MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the County's Comprehensive Annual Financial Report (CAFR) provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2007. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides a clear picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Total net assets increased by \$433,013 or 10% as compared to last year.
- Long-term debt decreased by \$55,049, or 5% during the current fiscal year.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$2,098,063, an increase of \$199,662, or 11% in comparison with the prior year.
- At June 30, 2007, unreserved, undesignated fund balance in the General Fund was \$115,701, or 4% of total FY 2006-07 expenditures and transfers of \$2,601,935.
- General Fund revenues and transfers ended the year 5% below budget.
- General Fund expenditures and transfers ended the year 9% below budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements presented in the County's CAFR are divided into three different sections:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Basic Financial Statements											
Government-wide		Fund Financial Statements	3								
Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds								
Statement of	Balance Sheet	Statement of Net Assets	Statement of Fiduciary								
Net Assets	Statement of Revenues, Expenditures, and	Statement of Revenues, Expenses, and Changes in	Net Assets								
200	Changes in Fund Balances	Fund Net Assets	Statement of Changes in Fiduciary Net								
Statement of Activities	Budgetary Comparison Statement	Statement of Cash Flows	Assets								
	Notes to the Basic	Financial Statements									

The following table summarizes the major features of the basic financial statements:

	Government-wide	F	und Financial Stateme	nts
	Financial Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of Financial Statement	Statement of Net Assets	Balance Sheet	Statement of Net Assets	Statement of Fiduciary Net Assets
	Statement of Activities	Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Revenues, Expenses, and Changes in Fund Net Assets	Statement of Changes in Fiduciary Net Assets
		Budgetary Comparison Statement	Statement of Cash Flows	
Scope	Entire entity (except fiduciary funds)	Day-to-day operating activities for basic services	Day-to-day operating activities for business-type services	Resources on behalf of others
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus Budgetary basis of accounting	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

The government-wide financial statements consist of the following two financial statements: the Statement of Net Assets and the Statement of Activities. Both of these statements were prepared using an accounting method and a measurement focus similar to those used by private-sector companies, the <u>accrual basis of accounting</u> and the <u>economic resources measurement focus</u>. The **Statement of Net Assets** provides information regarding <u>all</u> of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The **Statement of Activities**, on the other hand, provides information on how the government's net assets changed during the most recent fiscal year regardless of the period when the related cash or cash equivalent is received or paid. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

The Statement of Net Assets and the Statement of Activities distinguish functions of the County that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include: (1) general government, (2) public protection, (3) public ways and facilities, (4) health and sanitation, (5) public assistance, (6) education, and (7) recreation and cultural services. The business-type activities of the County include airport and waste management.

The government-wide financial statements also provide information regarding the County's component units, entities for which the County (the primary government) is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations, and therefore, data from these component units are combined with data of the primary government. Financial information for the Children and Families Commission of Orange County, a discretely presented component unit, is reported separately from the financial information presented for the primary government itself.

Fund Financial Statements

- Fund a separate accounting entity with a self-balancing set of accounts.
- Focus is on major funds.
- Provides information regarding the three major categories of all County funds: governmental, proprietary, and fiduciary.

The fund financial statements report on groupings of related funds that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting entity with a self-balancing set of accounts. Like other state and local governments, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of governmental and proprietary fund financial statements is on major funds as determined by the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." All of the County funds can be divided into three major categories of funds: governmental, proprietary, and fiduciary.

<u>Governmental Funds</u> - Governmental funds include most of the County's basic services and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements are prepared using the modified accrual basis of accounting and current financial resources measurement focus.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are prepared for both the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt and amounts owed for

compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

In FY 2006-07, an increase of \$340,808 in net assets in the government-wide financial statements was reported, and an increase of \$199,662 in fund balance was reported in the fund financial statements. Refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" for details on the factors contributing to these differences.

The County maintains several individual governmental funds organized according to their type (General Fund, Special Revenue, Debt Service, Capital Projects and Permanent Funds). Information is presented separately in the governmental funds Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, which is always a major fund, and all other major funds. Information for nonmajor funds is presented in the aggregate in these statements. Individual fund data for each of the nonmajor governmental funds is presented elsewhere in this report. The County adopts an annual appropriated budget for most of its governmental funds. Budgetary comparison statements and schedules have been provided for these funds to demonstrate compliance with the budget.

<u>Proprietary Funds</u> - The County maintains two different types of proprietary funds: Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its Airport and Waste Management operations (IWMD). **Internal Service Funds** are used to accumulate and allocate costs internally among the County's various functions such as insurance services, transportation, publishing, and information technology. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Airport and Waste Management operations, which are both considered to be major funds of the County. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary funds financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

<u>Fiduciary Funds</u> - Fiduciary funds include the **Trust** and **Agency** funds and are used to account for assets held on behalf of outside parties, including other governments. Financial information for fiduciary funds is <u>not</u> reported in the government-wide financial statements because the resources of these funds are not available to support the County's programs. The combining statements for fiduciary funds are included elsewhere in this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. To find a specific note, refer to the Table of Contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the County's financial position. At June 30, 2007, the County's combined net assets (governmental and business-type activities) totaled \$4,576,029, an increase of 10% from FY 2005-06.

The largest component of the County's net assets (58%) was invested in capital assets, less any related outstanding debt used to acquire those assets. Capital assets include land, structures and improvements, equipment, construction in progress, and infrastructure that are used to provide needed services to the citizens of the County. Since the capital assets themselves cannot

COMPONENTS OF NET ASSETS

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

be used to liquidate the associated debt, the resources needed to repay the debt must be provided from other sources.

The County's **restricted** net assets total \$1,806,768 which represents 39% of its net assets. This means that these resources are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation, including those passed by the County itself.

The final component of net assets is **unrestricted net assets**. Unrestricted net assets are resources that the County may use to meet its ongoing obligations to citizens and creditors. As of June 30, 2007, governmental activities showed \$135,826 in unrestricted net assets, compared to a negative amount of \$33,051 in FY 2005-06.

