
Total Deposits and Investments	<u>\$ 1,919,020</u>	<u>\$ 615,293</u>	<u>\$ 2,444,222</u>	<u>\$ 141,320</u>	<u>\$ 5,119,855</u>

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**4. CHANGES IN CAPITAL ASSETS**

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

	Primary Government				Balance June 30, 2003
	Balance July 1, 2002	Increases	Decreases	Adjustment	
Governmental activities :					
Capital assets not depreciated:					
Land	\$ 474,191	\$ 5,776	\$ (4,272)	\$ --	\$ 475,695
Construction in progress	366,604	91,111	(67,969)	--	389,746
Total capital assets not being depreciated	<u>840,795</u>	<u>96,887</u>	<u>(72,241)</u>	<u>--</u>	<u>865,441</u>
Capital assets, depreciable					
Structures and Improvements	756,294	41,166	(45,057)	--	752,403
Equipment	294,662	34,764	(26,833)	(9)	302,584
Infrastructure:					
Flood Channels	439,227	438,213	--	--	877,440
Roads	86,702	611	--	--	87,313
Bridges	61,100	1,364	--	--	62,464
Trails	32,365	--	--	63	32,428
Traffic signals	9,933	--	--	--	9,933
Harbors and Beaches	28,089	--	--	6,431	34,520
Capital assets, depreciable	<u>1,708,372</u>	<u>516,118</u>	<u>(71,890)</u>	<u>6,485</u>	<u>2,159,085</u>
Less accumulated depreciation for:					
Structures and Improvements	(288,919)	(22,652)	26,547	(3,822)	(288,846)
Equipment	(200,291)	(26,093)	33,539	(1,049)	(193,894)
Infrastructure:					
Flood Channels	(157,054)	(7,512)	--	--	(164,566)
Roads	(46,473)	(2,171)	--	341	(48,303)
Bridges	(14,275)	(1,248)	--	--	(15,523)
Trails	(17,331)	(1,077)	--	--	(18,408)
Traffic signals	(5,046)	(612)	--	--	(5,658)
Harbors and Beaches	(17,389)	(789)	--	--	(18,178)
Total accumulated depreciation	<u>(746,778)</u>	<u>(62,154)</u>	<u>60,086</u>	<u>(4,530)</u>	<u>(753,376)</u>
Capital assets, depreciable (net)	<u>961,594</u>	<u>453,964</u>	<u>(11,804)</u>	<u>1,955</u>	<u>1,405,709</u>
Governmental activities total capital assets, net	<u>\$ 1,802,389</u>	<u>\$ 550,851</u>	<u>\$ (84,045)</u>	<u>\$ 1,955</u>	<u>\$ 2,271,150</u>

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**4. CHANGES IN CAPITAL ASSETS (Continued)**

	Primary Government				Balance June 30, 2003
	Balance July 1, 2002	Increases	Decreases	Adjustments	
Business-type activities:					
Capital assets not depreciated:					
Land	\$ 32,748	\$ 1,360	\$ --	\$ --	\$ 34,108
Construction in progress	31,311	49,005	(1,797)	(16,485)	62,034
Total capital assets not being depreciated	<u>64,059</u>	<u>50,365</u>	<u>(1,797)</u>	<u>(16,485)</u>	<u>96,142</u>
Capital assets, depreciable					
Structures and Improvements	301,930	1,895	--	--	303,825
Equipment	46,159	4,598	(3,737)	6	47,026
Infrastructure	285,893	16,214	--	--	302,107
Capital assets, depreciable	<u>633,982</u>	<u>22,707</u>	<u>(3,737)</u>	<u>6</u>	<u>652,958</u>
Less accumulated depreciation for:					
Structures and Improvements	(113,363)	(11,746)	--	(153)	(125,262)
Equipment	(22,021)	(3,721)	3,325	(2)	(22,419)
Infrastructure	(99,405)	(12,525)	--	(444)	(112,374)
Total accumulated depreciation	<u>(234,789)</u>	<u>(27,992)</u>	<u>3,325</u>	<u>(599)</u>	<u>(260,055)</u>
Capital assets, depreciable (net)	<u>399,193</u>	<u>(5,285)</u>	<u>(412)</u>	<u>(593)</u>	<u>392,903</u>
Business-type activities total capital assets, net	<u>\$ 463,252</u>	<u>\$ 45,080</u>	<u>\$ (2,209)</u>	<u>\$ (17,078)</u>	<u>\$ 489,045</u>

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

Governmental activities:	
General Government	\$ 10,754
Public Protection	25,014
Public Ways and Facilities	5,942
Health and Sanitation	1,817
Public Assistance	3,876
Education	967
Recreation and Cultural Services	7,160
Internal Service Funds' depreciation expense allocated to various functions	<u>6,624</u>
Total governmental activities depreciation expense	<u>62,154</u>
Business-type activities:	
Airport	17,681
Waste Management	<u>10,311</u>
Total business-type activities depreciation expense	<u>27,992</u>
Total depreciation expense	<u>\$ 90,146</u>

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**5. RECEIVABLES**

The different components of receivables reported in the Statement of Net Assets for governmental and business-type activities as of June 30, 2003 are as follows:

Receivables	Accounts	Taxes	Interest <sup>(b)</sup>	Deposits	Notes	Loans and Leases	Due From Other Governmental Agencies	Less: Allowance for Doubtful Accounts	Total Receivables Net
<b>Governmental Activities <sup>(a)</sup></b>									
General Fund	\$ 22,321	\$ 4,590	\$ 1,506	\$ 2,205	\$ --	\$ 119	\$ 212,556	\$ (541)	\$ 242,756
Roads	165	--	335	349	--	--	4,205	(33)	5,021
Public Library	1,005	641	21	--	--	--	128	--	1,795
Tobacco Settlement	839	--	4	--	--	--	--	--	843
Refunding & Recovery COPs & Debt Repayment	--	--	210	--	--	--	--	--	210
Flood Control District	795	1,229	570	12,952	--	20	1,815	(10)	17,371
Harbors, Beaches, and Parks	1,847	910	110	--	--	843	676	(8)	4,378
Other Governmental Funds	872	21,391	777	2,711	16,861	--	4,055	(4)	46,663
<b>Total</b>	<b>27,844</b>	<b>28,761</b>	<b>3,533</b>	<b>18,217</b>	<b>16,861</b>	<b>982</b>	<b>223,435</b>	<b>(596)</b>	<b>319,037</b>
Less: amount not to be paid within the next fiscal year	(739)	--	--	(17,370)	(16,460)	(863)	(53,917)	--	(89,349)
<b>Total receivables due within the next fiscal year</b>	<b>\$ 27,105</b>	<b>\$28,761</b>	<b>\$ 3,533</b>	<b>\$ 847</b>	<b>\$ 401</b>	<b>\$ 119</b>	<b>\$ 169,518</b>	<b>\$ (596)</b>	<b>\$ 229,688</b>
<b>Business-type Activities</b>									
Airport	\$ 3,002	\$ --	\$ 125	\$ --	\$ --	\$ --	\$ 873	\$ (5)	\$ 3,995
Waste Management	12,130	--	914	--	--	--	682	(13)	13,713
<b>Total</b>	<b>15,132</b>	<b>--</b>	<b>1,039</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>1,555</b>	<b>(18)</b>	<b>17,708</b>
Less: amount not to be paid within the next fiscal year	(10)	--	--	--	--	--	(20)	--	(30)
<b>Total receivables due within the next fiscal year</b>	<b>\$ 15,122</b>	<b>\$ --</b>	<b>\$ 1,039</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 1,535</b>	<b>\$ (18)</b>	<b>\$ 17,678</b>

(a) The balances for governmental activities include Internal Service Funds, which are consolidated to the General Fund for government-wide reporting.

(b) Interest Receivable balances differ from the amounts reflected in the fund financial statements due to the reclassification of the receivable "Due to Other Funds" for interest accrued in governmental and enterprise funds to "Interest Receivable" to reflect the nature of the receivable from the Unapportioned Interest Agency Fund.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**5. RECEIVABLES (Continued)**

The \$739 of accounts receivable for governmental activities that are not expected to be received within the next fiscal year consist primarily of \$95 from the City of Yorba Linda due to ongoing legal issues. Another \$195 is due from MCI (currently going through bankruptcy) and the other \$449 is for various invoices and non-sufficient funds checks that remain on the books due to statute of limitation constraints.

The \$17,370 of deposits receivable for governmental activities that are not expected to be received within the next fiscal year consist primarily of money given to the U.S. Army Corps of Engineers for the Santa Ana River Project for \$11,885 and money given to John Wayne Airport for the Santa Ana Heights Acoustical Insulation Program for \$2,606. In addition, there is a \$919 deposit due from the State of California for the Carbon Creek Channel and \$1,463 represents various cash advances and service contracts. The other \$497 is comprised of miscellaneous deposits.

The \$16,460 of notes receivable for governmental activities that are not expected to be received within the next fiscal year consist primarily of \$12,167 for loans to build affordable, low-income housing. Another \$1,882 is for construction of senior citizen housing, and the other \$2,411 is for other various sales and loans.

The \$863 of loans receivable for governmental activities that are not expected to be received within the next fiscal year are for advances to the Dana Point Harbor operators.