The following table presents condensed financial information derived from the government-wide Statement of Net Assets:

NET ASSETS – Primary Governmen June 30, 2007	it									
		Govern			Busine					
		Acti	vitie		Activ	vitie			tal	
		<u>2007</u>		<u>2006</u>	<u>2007</u>		<u>2006</u>	<u>2007</u>		<u>2006</u>
ASSETS										
Current and other assets	\$	3,246,730	\$	2,832,965	\$ 744,233	\$	660,212	\$ 3,990,963	\$	3,493,177
Capital assets		2,366,219		2,373,933	501,529		500,814	2,867,748		2,874,747
Total Assets		5,612,949		5,206,898	1,245,762		1,161,026	6,858,711		6,367,924
LIABILITIES										
Long-term liabilities		1,369,667		1,393,453	329,881		340,154	1,699,548		1,733,607
Other liabilities		513,682		424,653	69,452		66,648	583,134		491,301
Total Liabilities		1,883,349		1,818,106	399,333		406,802	2,282,682		2,224,908
NET ASSETS										
Invested in capital assets,										
net of related debt		2,273,891		2,306,178	359,544		343,390	2,633,435		2,649,568
Restricted		1,319,883		1,115,665	486,885		410,834	1,806,768		1,526,499
Unrestricted		135,826		(33,051)				135,826		(33,051)
Total Net Assets	\$	3,729,600	\$	3,388,792	\$ 846,429	\$	754,224	\$ 4,576,029	\$	4,143,016

As of June 30, 2007, the County's total assets increased by 8%, or \$490,787 during the current fiscal year. Current and other assets increased by \$497,786 (14%) primarily as a result of operating activities, such as increases in property tax revenue and operating grants and contributions, as well as non-operating activities, such as capital contributions for land acquisition costs for the Santa Ana River Mainstem Project and the prepayment of future pension costs and the 2007 Pension Obligation Bonds. Capital assets decreased by \$6,999 (less than 1%).

Total liabilities for this year increased by 3%, or \$57,774. Other liabilities increased by \$91,833 (19%), mostly due to an increase in the issuance amount of the 2007 Pension Obligation Bonds, in comparison to the 2006 Pension Obligation Bonds. Long-term liabilities decreased by \$34,059 (2%).

For more information regarding capital assets and long-term liabilities, refer to the Capital Assets and Debt Administration section located within the Management's Discussion and Analysis.

The following table provides summarized data of the government-wide Statement of Activities:

CHANGES IN NET ASSETS – Prima For the Year Ended June 30, 2007	ary Government					
		mental		ss-Type		
		rities		/ities		otal
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
REVENUES Program Revenues:						
=	¢ 504.004	Ф 477.000	¢ 220.400	¢ 040 044	Ф 7 40 400	¢ 600.074
Charges for Services	\$ 504,324	\$ 477,360	\$ 239,109	\$ 216,014	\$ 743,433	\$ 693,374
Operating Grants and Contributions	1,759,887	1 605 062	601	22.046	1 760 570	1 627 000
	1,759,067	1,605,063	691	22,846	1,760,578	1,627,909
Capital Grants	00.040	40.470	0.704	4 700	70.074	40.000
and Contributions	69,340	18,178	6,731	1,720	76,071	19,898
General Revenues:						
Property Taxes	453,541	423,444			453,541	423,444
Property Taxes in Lieu of						
Motor Vehicle License						
Fees	206,933	158,240			206,933	158,240
Other Taxes	54,644	50,676			54,644	50,676
Grants and Contributions						
not Restricted to Specific Programs	1,917	1,881			1,917	1,881
State Allocation of Vehicle	1,317	1,001			1,317	1,001
Motor License Fees	58,487	56,873			58,487	56,873
		·	05.700			·
Other General Revenues Total Revenues	153,078	104,827	35,706	3,016	188,784	107,843
Total Revenues	3,262,151	2,896,542	282,237	243,596	3,544,388	3,140,138
EXPENSES						
General Government	281,739	227,536			281,739	227,536
Public Protection	1,055,593	972,996			1,055,593	972,996
Public Ways and Facilities	96,776	105,342			96,776	105,342
Health and Sanitation	527,541	467,640			527,541	467,640
Public Assistance	794,862	773,109			794,862	773,109
Education	32,722	40,452			32,722	40,452
Recreation and Cultural	0=,. ==	.0, .02			0=,. ==	.0, .02
Services	80,279	72,535			80,279	72,535
Interest on	,	ŕ			,	·
Long-Term Debt	65,961	64,680		<u></u>	65,961	64,680
Airport			90,524	84.362	90,524	84,362
Waste Management			85,378	76,771	85,378	76,771
Total Expenses	2,935,473	2,724,290	175,902	161,133	3,111,375	2,885,423
Excess	2,333,413	2,724,230	173,302	101,133	3,111,373	2,003,423
before Transfers	326,678	172,252	106,335	82,463	433,013	254,715
Transfers	14,130	11,435	(14,130)	·		·
Increase in Net Assets	340,808	183,687	92,205	71,028	433,013	254,715
Net Assets - Beginning	·	·		·	·	· ·
of the Year	3,388,792	3,205,105	754,224	683,196	4,143,016	3,888,301
Net Assets - End						
of the Year	\$ 3,729,600	\$ 3,388,792	\$ 846,429	\$ 754,224	\$ 4,576,029	\$ 4,143,016

As of June 30, 2007, the County's net assets increased by 10%, or \$433,013 during the current fiscal year. Revenues for the year totaled \$3,544,388, an increase of \$404,250 from the previous year, and expenses totaled \$3,111,375, an increase of \$225,952.

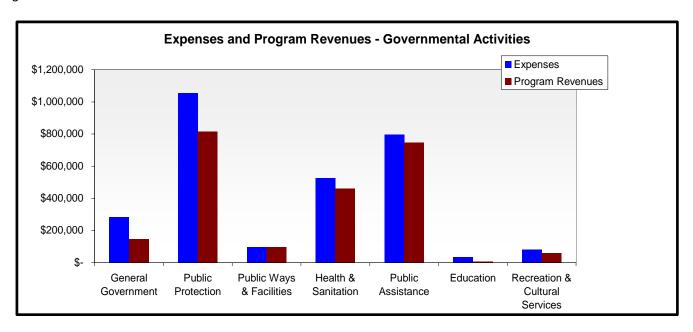
Governmental Activities

The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating Grants and Contributions comprised the largest revenue source for the County followed by Charges for Services. Operating Grants and Contributions are monies received from parties outside the County and are generally restricted to one or more specific programs such as the State and Federal revenues for public assistance and for health care. In the governmental funds, expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. As expenditures increase, revenues increase proportionately. Charges for Services are revenues that arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Examples of the types of services that fall under this category include engineering services provided to cities under contract, park and recreation fees, and law enforcement services provided to governmental agencies under contract.

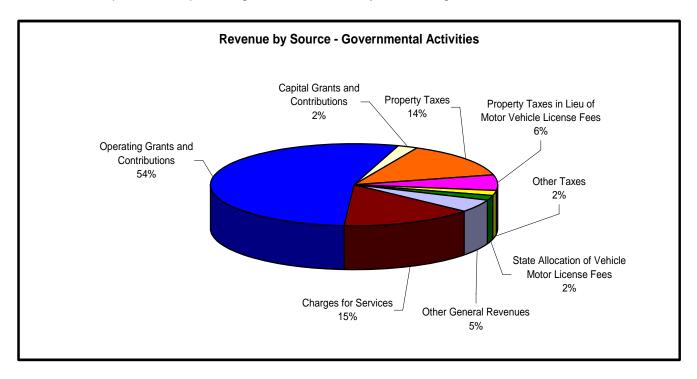
At the end of FY 2006-07 total revenues for the governmental activities, including transfers from the business-type activities were \$3,276,281, an increase of \$368,304 from the previous year. Expenses totaled \$2,935,473, an increase of \$211,183 from the prior year. While both revenues and expenses increased from the prior year, revenues increased at a greater rate than expenses. Governmental activities increased the County's net assets by \$340,808, accounting for 79% of the total growth in the net assets of the County. In addition to the effects of expenditure-driven grants, key elements of the change in net assets are as follows:

- Property Taxes in Lieu of Vehicle License Fees increased by \$48,693 due to the elimination of the Educational Revenue Augmentation Fund (ERAF III) contribution to the State and an increase in property tax assessed values.
- Operating Grants and Contributions increased by \$154,824 due to higher interest earnings related to purpose
 restricted revenue not accessible by the General Fund, more Proposition 63 (Mental Health Services Act)
 revenue than in FY 2005-06, higher revenues due to the passage of AB 1799, the Umberg Bill, which
 provided for State reimbursements to the Registrar of Voters for the November 2006 General Election and
 several unplanned elections resulting from a vacancy occurring in the State Senate, a reimbursement from
 the Help America Vote Act for voting equipment, and an increase in Orange County Transportation Authority
 (OCTA) project revenues.
- Capital Grants and Contributions increased by \$51,162 due primarily to capital contributions for land acquisition costs associated with the Santa Ana River Mainstem Project.
- Other General Revenues increased by \$48,251 due to rising interest rates, larger cash balances than projected, and the recognition of a gain from the sale of the Katella Yard property.
- General Government expenses increased by \$54,203 due to the loss on disposition of capital assets and reimbursements to the city of Mission Viejo and the Ladera Ranch Company for construction costs and street improvements.
- Public Protection expenses increased by \$82,597 due primarily to increases in employee salaries and benefits and retirement costs, and the acquisition of the Green River Golf Club for the Santa Ana River Mainstem Project.
- Health and Sanitation expenses increased by \$59,901, primarily due to the construction costs for the Upper Newport Bay Ecosystem Restoration Project (to improve sediment dredging management and increase tidal circulation for water quality), the startup of Proposition 63 program contracts, and increases in salaries and retirement costs.

The following chart presents a comparison of expenses by function and the associated program revenues for governmental activities:

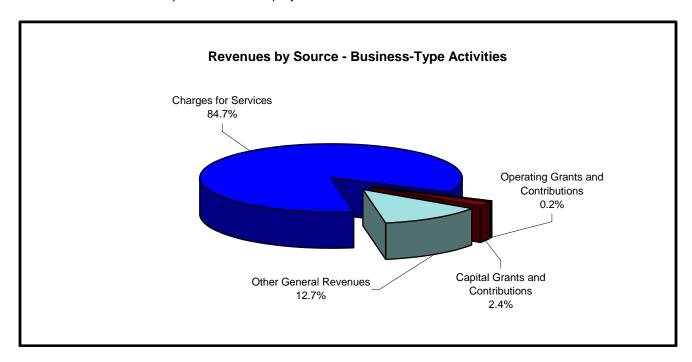


The chart below presents the percentage of total revenues by source for governmental activities:



Business-Type Activities

The County has two business-type activities: Airport and Waste Management. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported Charges for Services as their largest source of revenues. Other General Revenues, Capital Grants and Contributions, as well as Operating Grants and Contributions, were the other revenue sources for Airport and Waste Management activities. Capital Grants and Contributions include revenues received from the Federal Aviation Administration for use in airport construction projects.

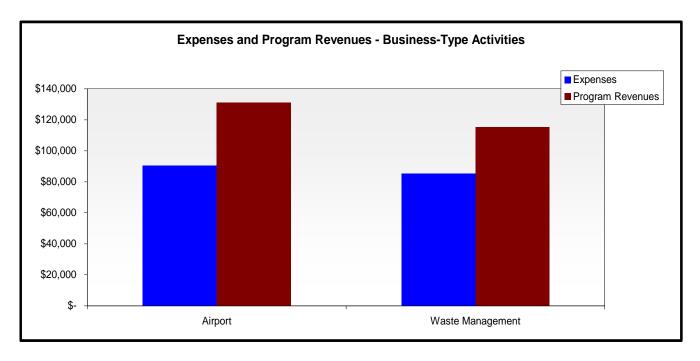


At the end of FY 2006-07, business-type activities reported total revenues of \$282,237, an increase of \$38,641 from the prior year. Expenses, including transfers to the governmental activities, totaled \$190,032, resulting in an increase of \$17,464 from the previous year. The program revenues (Charges for Services, Other General Revenues, Capital Grants and Contributions, and Operating Grants and Contributions) financed the majority of expenses recorded for the business-type activities. Other factors concerning the finances of the County's two enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds." At the end of FY 2006-07, there was an increase of \$92,205 in net assets, as there was a greater increase in revenues than expenses; comparatively, there was an increase of \$71,028 in FY 2005-06. While revenues and expenses both increased from the prior year, revenues still exceeded the expenses.