The \$10 of accounts receivable for business-type activities that are not expected to be received within the next fiscal year are for accounts that have already been through courts and collection but cannot be written off due to the statute of limitations.

The \$53,917 of due from other governmental agencies for governmental activities that are not expected to be received within the next fiscal year consist primarily of \$45,809 that the State of California owes to the County for various Senate Bill (SB) 90 mandated costs reimbursements for programs and services the State requires the County to provide. The State deferred reimbursement to future fiscal years. The State Constitution requires reimbursement for these programs and interest accrues until they are paid. Another \$6,848 is for amounts owed for pass through agreements due to ongoing legal issues with the City of Yorba Linda. The other \$1,260 is comprised of various invoices made to the State of California for a variety of County-related activities.

The \$20 of due from other governmental agencies for business-type activities that are not expected to be received within the next fiscal year consist of money that the State of California, due to SB 90, owes to the County.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**6. INTERFUND RECEIVABLES AND PAYABLES**

The composition of interfund balances as of June 30, 2003 is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>		
General Fund	Roads	\$ 991	
	Public Library	55	
	Tobacco Settlement	8,142	
	Refunding & Recovery COPs and Debt Prepayment	1,115	
	Flood Control District	5,944	
	Harbors, Beaches, and Parks	2,646	
	Other Governmental Funds	11,129	
	Internal Service Funds	467	
	Fiduciary Funds	3,759	
	Airport	1,196	
	Waste Management	<u>3,588</u>	\$ 39,032
Roads	General Fund	152	
	Flood Control District	413	
	Harbors, Beaches, and Parks	133	
	Other Governmental Funds	1,743	
	Fiduciary Funds	334	
	Airport	<u>20</u>	2,795
Public Library	Internal Service Funds	57	
	Fiduciary Funds	<u>872</u>	929
Tobacco Settlement	Fiduciary Funds		4
Refunding and Recovery COPs and Debt Prepayment	Fiduciary Funds		210
Flood Control District	General Fund	208	
	Roads	277	
	Harbors, Beaches, and Parks	187	
	Other Governmental Funds	467	
	Fiduciary Funds	<u>570</u>	1,709
Harbors, Beaches, and Parks	General Fund	146	
	Roads	53	
	Flood Control District	105	
	Other Governmental Funds	71	
	Fiduciary Funds	110	
	Airport	<u>7</u>	492

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**6. INTERFUND RECEIVABLES AND PAYABLES (Continued)**

<u>Receivable Fund</u>	<u>Payable Fund</u>		
Other Governmental Funds	General Fund	\$ 36,766	
	Roads	85	
	Flood Control District	31	
	Other Governmental Funds	3,449	
	Internal Service Funds	4	
	Fiduciary Funds	812	
	Airport	14	
	Waste Management	2	\$ 41,163
Airport	General Fund	29	
	Fiduciary Funds	55	84
Waste Management	General Fund	2	
	Roads	341	
	Flood Control District	34	
	Harbors, Beaches, and Parks	2	
	Fiduciary Funds	913	1,292
Internal Service Funds	General Fund	3,603	
	Roads	8	
	Public Library	35	
	Flood Control District	4	
	Harbors, Beaches, and Parks	46	
	Other Governmental Funds	57	
	Internal Service Funds	170	
	Fiduciary Funds	405	
	Airport	48	
	Waste Management	31	4,407
Fiduciary Funds	General Fund	209	
	Fiduciary Funds		
	Unapportioned Tax and Interest Funds	605	
	Departmental Funds	3	817
	Total		<u>\$ 92,934</u>

Due From/To Primary Government and Component Unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>		<u>Amount</u>
Component Unit – Orange County Children and Families Commission	Fiduciary Funds – Agency Fund	\$	339
Primary Government – General Fund	Component Unit – Orange County Children and Families Commission	\$	436
Primary Government – Internal Service Funds	Component Unit – Orange County Children and Families Commission	\$	4

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**6. INTERFUND RECEIVABLES AND PAYABLES (Continued)**

The receivable balance from the Fiduciary Funds of \$8,652 payable to the various Governmental Funds, Proprietary Funds, Fiduciary Funds and Component Unit primarily consists of \$5,094 in accrued interest recorded in the Unapportioned Interest Agency Fund at year-end. The majority of the remaining interfund balances resulted from the time lag between the time that (1) goods and services provided to fiduciary funds, (2) the recording of those transactions in the accounting system, and (3) payments between the funds are made.

**7. COUNTY PROPERTY ON LEASE TO OTHERS**

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from noncancelable operating leases with synthetic fuels corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2003, approximates \$65,717.

The County's General Fund, Flood Control District Fund, Harbors, Beaches, and Parks Fund, Airport Enterprise Fund and Waste Management Enterprise Fund lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2003 are as follows:

Fiscal Years	General Fund	Flood Control District	Harbors, Beaches, and Parks	Airport	Waste Management
FY 2003-2004	\$ 127	\$ 274	\$ 7,811	\$ 28,617	\$ 560
FY 2004-2005	117	185	7,843	25,571	368
FY 2005-2006	63	129	6,833	12,592	175
FY 2006-2007	60	127	6,648	959	175
FY 2007-2008	38	127	6,304	867	175
	<u>405</u>	<u>842</u>	<u>35,439</u>	<u>68,606</u>	<u>1,453</u>
FY 2008-2013	81	560	29,728	4,312	875
FY 2013-2018	--	223	23,550	1,421	875
FY 2018-2023	--	--	22,765	--	525
FY 2023-2028	--	--	21,124	--	--
FY 2028-2033	--	--	20,605	--	--
FY 2033-2038	--	--	18,925	--	--
FY 2038-2043	--	--	3,580	--	--
FY 2043-2048	--	--	--	--	--
	<u>81</u>	<u>783</u>	<u>140,277</u>	<u>5,733</u>	<u>2,275</u>
Total future minimum rentals	<u>\$ 486</u>	<u>\$ 1,625</u>	<u>\$ 175,716</u>	<u>\$ 74,339</u>	<u>\$ 3,728</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$5 (General Fund), \$51 (Flood Control District), \$173 (Harbors, Beaches, and Parks) \$20,493 (Airport) and \$28 (Waste Management) for the year ended June 30, 2003.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**8. INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2003 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		
<u>Governmental Funds</u>			
General Fund	Tobacco Settlement	\$ 24	
	Refunding and Recovery COPs and Debt Prepayment	98,017	
	Other Governmental Funds	61,144	
	Internal Service Funds	<u>1,163</u>	\$ 160,348
Tobacco Settlement	General Fund		35,519
Refunding and Recovery COPs and Debt Prepayment	General Fund	1,106	
	Other Governmental Funds	<u>7,311</u>	8,417
Flood Control District	General Fund		2,729
Other Governmental Funds	Airport	1	
	General Fund	42,881	
	Other Governmental Funds	<u>19,642</u>	<u>62,524</u>
Total Governmental Funds			<u>\$ 269,537</u>
<u>Proprietary Funds</u>			
Airport	Other Governmental Funds	\$ 118	
Waste Management	General Fund	<u>13,436</u>	
Total Proprietary Funds			<u>\$ 13,554</u>

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

Routine Transfers

- A total of \$135,898 was transferred out from the General Fund (\$114,700), the Refunding and Recovery COPs and Debt Prepayment Fund (\$7,311), and Other Governmental Funds (\$13,887) to the debt service funds in connection with debt service payments for the various County debt covenants.
- Of the \$35,519 transferred from the Tobacco Settlement Fund to the General Fund, \$35,088 was to finance various health care programs and \$100 was transferred to the Sheriff-Coroner for public protection programs. The remaining \$331 transferred to the General Fund was associated with interest.
- \$2,729 was transferred to the Watershed Management program from the Flood Control District.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**8. INTERFUND TRANSFERS (Continued)**

Routine Transfers (Continued)

- \$13,436 in net proceeds and interest earnings from the Importation of Out-of-County Waste Program earned by Waste Management during the current fiscal year was transferred to the General Fund for Recovery COP Lease Financing as part of the Bankruptcy Recovery Plan.
- As part of the Bankruptcy Recovery Plan, \$5,679 was transferred from the General Fund to the Plan of Adjustment Available Cash Fund in order to make the annual payments to the Option B Pool participants and to distribute available cash.
- \$24,045 was transferred from Other Governmental Funds to the General Fund for the reimbursement of various County programs as follows:
  - \$7,292 for capital projects and maintenance
  - \$1,017 to the District Attorney for Assembly Bill (AB) 3229 prosecution services during FY 2002-03. AB3229 created the Citizens Option for Public Safety (COPS) program that provides statewide funding to be used exclusively for front line law enforcement services.
  - \$15,736 for Sheriff Department programs
- \$33,681 was transferred from the General Fund to the Other Public Protection group of funds. Of that amount, \$31,681 represented the annual transfer for Public Safety Sales Tax Excess Revenue, and the remaining \$2,000 was to fund the County's annual contribution to the 800 MHz County-wide Coordinated Communications System for the acquisition of additional sites and backbone expenses.

Nonrecurring Transfers

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

- \$2,011 was transferred from the General Fund to the Sheriff Construction & Facility Development Fund.
- \$1,000 was transferred from the Other Public Protection group of funds to reimburse the General Fund for 800 MHz related expenditures.