Beginning in FY 2006-07, the Airport implemented a passenger facility charge (PFC) program to finance its Airport Improvement Program. This resulted in the generation of \$20,999 in revenue, which was offset by a \$1,645 increase in expenses for professional services, including construction management, parking structure design, and terminal expansion design. Although the Airport experienced an increase of \$2,428 in employee salaries and benefits expenses, there was an increase of \$3,547 in interest revenue as a result of the higher cash balance due to the PFC revenue and the upward trend of interest rates.

Waste Management also experienced an \$8,043 increase in interest revenue due to greater cash balances and higher interest rates. Additionally, there was an increase in capital contributions of \$3,950. To offset the increase in revenues, Waste Management had an increase of \$6,135 in the estimated landfill closure and postclosure costs.

The following chart displays expenses and the associated program revenues by function for the business-type activities:



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

The County uses fund accounting to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental Funds

Governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Such information may be useful in evaluating the County's near-term financing requirements.

In particular, unreserved fund balance may serve as a valuable measure of the government's resources that are available for spending at the end of the fiscal year. This amount is available for spending at the discretion of the County's Board of Supervisors in order to achieve the established function of the respective funds. Other than the General Fund, all other County funds are restricted for the particular purpose that each fund was established for. For example, special revenue funds have either legal or operational requirements to restrict expenditures for specified purposes, and debt service funds are restricted for payment of principal and interest on general long-term debt. Commitments by the County related to executory contracts for goods or services are recorded and established as reservations of fund balances in the governmental funds.

At June 30, 2007, the County's governmental funds reported total fund balances of \$2,098,063 which is an increase of \$199,662 in comparison with the prior year. Of the total fund balances for the governmental funds, \$1,382,928 (66%) constitutes *unreserved fund balances*.

A significant amount of these unreserved fund balances are designated by the Board of Supervisors for the following uses in the next fiscal year and are deemed to be restrictions, commitments, or limitations, which affect the availability of fund resources in the next fiscal year:

Funds	Planned Uses of Unreserved Fund Balances
General Fund	 District community priorities and projects, re-budgeted capital projects, information systems projects and upgrades, appropriations for market adjustments, and increases to reserves.
Roads	- Construction and maintenance of roadways, and for specialized engineering services to other governmental units and the public.
Public Library	- Library services for the unincorporated areas as well as some of the incorporated areas within the County.
Flood Control District	 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	 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.
Other Public Protection	- Safety and law enforcement activities such as child support programs, automated fingerprint identification systems and investigation teams.
Other Governmental	 Construction of various capital projects including affordable housing, for accounting of revenues received and reserved for future incorporation agreements, mental health services, and operational contingencies.

The remaining fund balances are *reserved*. Reserved fund balances primarily represent assets that are not available for spending or assets with restrictions imposed by parties outside the County.

Comparative Analysis of Changes in Fund Balances

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net changes in fund balances for the governmental funds for the current and previous fiscal years:

GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2007

	Revenues	and Other	Expenditure	es and Other	Net Cha	ange in
	Financin	g Sources	Financi	ng Uses	Fund Ba	alances
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Fund	\$ 2,627,540	\$ 2,529,721	\$ 2,601,935	\$ 2,492,928	\$ 25,605	\$ 36,793
Roads	61,031	53,185	52,401	62,822	8,630	(9,637)
Public Library	45,242	35,476	43,045	32,709	2,197	2,767
Tobacco Settlement	29,973	28,708	29,894	32,378	79	(3,670)
Refunding Bonds and						
Recovery COPs &						
Debt Prepayment *		17,106		280,503		(263,397)
Flood Control District	139,729	83,926	111,116	63,441	28,613	20,485
Harbors, Beaches,						
and Parks	112,521	89,396	87,972	75,213	24,549	14,183
Other Public Protection	80,409	104,464	70,333	63,684	10,076	40,780
Other Governmental	511,554	815,809	411,641	704,655	99,913	111,154
Total	\$ 3,607,999	\$ 3,757,791	\$ 3,408,337	\$ 3,808,333	\$ 199,662	\$ (50,542)

^{*} Fund was eliminated as a Major Governmental Fund in FY 2006-07.

In addition to the effects of expenditure-driven grants, the following information provides explanations for the significant changes in fund balance:

General Fund

The General Fund is the chief operating fund of the County. At the end of FY 2006-07, revenues exceeded expenditures, resulting in an increase in fund balance of \$25,605. Property tax revenues increased by \$39,048 as a result of continued growth in assessed property valuations and the elimination of the Educational Revenue Augmentation Funds (ERAF III) contribution to the State. An increase of \$41,868 for intergovernmental revenues is attributed to unanticipated Federal, State, and local grant revenues due to additional State reimbursements to the Registrar of Voters for the November 2006 General Election and several unplanned elections resulting from a vacancy occurring in the State Senate, as well as greater public assistance reimbursements through Federal and State funding. Transfers from other funds increased by \$45,982 due to transfers for reimbursement of Propostion 63 (Mental Health Services Act) and the Central Justice Center project expenditures, and revenues from the Public Safety Sales Tax. Salaries and benefits costs increased by \$45,474 for Public Protection and \$27,336 for Health and Sanitation.

Roads

This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. At the end of FY 2006-07, there was an increase in fund balance of \$8,630 compared to last year's decrease in fund balance of \$9,637. There was a \$7,177 increase in intergovernmental revenues due primarily to a one-time State construction grant and higher than anticipated Orange County Transportation Authority (OCTA) project revenue. Expenditures decreased by \$10,421 due to project delays associated with the Alton Parkway extension project and lower than anticipated costs for equipment and capital projects.

Public Library

This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. There was a \$2,197 increase to fund balance this fiscal year. An increase of \$3,391 in licenses, permits, and franchises can be attributed to revenue from deposits made by developers to be used for library construction or improvements, an amount which can vary from year to year depending on the level of activity. A \$3,071 increase in transfers in for the library headquarters from the General Fund. Expenditures increased by \$1,457 due to purchases of books and other library materials, and by \$3,629 as a result of the purchase of the Library's headquarters and construction commenced on the Wheeler branch library.