**9. LONG-TERM OBLIGATIONS**

**General Obligation Bonds Payable**

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 2003, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$3,371,061.

**Bankruptcy Recovery**

On December 6, 1994, the County filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of approximately \$1,600,000 in losses to the County investment pool ("Pool"), which was recorded on the County's books and records for FY 1994-95 with approximately \$600,000 allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts, and special districts.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**9. LONG-TERM OBLIGATIONS (Continued)**

**Bankruptcy Recovery (Continued)**

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

These monies, together with certain other County revenues will be used to satisfy the principal and interest payments on the Recovery Certificates of Participation ("Recovery COPs"). The Recovery COPs and Refunding Recovery Bonds ("Recovery Bonds") represent obligations of the County, payable from the General Fund. The enacted Recovery Statutes provide the Recovery COP holders with statutory liens on part of the County's motor vehicle license fees (VLF) and certain sales tax revenues, and further permitted the County to elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the Recovery COPs. Beginning in 1998, State legislation reduced the amount of VLF paid by owners of automobiles in the State. The State has previously made up the difference in VLF collected under reduced rates and the fees that would have been collected under the old fee formula with monies from the State general fund. However, beginning in July 2003, the State acted to triple the motor vehicle license fee. Legal action opposing the rate increase has been threatened. For more information on VLF refer to Note 20, Subsequent Events.

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Recovery COPs and to pay the annual amount of \$800 plus interest due on Option B Pool Participant warrants. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was \$3,200; that amount has been reduced by the required annual amount of \$800, so that the remaining balance at the end of this fiscal year is \$2,400.

**Bankruptcy Obligations**

**Refunding Recovery Bonds, Series 1995A**

In June 1995, the County issued \$278,790 of 1995 Refunding Recovery Bonds ("1995 Recovery Bonds"). The 1995 Recovery Bonds are a General Fund obligation of the County and are being paid from VLF intercepted from the State Controller, to the extent there are sufficient fees available for debt service. These VLF, if not used to pay debt service, would otherwise be received by the County General Fund. The 1995 Recovery Bonds were issued to refund obligations of the County in partial satisfaction of claims of certain Investment Pool participants pursuant to the Comprehensive Settlement Agreement between the County and such participants. In June 1998, the County spent \$31,335 from its Debt Repayment Reserve to purchase defeasance securities, which were placed in escrow to legally defease a portion of the 1995 Recovery Bonds. As of June 30, 2003, the entire \$31,335 balance had been paid. The outstanding principal balance of these bonds as of June 30, 2003 was \$240,110.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

**Bankruptcy Obligations (Continued)**

Recovery Certificates of Participation, Series 1996A

In June 1996, the County issued \$760,800 in the aggregate principal amount of its 1996 Recovery Certificates of Participation, Series A ("1996 Recovery COPs"). Proceeds of the 1996 Recovery COPs were applied to (1) provide funds for the payment of the claims of the holders of the County's 1994-95 Taxable Notes and 1994-95 Tax and Revenue Anticipation Notes (Series A and Series B), whose maturities were extended to June 30, 1996, and the payment of certain other claims and uses approved by the Bankruptcy Court, (2) refund \$124,700 of outstanding COPs executed and delivered on behalf of the County, (3) fund a reserve account for the 1996 Recovery COPs and two months of capitalized interest, and (4) pay costs associated with the delivery of the 1996 Recovery COPs. The 1996 Recovery COPs are general obligations of the County, secured by certain statutory liens and payable from an intercept of VLF and certain sales taxes, to the extent there are sufficient license fees and sales tax funds available for debt service. These VLF and sales tax revenues from unincorporated areas of the County, if not used to pay debt service, would otherwise be received by the County General Fund. As of June 30, 2003, the outstanding principal balance of the 1996 Recovery COPs was \$633,450.

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

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, COPs representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in 1991 with the \$33,579 Refunding COPs (Civic Center Parking Facilities Project). The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation. At June 30, 2003, the outstanding principal amount of the Refunding COPs was \$13,959.

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

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

In July 2001, OCDA issued its \$26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 ("NDAPP Refunding Bonds"), to (1) prepay a portion of the loan made to the Agency pursuant to a Loan Agreement, dated as of June 1, 1992, among the Agency, the Orange County Financing Authority and the trustee and thereby refund a portion, in the amount of \$26,140 of the Orange County Financing Authority NDAPP Bonds; and (2) pay the cost of issuing the bonds. The bonds are special obligations of the Agency and are payable exclusively from tax revenues for the NDAPP Area and from amounts on deposit in certain funds and accounts established under the Indenture.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

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

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

A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease \$26,140 of the \$27,072 outstanding NDAPP Bonds. As of June 30, 2003, the outstanding principal amount of the current interest NDAPP Bonds was \$932, the accreted interest on the capital appreciation NDAPP bonds was \$118 for the year then ended, and the outstanding principal amount of the NDAPP Refunding Bonds was \$25,712.

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

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

The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2002, between the OCPFA and the County, and other amounts held by the Trustee in the funds and accounts established under the Indenture (other than the rebate fund), except as otherwise provided in the Indenture. As of June 30, 2003, the outstanding principal amount of the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002 was \$80,173.

Orange County Public Facilities Corporation Revenue Bonds (Master Lease Programs)

In February 1993, the County issued a Master Lease Equipment Obligation in the principal amount of \$24,780. This obligation is secured by base rental payments on the acquired equipment. As of June 30, 2003, the outstanding equipment obligation was \$1,605.

Tax Allocation Revenue Bonds, 1993 (Santa Ana Heights Project Area)

In August 1993, OCDA issued \$57,965 Santa Ana Heights Project Area, 1993 Tax Allocation Revenue Bonds ("SAHP Bonds"). The SAHP Bonds are secured by property tax increment revenues received by OCDA attributable to the Santa Ana Heights Project Area. As of June 30, 2003, the outstanding principal amount of SAHP Bonds was \$49,560. A refunding is in process.

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

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of \$209,840 and Series 1994B in the aggregate principal amount of \$110,200 ("Series 1994 Pension Bonds"). The Series 1994 Pension Bonds were issued to refund the County's obligation under a debenture issued in favor of the Orange County Employees' Retirement System (OCERS) to fund the County's unfunded actuarial accrued liability to OCERS. The Series 1994 A and B Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994 Pension Bonds, the "Pension Obligation Bonds"). As of June 30, 2003, the outstanding principal amount of the Series 1994A, 1994B, 1996A and 1997A Pension Bonds were \$9,000, \$0, \$64,652 and \$47,120, respectively.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

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

Taxable Pension Obligation Bonds, Series 1994A, 1996A, and 1997A (Continued)

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

Teeter Plan Revenue Bonds, Series 1995A through E

In June 1995, the Orange County Special Financing Authority ("the Authority") issued \$155,000 in taxable (1995 Series A - \$32,400) and tax-exempt (1995 Series B through E - \$122,600) Teeter Plan Revenue Bonds ("Teeter Bonds"). The Teeter Bonds are limited obligations of the Authority payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program, to be received by the Authority, the County and a trustee. The outstanding principal balance of the Teeter Bonds as of June 30, 2003 was \$123,725.

Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project)

In April 2001, the OCPFA issued \$10,330 Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project), to (1) finance the acquisition and installation of certain telecommunications equipment for general governmental purposes, (2) fund a debt service reserve fund, (3) pay capitalized interest on bonds, and (4) pay costs related to the issuance of bonds. The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to an Equipment Lease, and other amounts held by the Trustee in the funds established under the Indenture. As of June 30, 2003, the outstanding principal amount of the Lease Revenue Bonds was \$9,020.

Airport Revenue Refunding Bonds, Series 1993, 1997 and 2003

In July 1987, the County issued \$242,440 of Airport Revenue Bonds, Series 1987 to finance the construction of new facilities at John Wayne Airport. In October 1990, the County issued \$6,420 of COPs to finance the acquisition of loading bridges and baggage handling facilities (these certificates were defeased in July 1996). In July 1993, the County issued \$79,755 of revenue bonds to partially refund the 1987 Bonds. In April 1997, the County completed a forward refunding of the majority of outstanding 1987 Bonds. The principal amount of the refunding was \$135,050. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410. On May 29, 2003 the County issued \$48,680 of revenue bonds ("2003 Bonds"), the proceeds of which, together with certain monies deposited with the Trustee, refunded and defeased the 1993 Bonds. The unamortized deferred loss of \$7,046 on Series 1993 Bonds was with the Series 2003 Bonds. The outstanding principal amount of Airport Revenue Bonds as of June 30, 2003 was \$153,604. All Airport Bonds are secured on a parity basis by a pledge of net revenues of the Airport Enterprise Fund.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

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

Waste Management System Refunding Revenue Bonds, Series 1997

In November 1997, the OCPFA issued \$77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The Waste Management System Bonds are secured by a pledge of (1) the net operating revenues; (2) all money, securities and funds in the Waste Management Enterprise Fund that are required to be held or set aside therein for any purpose other than the payment of operating expenses pursuant to the terms of the sublease, but excluding any such money, securities and funds in the (i) closure account or any other fund or account required pursuant to state or federal law to be held in trust, (ii) environmental account in an amount not exceeding \$50,000, (iii) post-closure reserve account, or (iv) that were borrowed or received to pay capital costs and excluding any deposits or net incremental solid waste system revenues or any deposits that are required to be made in the rebate account; and (3) to the extent permitted by and in accordance with the procedures established under any applicable law, any rights of the County under any approvals, licenses and permits relating to the System. The outstanding principal balance of these bonds as of June 30, 2003 was \$60,663.

Advance Refunding

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, 2003, \$29,250 of legally defeased debt remains outstanding.

**Fiscal Year 2002-03 Debt Obligation Activity**

During FY 2002-03, the following events concerning County debt obligations took place:

Teeter Plan Revenue Bond Remarketing

\$700 of the Series A Bonds were retired in October 2002, reducing the outstanding 1995 Series Bonds from \$124,425 to \$123,725.

Series A through E have all been converted from fixed rate to variable rate. The interest rates, determined on a weekly basis, have ranged from 0.85% to 1.95% payable monthly; and currently, \$123,725 is being remarketed weekly.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

**Fiscal Year 2002-03 Debt Obligation Activity (Continued)**

Airport Revenue Refunding Bonds, Series 2003

On May 29, 2003, the County issued \$48,680 of Airport Revenue Refunding Bonds, Series 2003 at a premium of \$4,206. The proceeds of the bonds, together with certain monies on deposit with the trustee, were used to refund the outstanding Airport Revenue Refunding Bonds Series 1993, and to pay the costs of issuing the bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,827. This difference is reported as a deferred amount on refunding of 2003 Revenue Bonds. The Airport completed the refunding to reduce its debt service payments over the next 15 years by \$24,000 and obtain an economic gain of \$6,187. The Series 2003 Bonds constitute limited obligations of the County, payable solely from net revenues of the Airport (as defined). The Series 2003 bonds are issued on a parity with the County's Airport Revenue Refunding Bonds Series 1997, and the scheduled payment of principal and interest on the Series 2003 Bonds is insured by Financial Security Assurance Inc. As of June 30, 2003, the outstanding principal amount, including unamortized premium of the Series 2003 Bonds, was \$52,886.

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2003 were as follows:

Description	Balance July 1, 2002	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2003	Amounts Due within One Year
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**Governmental Funds:**

**County of Orange Refunding**

**Recovery Bonds - Series 1995 A:**

Date Issued: June 1, 1995

Interest Rate: 5.0% to 6.50%

Original Amount: \$278,790

Maturing in installments through June 1, 2015.    \$    247,455    \$            --    \$    (7,345)    \$    240,110    \$    14,240

**Orange County Public Facilities**

**Corporation, 1996 Recovery**

**Certificates of Participation Series 1996A**

Date Issued: June 12, 1996

Interest Rate: 4.20% to 6.00%

Original Amount: \$760,800

Maturing in installments through July 1, 2026.    657,770                    --            (24,320)            633,450            25,660

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

Description	Balance July 1, 2002	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2003	Amounts Due within One Year
<b><u>Orange County Public Facilities Corporation, Refunding Certificates of Participation: (Civic Center Parking Facilities Project)</u></b>					
Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior December 22, 1987 bond issue					
Interest Rate: CIB - 4.40% to 6.75%					
Interest Rate: CAB - 6.85% to 7.05%					
Original Amount: CIB - \$24,495					
Original Amount: CAB - \$9,084					
Maturing in installments through December 1, 2018.					
	16,164	--	(2,205)	13,959	2,355
<b><u>Orange County Financing Authority Tax Allocation Revenue Bonds - Series 1992 A (Neighborhood Development and Preservation Project):</u></b>					
Date Issued: June 1, 1992 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB)					
To refund prior June 1, 1989 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.50% to 6.50%					
Interest Rate: CAB - 6.50% to 6.55%					
Original Amount: CIB - \$27,150					
Original Amount: CAB - \$932					
Maturing in installments through September 1, 2022.					
	932	--	--	932	--
<b><u>Orange County Development Agency Tax Allocation Refunding Bonds - Series 2001 (Neighborhood Development and Preservation Project):</u></b>					
Date Issued: July 11, 2001 - Current Interest Rate Bonds (CIB)					
To refund prior June 1, 1992 Orange County Development Agency bond issue					
Interest Rate: CIB - 4.00% to 5.50%					
Original Amount: \$26,160					
Maturing in installments through September 1, 2022.					
	26,487	(10)	(765)	25,712	985
Deferred Amount on Refunding	(1,152)	55	--	(1,097)	(55)

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

Description	Balance July 1, 2002	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2003	Amounts Due within One Year
<b><u>Orange County Public Financing Authority</u></b>					
<b><u>Juvenile Justice Center Facility Lease</u></b>					
<b><u>Revenue Refunding Bonds, Series 2002:</u></b>					
Date issued: May 1, 2002, and delivered April 24, 2002 to refund the outstanding Refunding Certificates of Participation.					
Interest Rate: 3.00% to 5.375%					
Original Amount: \$80,285					
Maturing in installments through June 1, 2019.	83,449	(36)	(3,240)	80,173	3,690
Deferred Amount on Refunding	(3,682)	182	--	(3,500)	(219)
<b><u>Orange County Public Facilities Corporation</u></b>					
<b><u>Revenue Bonds Master Lease Program:</u></b>					
Date Issued: February 1, 1993					
Interest Rate: 3.40% to 5.50%					
Original Amount: \$24,780					
Maturing in installments through September 1, 2003.	3,885	--	(2,280)	1,605	1,605
<b><u>Orange County Development Agency Santa Ana Heights Project Area 1993 Tax Allocation Revenue Bonds:</u></b>					
Date Issued: August 1, 1993 to refund prior September 1, 1987 bond issue					
Interest Rate: 3.25% to 6.20%					
Original Amount: \$57,965					
Maturing in installments through September 1, 2023.	50,730	--	(1,170)	49,560	1,235
<b><u>County of Orange Taxable Pension</u></b>					
<b><u>Obligation Bonds - Series 1994 A:</u></b>					
Date Issued: September 1, 1994					
Interest Rate: 6.15% to 8.21%					
Original Amount: \$209,840					
Maturing in installments through September 1, 2004.	9,000	--	--	9,000	4,000
<b><u>County of Orange</u></b>					
<b><u>Taxable Refunding Pension</u></b>					
<b><u>Obligation Bonds - Series 1996 A:</u></b>					
Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB)					
Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB)					
To refund prior September 1, 1994 bond issue.					
Interest Rate: CIB - 7.47% to 7.72%					
Interest Rate: CAB - 8.09% to 8.26%					
Original Amount: CIB - \$81,680					
Original Amount: CAB - \$40,000					
Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB).	64,652	--	--	64,652	--

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

Description	Balance July 1, 2002	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2003	Amounts Due within One Year
<b><u>County of Orange</u></b>					
<b><u>Taxable Refunding Pension</u></b>					
<b><u>Obligation Bonds - Series 1997 A:</u></b>					
Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB)					
Date Issued: January 14, 1997 – Capital Appreciation Bonds (CAB)					
To refund a substantial portion of the September 1, 1994 bond issue.					
Interest Rate: CIB - 5.71% to 7.36%					
Interest Rate: CAB - 7.33% to 7.96%					
Original Amount: CIB - \$71,605					
Original Amount: CAB - \$65,318					
Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB).					
	60,960	--	(13,840)	47,120	--
<b><u>Orange County Special Financing Authority</u></b>					
<b><u>Teeter Plan Revenue Bonds Series A through E:</u></b>					
Date Issued: June 1, 1995					
Interest Rate: variable (Series A, B, C, D and E)					
Original Amount: \$155,000					
Maturing in installments through November 1, 2014.					
	124,425	--	(700)	123,725	--
<b><u>Orange County Public Financing Authority,</u></b>					
<b><u>Telecommunications Equipment Project</u></b>					
<b><u>Lease Revenue Bonds Series 2001:</u></b>					
Date Issued: April 1, 2001					
Interest Rate: 4.00%					
Original Amount: \$10,330					
Maturing in installments through Dec 15, 2008.					
	10,330	--	(1,310)	9,020	1,360
<b>Subtotal - Governmental Funds</b>	<b>1,351,405</b>	<b>191</b>	<b>(57,175)</b>	<b>1,294,421</b>	<b>54,856</b>
<b><u>Enterprise Funds:</u></b>					
<b><u>Airport Revenue Refunding Bonds - Series 1993:</u></b>					
Date Issued: July 1, 1993 to refund \$68,440 of the 1987 Airport Revenue bond issue.					
Interest Rate: 3.00% to 5.50%					
Original Amount: \$79,755					
Maturing in installments through July 1, 2018.					
	66,023	1,822	(67,845)	--	--
Deferred Amount on Refunding (1993 Airport Revenue Bonds)					
	(7,546)	7,546	--	--	--