Tobacco Settlement

This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. At the end of FY 2006-07, fund balance increased slightly by \$79, compared to a decrease the previous year of \$3,670, primarily due to an increase in revenues of \$1,319 from a supplemental payment by Philip Morris to the Master Settlement Agreement and the release of funds from a disputed payments account. There was also a decrease of \$2,498 for transfers out due to a decrease in the amount of claims for the Seniors and Persons with Disabilities, Tobacco Prevention and Control, Child and Family Health Services, and Public Safety programs.

Refunding Recovery Bonds and Recovery Certificates of Participation and Debt Prepayment

In FY 2005-06, this fund was used to account for the debt service transactions handled by the trustee bank for the 1995 Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation, and for early debt reduction of the County's outstanding bonds. In FY 2005-06, this fund was closed due to the refunding and defeasance of both the 1995 Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation.

Flood Control District

This fund accounts for the planning, construction and operation of flood control and water conservation works, such as dams, basins, and trunk channels, and for the retardation, conservation and controlled discharge of storm waters. At the end of FY 2006-07, there was an increase in fund balance of \$28,613 compared to last year's increase in fund balance of \$20,485. An increase of \$20,585 in intergovernmental revenues can be attributed to the receipt of unanticipated subvention reimbursements from the State, as well as the receipt of other revenues which were higher than anticipated. In addition, a \$16,778 increase in other revenues is due to the receipt of the first installment from the sale of the Katella Yard property. A \$42,058 increase in expenditures for capital outlay is primarily due to the acquisition of the Green River Golf Club for the Santa Ana Mainstem Project, and construction contracts for the Peters Canyon Channel Under-crossings, the Fullerton Creek Channel, and the Los Alamitos Pump Station and Retarding Basin.

Harbors, Beaches and Parks

This fund accounts for the development of aquatic recreational facilities and the acquisition, operation and maintenance of County beaches, inland regional park recreational facilities and community park sites in the unincorporated areas. At the end of FY 2006-07, there was a \$24,549 increase in fund balance. An increase of \$6,550 in property tax revenues is attributable to the increase in secured assessed property valuations. Intergovernmental revenues increased by \$7,384 due primarily to Proposition 12 (Park Bonds Act) and Proposition 40 (2002 Resources Bond) grants for the completion of capital projects; revenue for the Irvine Park Sewer Conversion project; and a one-time grant from the California Department of Boating and Waterways for the renovation of the Dana Point Harbor launch ramp facility. Expenditures for recreational and cultural services increased by \$5,515 due to increased consultant fees related to the Dana Point Harbor revitalization project and higher than anticipated indirect costs. A \$10,688 increase in capital outlay expenditures is due to the renovation of the Dana Point Harbor launch ramp facility, the O'Neill Sewer Conversion, the Santa Ana River Parkway, the relocation of Harbors, Beaches, and Parks' headquarters to Irvine Ranch Historical Park, the Laguna Niguel Narco Storm Channel restoration, and the Sunset Harbor Building Replacement projects.

Other Public Protection

This group of funds is used to account for safety and law enforcement activities. Revenues consist primarily of Federal and State grants. At the end of FY 2006-07, there was an increase in fund balance of \$10,076 compared to last year's increase in fund balance of \$40,780. There was a decrease of transfers in of excess Proposition 172 (Public Safety Sales Tax) revenues, resulting in a decrease of \$24,055 in revenues from the previous year. And expenditures also decreased by \$6,653 due primarily to fewer transfers of Proposition 172 revenues and Center for Disease Control (CDC) grant monies.

Other Governmental Funds

Other Governmental Funds

At the end of FY 2006-07, there was an increase in fund balance of \$99,913 compared to last year's increase in fund balance of \$111,154. An increase of \$36,104 for uses of money and property can be attributed to higher interest revenue, higher penalties and costs on delinquent taxes collected through the Teeter program, and increased rental payments from the County due to the addition of the Cogeneration Lease Revenue Bonds. Also, intergovernmental revenues increased \$36,898 as a result of realignment funding paid by the State and revenue from Proposition 63 (Mental Health Services). However, revenues were lower overall in comparison to the previous year due to the proceeds of \$419,756 from the Lease Revenue Refunding Bonds Series 2005 in FY 2005-06, and expenditures were lower overall due to payments of \$414,171 made in FY 2005-06 to Refunded Debt Escrow Agents for the 2005 Recovery Bonds.

The following chart shows the fund balances for governmental funds for the current and previous fiscal year:

COMPARATIVE FUND BALANCE			
Governmental Funds *			
June 30, 2007 and 2006			
	2007	2006	Increase (Decrease) %
General Fund	\$ 383,740	\$ 358,135	7 %
Roads	111,841	103,211	8 %
Public Library	9,503	7,306	30 %
Tobacco Settlement	6,074	5,995	1 %
Flood Control District	255,259	226,646	13 %
Harbors, Beaches, and Parks	88,706	64,157	38 %
Other Public Protection	233,389	223,313	5 %

Total \$

1,009,551

2,098,063 \$

909,638

1,898,401

11 %

11 %

^{*} The Refunding Bonds and Recovery COPs Debt Prepayment fund was closed in FY 2005-06.

Proprietary Funds

The proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Airport and Waste Management, both of which are considered to be major funds of the County. Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Comparative Analysis of Changes in Fund Net Assets

The following table presents the enterprise funds' actual revenues and other financing sources, expenses and transfers, and changes in fund net assets for the current and previous fiscal year:

ENTERPRISE FUNDS COMPARATIVE SCHEDULE OF RE For the Year Ended June 30, 2007	VEN	NUES, EXPEI	NSE	S AND CHAN	IGE	S IN FUND N	ΙEΤ	ASSETS			
		Revenues, C	ont	ributions		Expens	ses	and	Char	ge i	n
		and Tra	ansf	ers		Tran	sfei	's	Fund Ne	t As	sets
		<u>2007</u>		<u>2006</u>		<u>2007</u>		<u>2006</u>	2007		<u>2006</u>
Airport	\$	141,659	\$	113,044	\$	89,160	\$	83,559	\$ 52,499	\$	29,485
Waste Management		140,732		130,475		100,296		88,509	40,436		41,966
Total	\$	282,391	\$	243,519	\$	189,456	\$	172,068	\$ 92,935	\$	71,451

Airport

This fund accounts for major construction and self-supporting aviation related activities rendered at John Wayne Airport (JWA). Last year's increase in fund net assets was \$29,485; this year the fund net assets increased by \$52,499 primarily because of the following factors:

- A \$3,547 increase in interest revenue due to the upward trend of interest rates.
- A \$4,052 increase in rents and concessions due to higher than anticipated revenue from parking and airline space rent and operations.
- A \$20,999 increase in revenue resulting from the newly imposed passenger facility charges.