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

Description	Balance July 1, 2002	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2003	Amounts Due within One Year
<b><u>Airport Revenue Refunding Bonds - Series 1997:</u></b>					
Date Issued: April 2, 1997 to refund \$131,490 of the 1987 Airport Revenue bond issue					
Interest Rate: 5.00% to 6.00%					
Original Amount: \$135,050					
Maturing in installments through July 1, 2012.	108,726	(243)	(7,765)	100,718	8,319
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(3,538)	890	--	(2,648)	(768)
<b><u>Airport Revenue Refunding Bonds - Series 2003:</u></b>					
Date Issued: May 29, 2003 to refund 1993 Airport Revenue bond issue					
Interest Rate: 2.50% to 5.00%					
Original Amount: \$48,680					
Maturing in installments through July 1, 2018	--	52,886	--	52,886	483
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	--	(10,827)	--	(10,827)	(1,249)
<b><u>Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds - Series 1997:</u></b>					
Date Issued: November 18, 1997 to refund \$77,445 of the OCPFC 1988 Certificate of Participation (Solid Waste Management System)					
Interest Rate: 4.375% to 5.75%					
Original Amount: \$77,300					
Maturing in installments through December 1, 2013.	64,737	(169)	(3,905)	60,663	4,080
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(4,342)	562	--	(3,780)	(363)
<b>Subtotal - Enterprise Funds</b>	<u>224,060</u>	<u>52,467</u>	<u>(79,515)</u>	<u>197,012</u>	<u>10,502</u>
<b>Total</b>	<u>\$ 1,575,465</u>	<u>\$ 52,658</u>	<u>\$ (136,690)</u>	<u>\$ 1,491,433</u>	<u>\$ 65,358</u>

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

**Schedule of Long-Term Debt Service Requirements to Maturity**

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

Fiscal Year(s) Ending June 30	Enterprise Funds		Governmental Funds		Total
	Principal	Interest	Principal	Interest	
2004	\$ 12,190	\$ 9,855	\$ 55,070	\$ 77,064	\$ 154,179
2005	15,060	10,085	56,737	74,334	156,216
2006	16,015	9,282	64,898	75,287	165,482
2007	16,880	8,403	65,241	72,336	162,860
2008	17,795	7,456	75,836	68,167	169,254
2009-2013	99,845	21,332	336,032	324,097	781,306
2014-2018	26,265	3,763	316,888	255,062	601,978
2019-2023	4,440	111	178,221	112,234	295,006
2024-2028	--	--	146,650	17,863	164,513
<b>Total</b>	<b>208,490</b>	<b>70,287</b>	<b>1,295,573</b>	<b>1,076,444</b>	<b>2,650,794</b>
Add: Premium	5,777	--	3,445	--	9,222
Less: Deferred amount on refunding	(17,255)	--	(4,597)	--	(21,852)
<b>Principal Payable, Net</b>	<b>\$ 197,012</b>	<b>\$ 70,287</b>	<b>\$ 1,294,421</b>	<b>\$ 1,076,444</b>	<b>\$ 2,638,164</b>

**Changes in Long-Term Liabilities:**

Long-term liability activities for the year ended June 30, 2003 were as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
<b>Governmental Activities:</b>					
Bonds and COPs Payable:					
Revenue bonds	\$ 296,747	\$ --	\$ (9,465)	\$ 287,282	\$ 8,815
Certificates of participation	673,934	--	(26,525)	647,409	28,015
Pension obligation bonds	134,612	--	(13,840)	120,772	4,000
Recovery bonds	247,455	--	(7,345)	240,110	14,240
Add: Premium on bonds payable	3,491	--	(46)	3,445	60
Less: Deferred amount on refunding	(4,834)	--	237	(4,597)	(274)
<b>Total Bonds &amp; COPs Payable, Net</b>	<b>1,351,405</b>	<b>--</b>	<b>(56,984)</b>	<b>1,294,421</b>	<b>54,856</b>
Interest on Capital Appreciation Bonds	51,505	10,603	--	62,108	--

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

**Changes in Long-Term Liabilities:**

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Other long-term liabilities:					
Compensated employee absences payable	\$ 115,393	\$ 139,779	\$ (107,003)	\$ 148,169	\$ 81,517
Arbitrage rebate payable	48	23	(48)	23	--
Pool participant claims	3,200	--	(800)	2,400	800
Capital lease obligations payable	59,398	2,527	(3,692)	58,233	9,192
Insurance claims payable	104,739	93,719	(86,317)	112,141	50,883
Total other long term liabilities	<u>282,778</u>	<u>236,048</u>	<u>(197,860)</u>	<u>320,966</u>	<u>142,392</u>
<b>Total Governmental Activities Long-term Liabilities</b>	<u>\$ 1,685,688</u>	<u>\$ 246,651</u>	<u>\$ (254,844)</u>	<u>\$ 1,677,495</u>	<u>\$ 197,248</u>
<b>Business-type Activities:</b>					
Bonds Payable:					
Revenue bonds	\$ 239,325	\$ 48,680	\$ (79,515)	\$ 208,490	\$ 12,190
Add: Premium on bonds payable	1,983	4,206	(412)	5,777	692
Less: Discount on bonds payable	(1,822)	--	1,822	--	--
Less: Deferred amount on refunding	(15,426)	(10,827)	8,998	(17,255)	(2,380)
Total Revenue Bonds Payable, Net	<u>224,060</u>	<u>42,059</u>	<u>(69,107)</u>	<u>197,012</u>	<u>10,502</u>
Other long-term liabilities:					
Compensated employee absences payable	2,867	4,944	(3,295)	4,516	2,115
Arbitrage rebate payable	245	31	(245)	31	--
Landfill site closure/postclosure liabilities	173,491	13,165	(5,435)	181,221	9,284
Total other long-term liabilities	<u>176,603</u>	<u>18,140</u>	<u>(8,975)</u>	<u>185,768</u>	<u>11,399</u>
<b>Total Business-type Activities Long-term Liabilities</b>	<u>\$ 400,663</u>	<u>\$ 60,199</u>	<u>\$ (78,082)</u>	<u>\$ 382,780</u>	<u>\$ 21,901</u>

**Compensated Employee Absences**

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2003 is \$148,169 compared with \$115,393 at June 30, 2002. The increased balance is primarily due to additional employee bargaining units negotiating annual leave plans, which pooled vacation and sick leave time together to create one annual leave balance, which does not require the employee to be sick in order to use the time. The plans also provide for more of the employees leave balances to be eligible for a cash payout upon termination, depending on years of service. Now that most of the county's work force participates in an annual leave plan, it has caused changes to the methodology used to calculate the compensated absences liability. The methodology takes into consideration the actual cash payout value and also applies a factor for increased leave usage, based on annual leave usage trends. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**9. LONG-TERM OBLIGATIONS (Continued)**

**Special Assessment District Bonds**

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

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

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

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

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

Special assessment district and community facilities district bonds outstanding as of June 30, 2003, amounted to \$755,057.

**10. CONDUIT DEBT OBLIGATIONS**

From 1980 through 2003 the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate-income families.

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

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

As of June 30, 2003 there were 90 series of bonds outstanding, with an aggregate principal amount payable of \$1,027,928.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**11. LEASES**

Commitments Under Operating Leases

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

<u>Fiscal Year Ending June 30</u>	<u>Equipment</u>	<u>Real Property</u>	<u>Total</u>
2004	\$ 18,996	\$ 28,670	\$ 47,666
2005	18,192	23,779	41,971
2006	17,876	23,253	41,129
2007	12,158	20,653	32,811
2008	6,451	19,914	26,365
2009-2013	--	52,708	52,708
2014-2018	--	9,494	9,494
<b>Total</b>	<b>\$ 73,673</b>	<b>\$ 178,471</b>	<b>\$ 252,144</b>

Total rent expenditures for operating leases incurred for FY 2002-03 was \$49,689.

Capital Leases

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

Land	\$ 12,170
Equipment	4,295
Less: Accumulated Depreciation	(611)
Structures and Improvements	61,932
Less: Accumulated Depreciation	(9,533)
<b>Total</b>	<b>\$ 68,253</b>

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, 2003:

<u>Fiscal Year Ending June 30</u>	
2004	\$ 9,192
2005	8,986
2006	9,101
2007	8,480
2008	8,551
2009-2013	26,763
2014-2018	16,407
2019-2023	10,216
Total minimum lease payments	97,696
Less: amount representing interest	(39,463)
Present value of net minimum lease payments	<b>\$ 58,233</b>

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**12. RESERVED FUND BALANCES/NET ASSETS**

In the fund financial statements, governmental funds and certain fiduciary funds report reservations of fund balance/net assets for amounts that are not available for appropriation or are legally restricted for use for a specific purpose. In addition, the Board of Supervisors has established certain fund balance reserves for future purposes that are essentially designations of fund balances that represent tentative management plans that are subject to change. Fund balances at June 30, 2003 are reserved for the following purposes:

	General Fund	Roads	Public Library	Refunding & Recovery COPs and Debt Prepayment	Flood Control District	Harbors, Beaches, and Parks	Other Governmental Funds	Fiduciary Funds
<b>Assets Not Available for Appropriations:</b>								
Encumbrances	\$ 55,186	\$ 25,211	\$ 1,482	\$ --	\$ 24,696	\$ 8,368	\$ 33,276	\$ --
Long-term Receivables	--	--	--	--	--	--	17,943	--
Imprest Cash Funds	1,267	--	53	--	--	--	13	--
Employee's Retirement	--	--	--	--	--	--	--	5,735
Inventory of Materials and Supplies	364	93	--	--	218	104	480	--
Prepaid Costs	2	--	--	--	--	--	1,151	--
Land and Improvements Held for Resale	--	--	--	--	--	--	2,141	--
Debt Service	--	--	--	145,412	--	--	345,586	--
Private Purpose Trust	--	--	--	--	--	--	--	50,082
External Investment Pools	--	--	--	--	--	--	--	2,224,374
Children's Programs	--	--	--	--	--	--	--	--
<b>Fund Balances Reserved by Board of Supervisors for a Future Purpose:</b>								
Equipment Replacement	--	10,144	--	--	484	1,757	--	--
Equipment Purchase (New)	--	--	--	--	--	--	1,130	--
Administration Fees	--	--	--	--	--	--	6,000	--
Loans	100	--	--	--	--	1,195	17,293	--
Land Purchase	--	--	--	--	17,946	70	--	--
Operations	--	--	--	--	--	--	50	--
Future Road Projects	--	52,316	--	--	--	--	--	--
Library Contingencies	--	--	2,017	--	--	--	--	--
Capital Projects	--	--	--	--	112,986	6,323	932	--
General Reserves	--	--	--	--	22,375	7,353	15,572	--
Cash Difference Funds	10	--	--	--	--	--	--	--
Contingencies	18,000	--	--	--	--	--	25	--
Revitalization Projects	--	--	--	--	--	3	--	--
Operations - Strategic Priorities	86,016	--	--	--	--	--	--	--
Reserved Fund Balances/Net Assets	\$ 160,945	\$ 87,764	\$ 3,552	\$ 145,412	\$ 178,705	\$ 25,173	\$ 441,592	\$ 2,280,191

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**13. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS**

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

IWMD owns or operates the following waste disposal sites:

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

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by IWMD. Santiago Canyon's lease with the Irvine Company was terminated in November 2002 and in return the Irvine Company donated the landfill valued at \$1,360 to the County of Orange. Coyote Canyon is owned by the Irvine Company and is under lease. The total landfill closure and postclosure care liability at June 30, 2003 was \$181,221, of which \$9,923 is for remediation. The total liability represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date (39.23%), less actual costs disbursed related to both closure and postclosure of Santiago Canyon and Coyote Canyon landfills. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$164,067 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 2003 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board's regulations, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD, on an annual basis, sets aside cash for the FRB, Olinda Alpha, Prima Deshecha, and Santiago Canyon landfills into escrow funds held by the County. As of June 30, 2003, \$141,528 has been set aside for these costs and is included in the accompanying Proprietary Funds' Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. The State mandated formula under which these contributions are computed would provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure and postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**13. 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. Thus, the County has potential liability with respect to every landfill ever operated by the County. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase. IWMD has completed preliminary environmental site assessments for the former refuse disposal stations. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

**14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

At June 30, 2003, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund within governmental or business-type activities:

	<u>Project Title</u>	<u>Remaining Commitments</u>
<u>Governmental Activities:</u>		
General Fund		
	Central Justice Center – Phase II HVAC/ADA	
	-Heating, Ventilation, & Air-Conditioning Improvements to Comply with ADA	\$ 1,726
	Juvenile Hall (60 bed expansion construction costs)	10,374
	Rancho Potrero (90 bed juvenile facility construction costs)	1,353
	Sheriff/Corner - Computer System for Patrol Cars	1,898
	Subtotal	<u>15,351</u>
Roads		
	Foothill Circulation Phasing Plan	
	-Alton-Irvine Blvd. to Foothill Transportation Corridor	1,768
	Laguna Canyon Road	
	-SR73 to I-405	15,554
	Subtotal	<u>17,322</u>
Flood Control District		
	Carbon Creek Channel/Coyote Creek Channel	1,045
	Fullerton Creek Channel – Knott to Beach	2,309
	Segunda Deschecha Channel	4,633
	Huntington Beach Channel	
	Magnolia to Upstream Inland	4,888
	Huntington Beach Channel	
	Atlanta to Indianapolis	2,770
	Subtotal	<u>15,645</u>
Other Governmental Funds		
	Rancho Potrero Leadership Academy	1,093
	Juvenile Hall – 60 bed expansion	1,364
	Theo Lacy Jail Construction	14,112
	Sewer Improvements	2,811
	Subtotal	<u>19,380</u>

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)**

<u>Business-type Activities:</u>	<u>Project Title</u>	<u>Remaining Commitments</u>
Airport – Operating		
	Fire Station #33 Remodel	\$ 3,373
	Terminal Improvements	1,073
	Airport Rescue & Fire Fighting Vehicle	1,025
	Subtotal	<u>5,471</u>
Integrated Waste Management – Operating		
	Frank R. Bowerman – Equipment Maintenance Facility	1,179
	Zone 1 Phase B Mass Excavation	5,919
	Subtotal	<u>7,098</u>
	Total	<u>\$ 80,267</u>

In addition, the County is involved in the Santa Ana River Mainstem Project and the pending segregation of the Prado Dam. This project is a major flood control project, which when fully completed is designed to prevent the type of devastating damage caused by large-scale flooding that can occur on the average of once every 190 years in the Santa Ana River flood plain. The projects involve a combination of flood channel widening and reinforcement, construction of a new dam, Seven Oaks Dam, and the raising of the existing Prado Dam. The U.S. Army Corps of Engineers (COE) has agreed to designate the Prado Dam feature of this project as a separate element with a separate implementation and cost share agreement between the COE and the Orange County Flood Control District (OCFCD) only. Upon approval of this new agreement, the OCFCD's funding requirement is guaranteed not to exceed 50% of the costs for the Prado Dam element.

The Federal Government, OCFCD, San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing this project based on the COE's estimated total cost of \$1,400,000. The OCFCD currently estimates its share of costs for the Project to be \$413,000 for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions.

OCFCD's remaining share of the project's costs exceeds current available funds. However, the project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD eligible expenditures). An estimated \$10,000 is expected to be reimbursed to the OCFCD when funds are available, after audit by the State Department of Water Resources (DWR). Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid if funds are available, with the remaining 10% paid after an audit by the State Controller's Office. As of June 30, 2003, the OCFCD has spent an estimated \$217,100 on the Project, with resulting claims for estimated reimbursement of \$150,000, which has already been submitted or will be submitted. To date, the OCFCD has submitted \$134,000 in claims for reimbursement of eligible expenditures and received \$120,000 in reimbursements. The County does not accrue these claim amounts as revenue due to the uncertainty of DWR eligibility approval and due to the typical lengthy review and audit completion time periods after claim submission.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**15. SELF-INSURANCE**

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

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

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to \$5,000. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance provides up to an additional \$50,000 in liability coverage. There have been no claims or settlements that exceeded the self-insurance threshold. Accordingly, no claims or settlements have been paid by the excess insurance.

Independent actuarial studies are secured annually for the Workers' Compensation and Property and Casualty Risk ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, and allocated loss adjustment expenses. Unpaid claim liabilities are calculated considering inflation, claims cost trends, including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Unpaid claims liabilities have been discounted at a rate of 1.25% to reflect anticipated future investment earnings.

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

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
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**15. SELF-INSURANCE (Continued)**

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

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 2001-02	\$ 54,988	\$ 25,147	\$ 10,661	\$ 90,796
Claims and Changes in Estimates	37,131	4,537	45,929	87,597
Claim Payments	(20,414)	(8,231)	(45,009)	(73,654)
Unpaid Claims, End of FY 2001-02	<u>71,705</u>	<u>21,453</u>	<u>11,581</u>	<u>104,739</u>
Claims and Changes in Estimates	36,917	3,348	53,454	93,719
Claim Payments	(25,382)	(8,045)	(52,890)	(86,317)
Unpaid Claims, End of FY 2002-03	<u>\$ 83,240</u>	<u>\$ 16,756</u>	<u>\$ 12,145</u>	<u>\$ 112,141</u>

The workers' compensation unpaid claims continue to increase due to increases in the costs of permanent disabilities, the impact of legislative and regulatory changes, and a trend in rising medical costs.

The overall exposure of unpaid property and casualty risk claims continues to decrease due to the ongoing impacts of city incorporations, which continue to reduce risk exposure. A change in procedure in all Orange County courts continues to reduce the number of lawsuits filed against the County. Cases are resolved promptly, which usually results in a lower cost of settlement.

**16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS**

There are lawsuits and claims pending against the County, which arise during the normal course of business. To the extent the outcome of such litigation would result in probable loss to the County, any such loss would be accrued in the accompanying financial statements. The lawsuits and claims discussed below represent issues in which the financial loss to the County has been determined to be a potential liability by County Counsel.

Refuse Disposal Stations. The County has operated various refuse disposal stations which it owned or leased, and at some of these stations methane gas has been detected on the property. The Local Enforcement Agency (LEA), the entity that regulates landfills has directed the property owners to develop corrective action plans and propose long-term landfill gas remediation plans at the sites. Many of these sites are currently owned by different cities within the County and these cities are in the process of implementing the landfill gas mitigations required by the LEA. The County cannot estimate the cost to control the landfill gas. The costs, however, could be substantial. At this time no amount has been accrued. The cities which currently own the sites have notified the County that it is their position that the County is responsible for control of the landfill gas on the sites. It is possible that the County could incur significant costs if the matter results in litigation. Listed below are those refuse disposal stations with potential claims or regulatory actions against the County.

- Sparkes Pit/Rains Disposal Station #18 – Regulatory Action, Private Owner
- Cannery Street Refuse Disposal Station #16, City of Huntington Beach
- La Habra Refuse Disposal Station #11, City of La Habra
- San Joaquin Refuse Disposal Station #13, University of California, Irvine
- Forster Refuse Disposal Station #17, Private Owner

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)**

Lane Road Refuse Disposal Station #21. This site, located in the City of Irvine and owned by NGP Reality Sub, L.P. and others, was leased and operated by the County of Orange as a refuse disposal facility from 1961 until its closure in 1964. The Santa Ana Regional Water Quality Control Board and the LEA, entities that regulate landfill gas and its impact on groundwater. That investigation has indicated that landfill gas is present above regulatory limits in close proximity to residential housing units. The LEA issued a Notice and Order in January 2003 directing the property owner to develop a corrective action work plan and proposed a long-term landfill gas remediation plan. Counsel for the property owners has indicated that it is their position that the County is responsible for all costs associated with the control of landfill gas at the site. The County disputes this assertion. In February 2003, the property owners submitted a Claim for Money or Damages to the County for \$70 and anticipate future damages in excess of \$1,000. IWMD and its counsel are currently in discussions with the property owners to negotiate a settlement agreement. It is possible the County could incur significant costs if the matter results in litigation.

Barratt American Incorporated, et al., v. County of Orange. Plaintiff alleges the County over-charged for building permit and inspection fees from 1999 through 2001 (and continuing) and impermissibly accumulated a surplus in Fund 113, the Building and Safety special revenue fund, which is used to account for building and safety permit fees, much of which plaintiff alleges was subsequently spent on impermissible items. Plaintiff seeks a variety of forms of relief, including injunctive, declaratory and money damages.

On March 26, 2001, Plaintiff filed a new complaint against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaint is similar to the former complaint except that the new complaint challenges the enactment of a fee reduction ordinance enacted by the County early in 2001. The County denies the allegations and intends to defend itself in court against the complaint. The court has not yet set a trial date.

County of Orange v. Assessment Appeals Board No. 3. The County brought an action against County Assessment Appeals Board No. 3 over a ruling that the County Assessor unlawfully assessed a parcel of residential property. The issue is whether reductions in assessed value under Proposition 8 are permanent or temporary. If temporary, the Assessor may increase the assessment for a given year by more than 2% from the previous year's assessment up to the previously established base year value under Proposition 13, plus an annual inflation factor of up to 2%. If permanent, the Proposition 8 reduction establishes a new base year value, which limits the Assessor's ability to increase such value in subsequent years to up to 2% annually.

The Assessor contends that Proposition 8 reductions in assessments are temporary and when the assessed value of the property returns to pre-reduction value, the Assessor must return to using the base year value, adjusted for inflation, even if the increased assessment exceeds 2% of the prior year's reduced value.

On December 27, 2001, the Superior Court ruled that the County Assessor used an illegal assessment method in recapturing Proposition 13 values. The County Board of Supervisors voted not to challenge the December 27, 2001 order, recommended that the Assessor stop using the recapture practice, directed appropriate County staff to notify affected taxpayers and authorized the Assessor, if he chooses to appeal, to hire his own counsel. None of the actions taken by the Board of Supervisors is intended to affect the Assessor's right to appeal. Subsequently, the Board of Supervisors authorized the Treasurer-Tax Collector and the Auditor-Controller to each hire counsel to advise them on matters related to this case. On December 12, 2002, the Superior Court certified the case as a class action.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)**

County of Orange v. Assessment Appeals Board No. 3. (Continued) The County, County Assessor and County Tax Collector have appealed the trial court decision. The Court of Appeal has scheduled a hearing on January 7, 2004. In 2002, two other local courts (Los Angeles and San Diego) ruled differently on the same issue and both affirmed the current statewide practice of property assessment restoration. Property tax laws are applied on a statewide basis, and the contradicting ruling with two other local courts on the same legal issue requires a uniformity review at the appellate level.

Should the court's decision become final, the potential financial impact to the County and other public entities may be material. The Auditor-Controller estimates refund exposure to the County General Fund and the Orange County Library District to exceed \$26,446, with a future reduction in tax base exceeding \$10,510 annually. Other County or County-related entities affected include: Orange County Flood Control District, \$6,640 refunds, \$2,639 reduced tax base; Orange County Harbors, Beaches, and Parks, \$4,921 refunds, \$1,956 reduced tax base; and the Orange County Development Agency, \$1,302 refunds, \$533 reduced tax base. At this time no amount has been accrued, do to the uncertainty of the outcome of appeal.

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

OCFA has contacted the County regarding potential claims against the County arising out of possible contamination from motor vehicle fuels that leaked from underground storage tank systems at nine fire stations. OCFA claims are currently tolled until February 2007 under tolling agreements with the County. In addition, an abutting landowner at one of the stations has threatened litigation alleging that contamination from leaking storage tank systems has migrated to the abutting property.

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

**17. OTHER CONTINGENCIES**

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

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

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
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**17. OTHER CONTINGENCIES (Continued)**

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

HCA is currently under investigation for potential civil fraud and False Claims Act violations in connection with its Medicare billings for mental health services. The investigation is being directed by the United States Attorney's Office and the Office of the Inspector General (OIG) for the Department of Health and Human Services. The County believes that the investigation focuses on HCA's Medicare billing practices from 1990 through 1999, and that the investigators believe that HCA may have made numerous false claims on its Medicare bills during that period and may have submitted false claims for physician services that were not rendered by physicians.

No civil lawsuits have been filed by the federal government in connection with the investigation. Because no civil lawsuits have yet been filed in this investigation, and because the issues in this matter involve complex and disputed issues of fact and law, it is difficult to estimate any potential penalties and/or other costs that the County may be required to pay.

**18. RETIREMENT PLANS**

**Orange County Employees Retirement System (OCERS)**

Plan Description. Substantially all County employees participate in OCERS, a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system and account for approximately 16% of the active and retired system membership.

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

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

Funding Policy. In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. For FY 2002-03, employer's contributions, as a percentage of covered payrolls, were 5.66% for General members, 25.02% for Safety-Law Enforcement members and 5.66% for Safety-Probation members.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**18. RETIREMENT PLANS (Continued)**

**Orange County Employees Retirement System (OCERS) (Continued)**

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. Effective June 28, 2002, for Tier I and II Safety members, the rate of contribution is calculated to provide an annuity equal to 3/100 of the member's "final compensation" for each year of service rendered at age 50. Probation Services employees were granted safety retirement status by the Board of Supervisors as of June 28, 2002 and will earn benefits under a 2/100 at 50 formula for service after that date. On or after June 10, 2005, Probation Service employees will earn benefits under a 3/100 at 50 benefits formula.

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

According to OCERS most recent annual report, the County's 2002 contribution represented 84% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued \$320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to fund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account ("Investment Account") with the POB proceeds in the amount of \$318,300. For FY 1995-96 the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The 1996 agreement provides for the Investment Account to be used to fund the County's employer contribution in a decreasing percentage each year. The Investment Account allowed for 70% of the employer contribution to be paid from the Investment Account Agreement, adjusted for previous years' OCERS portfolio gains and losses. Of the \$97,605 contribution for fiscal year 2002-03, 39% was paid from the Investment Account. In August 2002, the Board of Supervisors approved a new agreement that gives the County complete discretion, subject to a notice requirement, over how much of the annual retirement contribution will be paid from the Investment Account. The balance of the Investment Account on June 30, 2003 was \$162,632.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**18. RETIREMENT PLANS (Continued)**

**Orange County Employees Retirement System (OCERS) (Continued)**

Because the amortized gains of the retirement system have been higher than anticipated, the required annual percentage of employer contributions has remained low until the current year. Because of a large increase in the Unfunded Actuarial Accrued Liability, the County's cash contribution was \$59,801, approximately 61% of the total required. The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/01	\$ --	\$ 45,932	\$ 45,932	100%
06/30/02	--	38,322	38,322	100%
06/30/03	59,801	37,804	97,605	100%

**Extra Help Employees**

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

**Defined Benefit Retirement Plan**

Plan Description. The plan is a single-employer defined benefit retirement plan for employees performing services based on less than half time or as extra help. The normal retirement benefits for a participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65<sup>th</sup> birthday. The County Board of Supervisors has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

The plan was closed to new participants as of February 28, 2002. As of June 30, 2003, the plan consists of 1,751 active plan participants, 791 terminated plan participants entitled to but not yet receiving benefits, and 5 retirees receiving benefits.