Waste Management

This fund is used to account 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. At the end of FY 2006-07, there was an increase in fund net assets of \$40,436, compared to the prior year increase of \$41,966, primarily due to the following factors:

- An \$8,991 increase in interest revenue due to the upward trend of interest rates.
- A \$3,950 increase in capital contributions.
- A \$1,551 decrease in professional and specialized service expenses for contracted legal services.
- Offsetting increased revenues, landfill closure and postclosure expenses increased \$6,923.

For further comparative analysis of changes in Fund Net Assets, please see the Business-Type Activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

This section provides a summary of the primary factors involved in the variances between: 1) the Original Budget and the Final Amended Budget; and 2) the Final Amended Budget and the Actual Amounts for the General Fund. In addition to the effects of expenditure-driven grants, the following information provides explanations for significant variances. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

Original Revenue Budget vs. Final Amended Revenue Budget

The following provides a summary of the primary factors attributable to the increase or decrease in the General Fund final amended budget revenues compared to the original budget revenues:

Intergovernmental Revenues

- An increase of \$12,122 is due to higher than anticipated revenue for the Registrar of Voters from the County's General Election, held on November 7, 2006, as well as from several other unplanned elections.
- An \$11,916 increase is due to revenues to the Sheriff-Coroner from numerous sources, including the State Homeland Security Grants, Solving Cold Cases with DNA grant, 2005 Coverdell Grant, 2005 Buffer Zone Protection Program Grant, 2006 Portable Evidential Breath Test Program, and the DNA Expansion Demonstration program. These revenues were used to provide training, hire personnel, purchase equipment, and develop strategies for various programs related to the prevention and response to terrorism and to programs dealing with the use of DNA to investigate and solve cases.
- A \$34,673 net increase in social service programs is a result of the following developments: First, a \$32,731 decrease is due to the actual caseloads and average grant per case being lower than projected for State-funded public assistance programs in the FY 2006-07 budget for CalWORKs Family Group/ Unemployed Parents. Also, a \$40,611 increase is due to an increase in the average cost per case for Federally-funded public assistance programs caused by a cost of living adjustment (COLA) and other State-imposed rate increases, an increase in Social Security benefits, and a decrease in the number of cases anticipated to be dropped, resulting in higher claims and more revenue than in the prior fiscal year. Lastly, a \$26,793 increase is due to deferred Federal and State revenue from the prior fiscal year and a net increase in State and Federal revenue allocations for Medi-Cal, Food Stamps, CalWORKS, Children and Family Services, and CalWIN, in order to restore contract reductions made to the FY 2006-07 budget and allow the agency to fill vacant and newly-created positions; an increase from Federal close-out revenue for increases in security, maintenance, and other services and supplies expenses; additional revenue from the Medi-Cal Outreach, Enrollment, Retention and Utilization allocation budgeted for outreach efforts to increase the number of children with health insurance coverage and a medical provider; and an increase in revenue from Medi-Cal and CalWORKs budgeted to be used for existing programs and positions.

Transfers In

- A decrease of \$16,281 is due to a slower startup of the Proposition 63 Mental Health Services Act program than originally budgeted, carryover of the Tobacco Settlement Revenue and Realignment Special Revenue Funds, and lower than budgeted Realignment growth.
- An increase of \$33,500 is due to the Cogeneration and the Central Utility Facility project. The bond proceeds
 were received and deposited for the Cogeneration project in the Orange County Public Financing Authority
 (OCPFA) Debt Service Fund; as the General Fund incurs project-related costs, it will be reimbursed by the
 Debt Service Fund.

Bonds Issuance Proceeds

 A \$208,574 increase is due to the authorization by the Board of Supervisors for the 2007 Pension Obligation Bonds.

Original Expenditure Budget vs. Final Amended Expenditure Budget

The following provides a brief summary of the primary factors attributable to the increase in the General Fund final amended budget expenditures compared to the original budget expenditures:

Capital Projects

• An increase of \$8,402 was appropriated primarily for expenditures related to various capital projects, which include the Cogeneration Plant at the Central Utilities Facility, deferred maintenance projects, a Homeless/Veterans Multi-Purpose Service Center, and the South County Courthouse.

Prepaid Pension Obligation

 A \$240,390 increase in appropriations to prepay the County's FY 2007-08 employer pension contribution to the Orange County Employees Retirement System (OCERS) at a discounted rate. See Note 9, Short-Term Obligations, for more information.

Registrar of Voters

• An increase of \$14,261 in appropriations for expenditures resulting from several unplanned elections and the County General Election, held on November 7, 2006.

Probation

A \$6,071 increase in appropriations to: support training costs for correctional officers through the Standards
and Training for Corrections Program; add limited-term positions through the Mentally III Offender Crime
Reduction Program Grant for Juvenile Offenders; make increases in salary and benefits costs associated with
the timing of negotiated increases, use of overtime, and a full year of funding of the Youth Leadership
Academy; and support the Revised Orange County Comprehensive Multi-Agency Juvenile Justice Plan.

Sheriff-Coroner

• A \$14,739 increase in appropriations for: the addition of personnel in areas such as traffic enforcement, monitoring and analyzing local crime patterns, crime investigation, and providing security services; for functions including the equipping and training of emergency responders and developing protective measures for a potential terrorist threat or attack, improving telephone access to 911 emergency services, improving forensic science services and testing, and investigating DNA cases; and for the purchase of equipment needed in incidents of terrorism and weapons of mass destructions, to enhance the County's ability to prevent, deter, respond to, and recover from threats and incidents of terrorism, improve evidence screening and processing, and increase the efficiency in analyzing DNA samples and reduce the turn-around time for completing cases. In addition, appropriations were set aside for the purchase of various vehicles.