The plan's financial statements are prepared using the accrual basis of accounting. Plan participant and County contributions are recognized in the period in which contributions are due, as required by statutory or contractual agreements. The benefits paid to participants and refunds of prior contributions are recognized when due and payable, in accordance with the terms of the plan. The employee contributions are recognized when due, pursuant to the plan documentation. Investments are reported at fair value as further described in Note 1.E and are fully invested in the County Pool as described in Note 3. The plan has not issued separate stand-alone financial statements.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**18. RETIREMENT PLANS (Continued)**

**Extra Help Employees (Continued)**

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

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

The County charges a benefits administration fee to County agencies, which fund 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. For this June 30, 2003 disclosure, the plan's annual pension cost was calculated using a roll-forward of the July 1, 2002 valuation report using standard methodologies for the roll-forward.

Defined Benefit Retirement Plan

The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is the total of (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the unfunded actuarial liability. Based on the most recent actuarial valuation, June 30, 2002, interest on the net pension obligation is immaterial.

For the fiscal year ended June 30, 2003, the County's annual required contribution was \$275. The required contribution was determined using a roll-forward of the July 1, 2002 valuation report, which used the traditional (unprojected) unit credit actuarial cost method. The actuarial assumptions included (a) 5.5% investment return (net of administrative expenses), (b) the 1983 Group Annuity Mortality table for Males and Females, and (c) projected annual salary increases of 4% a year (used to project future payroll only). Both (a) and (c) include a 3.75% annual inflation component. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years. However, the investment return assumption was changed from 8% to 5.5% at June 30, 2002, which increased the 2002-03 annual pension cost.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**18. RETIREMENT PLANS (Continued)**

**Extra Help Employees (Continued)**

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/99	\$ 2,280	\$ 2,975	\$ 695	76.6%	\$ 18,200	3.8%
06/30/00	\$ 2,666	\$ 3,750	\$ 1,084	71.1%	\$ 18,920	5.7%
06/30/01*	\$ 3,419	\$ 4,149	\$ 730	82.4%	\$ 19,676	3.7%
06/30/02	\$ 4,121	\$ 7,035	\$ 2,914	58.6%	\$ 24,192	12.0%
06/30/03*	\$ 4,655	\$ 8,137	\$ 3,482	57.2%	\$ 25,160	13.8%

\* June 30, 2001 Actuarial Accrued Liability based on June 30, 2000 valuation results rolled forward one year.

Schedule of Employer Contributions  
(Amounts in Thousands)

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1999	\$ 3	0%	\$ 6
2000	\$ 2	0%	\$ 28
2001	\$ 73	0%	\$ 101
2002	\$ 65	0%	\$ 166
2003	\$ 275	0%	\$ 441

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

**Defined Contribution Plan**

**Plan Description.** On March 1, 2002, the County adopted a Defined Contribution Plan to replace the Defined Benefit Plan for extra help employees and part time employees working less than 20 hours per week. The plan is a tax-deferred retirement plan, established in accordance with Internal Revenue Code 3121. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS. As of June 30, 2003 there were 774 participants in the plan.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**18. RETIREMENT PLANS (Continued)**

**Extra Help Employees (Continued)**

The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The normal retirement benefits for a participant who 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 Deferred Compensation Plan or leave the balance in the plan until they are no longer employed with the County.

Funding Policy. Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in a stable value fund offered through BenefitsCorp Equities, Inc, designed to protect principal and maximize earnings. There is no additional contribution made by the County.

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

**19. POST EMPLOYMENT HEALTH CARE BENEFITS**

The County of Orange Board of Supervisors approved the establishment of a Retiree Medical Insurance Plan ("Plan") on August 1, 1993 for employees who retire and/or separate from County service and who meet the eligibility requirements of the Plan. The Plan provisions are defined within the Retiree Medical Plan Document.

The Plan is currently funded by a 1% salary contribution from current employees and contributions from the OCERS' Retired Members Benefit Reserve Account (RMBR), which came from surplus retirement system earnings. There are no direct County contributions toward this Plan.

To be eligible for a monthly Retiree Medical Grant, retirees must be eligible to retire and in most cases have at least ten years of County service and have reached the age of 50. Participants must also be receiving a monthly retirement allowance from the OCERS and be enrolled in a County health plan at the time of retirement. Employees who separate from County service prior to meeting the eligibility requirements for the grant receive a lump sum cash benefit based on salary and years of qualifying service in accordance with provisions of the Retiree Medical Plan Document.

Currently, there are approximately 4,800 retired employees and/or survivors receiving a monthly Retiree Medical Grant. The grant is used to offset the cost of the retiree's monthly health plan premiums. The monthly retiree medical grant amount for calendar year 2003 is set at \$14.21 per year of County service to a maximum of 25 years. For FY 2002-03, the Plan contributed \$12,493 in Retiree Medical Grants towards retiree health premium costs.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**20. SUBSEQUENT EVENTS**

The following events occurred subsequent to June 30, 2003:

A. State of California and County of Orange Fiscal Outlook

The former Governor signed the FY 2003-04 State Budget on August 2, 2003. This budget balances the general fund deficit with a combination of bond financing for the \$10,700,000 deficit from FY 2002-03, recognition of new Federal funds, tripling the VLF, recognizing other new revenues and making program spending changes. The FY 2002-03 debt will be paid for beginning in FY 2004-05 by a sales tax/property tax swap known as the "triple flip." The state sales tax will be raised by one-half cent dedicated to paying off the debt. This increase will be offset by repealing the one-half cent sales tax dedicated to local government. The lost sales tax dedicated to local government will be replaced with property tax currently going to education. Other state program spending cuts are made to continue the same funding level to education. There are currently legal challenges regarding the ability of the State to issue this debt.

In June, the State acted to triple the VLF paid by vehicle owners. However, the VLF increase was not effective until October 1, 2003. During this period (the "gap period"), counties and cities were to receive the reduced amount of VLF previously paid by vehicle owners without the State backfill, which has been paid to local government in prior years to keep them whole. The State's plan is to reimburse counties for the backfill gap period in August 2006. However, the State Controller continued making the full VLF payments to Orange County for the months of July and August. The State has informally requested repayment of the backfill portion of these payments to the County in the amount of \$13,500.

On November 17, 2003, Governor Schwarzenegger, through Executive Order S-1-03, 1) rescinded the Director of Finance's letter of June 20, 2003 reinstating the full VLF, 2) directed the Department of Motor Vehicles (DMV) to reinstate the General Fund offset of the VLF provided in Revenue and Taxation Code section 10754(a)(3)(A) as soon as administratively feasible, and 3) directed the DMV to refund all overpayments of VLF made by taxpayers since June 30, 2003. To date, no appropriation or other action has been taken by the State to reinstate the State General Fund backfill of VLF to the County, although a bill seeking to make such appropriation is pending in the Legislature. If the State does not provide the VLF backfill, the estimated monthly loss of General Fund revenue is estimated to be approximately \$10,800.

In addition, Assembly Bill 1752 (Chapter 225, Statutes of 2003) increases the percentage of VLF payable on account of health care realignment from 24.33% to 28.07% for FY 2003-04. The increase in realignment VLF results in a decrease in VLF payable to the County General Fund as general purpose revenues and the annual loss is estimated to be approximately \$6,360.

With regard to other revenue and program spending impacts, the County adopted the impacts of the State's final adopted FY 2003-04 budget.

B. Barratt American Incorporated, et al., v. The County of Orange

On July 1, 2003, Barratt American Incorporated filed a new complaint against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaint is similar to the former complaints reported in Note 16, Estimated Liability for Other Litigation and Claims, except that the new complaint challenges the enactment of a fee ordinance enacted by the County in 2003. The County denies the allegations and intends to defend itself against the complaint in court. At this time, it is not possible to reasonably estimate the likely outcome of the matter. The Court has not yet set a trial date. For more information, refer to Note 16.

**COUNTY OF ORANGE**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2003**  
**(Dollar Amounts in Thousands)**

**20. SUBSEQUENT EVENTS (Continued)**

C. California Governor Recall Election

On October 7, 2003, the County's Registrar of Voter's office was required to hold the first recall election of the governor in California's history. The County provided approximately \$2,100 from the General Fund to cover the cost of this special election. The County plans to use part of the higher than anticipated FY 2002-03 Fund Balance Available (FBA) to cover this additional cost.

The recall election was successful, and the new Governor took office in November 2003. Aside from the repeal of the increased VLF in-lieu tax, and the governor's pledge to continue backfilling local governments for lost VLF revenues, it is uncertain at the publication date of this report what impact the change of the State's governorship will have on the County.

D. Teeter Plan Revenue Bonds

During July 2003, the Orange County Special Financing Authority (OCSFA) purchased \$31,456 in delinquent property tax receivables. On November 3, 2003, the OCSFA had surplus cash of \$8,159. In accordance with section 5.2 (f) of the Amended and Restated Indenture of Trust, this amount was made available to the County and was transferred to the County's General Fund on November 14, 2003.

E. Orange County Development Agency Tax Allocation Refunding Bonds, Series 2003

On November 13, 2003, the Orange County Development Agency issued \$38,465 Tax Allocation Refunding Bonds (Santa Ana Heights Project Area). Proceeds from the bonds are being used to refund and defease the 1993 Tax Allocation Revenue Bonds and to fund a reserve for the new bonds. The new bonds are secured by a pledge of tax revenues allocated and paid to the agency with respect to the project area. Redemption of the 1993 bonds, \$48,325, will take place on December 23, 2003, at a redemption price equal to 102% of the aggregate principal amount to be redeemed.