Social Services Agency

• An increase in appropriations of \$32,174 to add several positions for various programs including the Outreach, Enrollment, Retention, and Utilization program, Orangewood Children's Home, Medi-Cal, CalWORKs, CalWIN, Human Resource services, Non-Assistance Food Stamps, and foster care and adoption recruitment services; and to restore contract reductions related to the Medi-Cal, Food Stamps, CalWORKs, Children and Family Services, and CalWIN programs. Additional funds were allocated for outreach efforts to increase the number of children with health insurance coverage and a medical provider through a contract agreement with Public Health Foundation Enterprises, Inc., and to support existing programs and positions for the Medi-Cal and CalWORKs programs.

Final Amended Revenue Budget vs. Actual Revenue Amounts

The following information provides a summary of the primary factors that caused the variance in the General Fund actual revenues compared to the final amended budget revenues:

Charges for Services

 A \$3,031 positive variance for the Assessor is due to strong sales, prices, and market activity in the Orange County Real Estate market during the 2006 calendar year.

 A \$4,571 negative variance in the Sheriff Department is primarily due to anticipated salary increases that did not take effect and credits given to contract partners for retirement rate reduction, vacancies, and workers' compensation vacancies.

- A \$4,354 negative variance for Sheriff Court Operations is due to vacancies billable to Court Security.
- An \$18,071 negative variance in Resources and Development Management Department (RDMD) is due
 primarily to lower reimbursable indirect charges and fewer direct billable hours.
- A \$2,377 positive variance in the County Miscellaneous Fund is a result of higher than anticipated reimbursements from the State SB90 Mandate Overhead Cost Reimbursement Program and the Countywide Cost Allocation Plan (CWCAP) overhead cost reimbursements.

Other Revenues

• A negative variance of \$6,063 for the Capital Acquisition Financing agency is due to the reclassification of 2002 Juvenile Justice Center debt service payments to transfers from other funds.

Transfers In

- A \$16,843 negative variance for the Health Care Agency is primarily due to a slower startup of the Proposition 63 Mental Health Services Act program than originally budgeted, carryover of the Tobacco Settlement Revenue and Realignment, lower than budgeted Realignment growth, and the timing of various grants and allocations that were expended and received.
- A negative variance of \$26,462 is from the Sheriff Department experiencing a higher vacancy factor than
 originally budgeted, resulting in a decreased need for transfer in from other public protection special revenue
 funds.
- A \$6,368 negative variance in the Social Services Agency is due to deferral of a transfer-in for the Wraparound database project until FY 2007-08; a budgeted transfer-in from the Facilities Development and Maintenance Fund being unnecessary; and realignment revenue that was received at a slightly lower rate than in FY 2005-06.
- A positive variance of \$3,554 in the County General Fund is due to the reclassification of interest earned from other governmental funds.
- A \$33,500 negative variance in the Capital Projects agency is from the bond proceeds deposited in the OCPFA Debt Service Fund not being transferred in because eligible costs did not occur as quickly as planned for the Cogeneration project.

Bond Issuance Proceeds

 A negative variance of \$28,935 in the Prepaid Pension Obligation fund due to the actual amount of the bond debt issuance costs were lower than estimated.

Final Amended Expenditure Budget vs. Actual Expenditure Amounts

The following provides a summary of the primary factors causing the significant variance in the General Fund actual expenditures as compared to the final amended budgeted appropriations, which include prior year encumbrances:

Capital Projects

 A \$50,372 positive variance is primarily a result of actual expenditures being lower than budgeted due to the deferral of various capital projects until the next fiscal year.

Data Systems Development Projects

 A positive variance of \$8,088 is primarily due to the transfer of the Countywide Accounting and Personnel System (CAPS) budget to a different agency, the delay of several projects, and under spending in various Information Technology projects.

Miscellaneous

• A \$38,906 positive variance is mostly due to budgeted contingency appropriations which were not needed and a mid-year change in how retiree medical costs are treated.

Prepaid Pension Obligation

 A positive variance of \$31,599 is a result of the Board of Supervisors authorizing the 2007 Pension Obligation Bonds (POBs) for \$239,775; the actual amount of the debt requirement, including cost of issuance, was \$211,065.

Sheriff-Coroner

- A \$16,687 positive variance is due to higher vacancies for positions added during the fiscal year that were not completely filled, and savings from lower health insurance and liability insurance costs.
- A positive variance of \$19,174 is due to expenditures budgeted for Homeland Security Grants that were delayed and rebudgeted for FY 2007-08.
- A \$6,018 positive variance is due to the delay and rebudgeting of equipment purchases for Theo Lacy Jail and other divisions until the next fiscal year.

Resources and Development Management Department

• A positive \$21,301 variance is due to reductions and delays of services and supplies expenditures and more costs being reimbursed by other General Fund agencies than the amount budgeted.

Health Care Agency

A positive variance of \$25,390 is primarily due to savings in group insurance rates and retroactive retirement
payments, which were budgeted but are still pending, adjustments of expenditures to reflect reduced funding
levels, and delays in the start-up of the Proposition 63 Mental Health Services Act program contracts.

Social Services Agency

A \$20,612 positive variance is primarily due to negotiated salary increases occurring later in the year than
anticipated, information technology appropriations for outside technical support being budgeted but not spent
due to cost-saving measures and the use of in-house resources, and lower contractor and supportive service
costs than budgeted as a result of reduced CalWORKs caseloads and partial implementation of new child
care regulations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the County's capital assets for both the governmental and business-type activities amounted to \$2,867,748 net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, equipment, infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), and construction in progress. The total decrease in the County's investment in capital assets for the current year was 0.2%.

Capital assets for the governmental and business-type activities are presented below to illustrate changes:

CAPITAL ASSETS (Net of Depreciation)											
June 30, 2007											
	Govern	nme	ntal		Busine	ss-	Туре				Increase
	Activities Activities Total								(Decrease)		
	2007		<u>2006</u>		2007		2006		2007	2006	% Change
Land	\$ 606,166	\$	575,715	\$	38,058	\$	34,108	\$	644,224	\$ 609,823	5.6 %
Structures and											
Improvements	509,032		499,847		183,975		194,875		693,007	694,722	(0.2)%
Equipment	96,589		97,292		31,542		26,762		128,131	124,054	3.3 %
Infrastructure	837,805		805,760		214,264		209,221		1,052,069	1,014,981	3.7 %
Construction in											
Progress	316,627		395,319		33,690		35,848		350,317	431,167	(18.8)%
Total	\$ 2,366,219	\$	2,373,933	\$	501,529	\$	500,814	\$	2,867,748	\$ 2,874,747	(0.2)%

The following lists the significant expenditures for capital assets in FY 2006-07:

General Fund

- \$2,049 for the South County Courthouse design.
- \$2,574 for the seismic retrofitting of the Central Garage.
- \$4,225 for the Cogeneration Plant at the Central Utilities Facility.
- \$3,859 for the completion of heating, ventilation, and air conditioning (HVAC) and the Americans with Disabilities Act (ADA) improvements on the 7th floor of the Central Justice Center.
- \$1,059 for foundry network equipment for the Probation Department.

Flood Control District

- \$4,630 to start construction on the Peters Canyon Channel Trail Under-crossings project.
- \$23,788 for the purchase of land and buildings to house the Operations and Maintenance Division, replacing Katella Yard, which was sold to the City of Anaheim.
- \$20,104 for the acquisition of property in the flood plain or in the construction Right-of-Way of the Prado Dam Project.
- \$5,050 for the purchase of buildings at Green River Golf Course as part of the Santa Ana River Mainstem Project.

Harbors, Beaches and Parks

- \$2,333 for the refurbishment of the Dana Point Harbor launch ramp.
- \$1,072 for the completion of the Nix Nature Interpretive Center in Laguna Coast Wilderness Park.
- \$4,442 for the O'Neill Park Sewer Replacement project.
- \$1,104 for improvements on the Santa Ana River Parkway.
- \$1,098 for the relocation of Harbors, Beaches, and Parks' office headquarters to Irvine Ranch Historical Park.

Airport

- \$3,064 for gate expansion of the terminal building.
- \$6,445 for New South Remain Over Night (RON) parking

Waste Management

- \$9,261 for the purchase of two ejector articulated trucks, two hydraulic elevators, a wheel dozer with drag scraper, a trash tractor, and a Waste Disposal Arrangement (WDA) dozer.
- \$3,884 for the Brea Soil Removal Project.
- \$3,973 for the completion of Phase C2 Groundwater protection liner project at the Prima Deshecha Landfill.

Additional information on the County's capital assets can be found in Note 4, Changes in Capital Assets.

Commitments for Capital Expenditures

At the end of FY 2006-07, significant commitments for capital expenditures included the following:

- \$301,400 for the Santa Ana River Mainstern Project.
- \$10,210 for the Cogeneration Plant at the Central Utilities Facility.
- \$14,045 for HVAC and ADA improvements at the Central Justice Center.
- \$8,959 to expand Laguna Canyon Road from State Route 73 to Interstate 405.
- \$21,707 for a pump and pump house on the Los Alamitos Pump Station and Retarding Basin.
- \$6,703 for construction on the Fullerton Creek Channel.
- \$26,145 for gate expansion of the terminal building for John Wayne Airport.
- \$27,856 for New South RON airplane parking for John Wayne Airport.

Additional information on the County's commitments for capital expenditures can be found in Note 14, Construction and Other Significant Commitments.

Long-Term Debt

At June 30, 2007, the County had a total long-term debt obligation outstanding of \$1,011,344, excluding capital lease obligations, compensated absences and other liabilities. During the year, \$93,840 of the bonds, including \$58,720 of bankruptcy related debt, were retired and \$32,700 was added, which resulted in a net decrease of 5% on the County's outstanding bond obligation. The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized property tax roll. However, this does not affect the financing of any of the County's planned facilities or services because as of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation, and other forms of debt not covered by the general obligation bonded debt limitation.

The following table summarizes the County's outstanding bonds at June 30, 2007:

LONG-TERM DEBT BOND June 30, 2007	ОВ	LIGATIONS									
		Govern	me	ntal	Busine	s	s-Type				Increase
		Activ	/itie	s	Activ	vi	ties	To	tal		(Decrease)
		2007		<u>2006</u>	<u>2007</u>		<u>2006</u>	<u>2007</u>		<u>2006</u>	% Change
Revenue Bonds	\$	652,340	\$	673,655	\$ 148,345	\$	165,225	\$ 800,685	\$	838,880	(5)%
Certificates of											
Participation		7,165		8,092				7,165		8,092	(11)%
Pension Obligation											
Bonds		89,891		99,714				89,891		99,714	(10)%
Recovery Bonds		119,436		131,631				119,436		131,631	(9)%
Add: Premium on											
Bonds Payable		35,408		34,112	2,740		3,422	38,148		37,534	2 %
Less: Deferred											
Amount on Refunding		(35,702)		(39,239)	(8,279)		(10,219)	(43,981)		(49,458)	(11)%
Total	\$	868,538	\$	907,965	\$ 142,806	\$	158,428	\$ 1,011,344	\$	1,066,393	(5)%

The following summarizes the County's long-term debt issuance during FY 2006-07:

Orange County Public Financing Authority (OCPFA) Lease Revenue Bonds, Series 2006 On October 19, 2006, the OCPFA issued its \$32,700 Lease Revenue Bonds, Series 2006 (Series 2006 Bonds) at a premium of \$2,140. The Lease Revenue Bonds were issued to (1) finance the construction of a Cogeneration conversion project at the County's Central Utility Facility, (2) fund a debt service reserve fund for the bonds, and (3) pay costs relating to the issuance of these bonds, including a premium for bond issuance.

Additional information on the County's long-term debt activity can be found in Note 10, Long-Term Obligations.

Bond Ratings

The County continues to maintain the issuer ratings of Aa2 from Moody's Investors Service and received an upgrade from Standard & Poor's (S&P) in January 2007 from A+ to AA-. The 1995 Teeter Plan Revenue Bonds and the Orange County Development Agency (OCDA) 2003 Santa Ana Heights (SAH) Bonds are insured by Ambac Assurance Corporation. The bonds are rated AAA by Moody's, S&P, and Fitch Ratings based on the Ambac insurance. There are no underlying ratings for these bonds.

In FY 2006-07, the following changes occurred in the County's underlying debt ratings as compared to the previous year:

- Issued 2006 Lease Revenue Bonds with an A+ rating from S&P, A1 from Moody's and AA- from Fitch Ratings.
- Improved S&P Ratings from A to A+ for the 2005 Refunding Recovery Bonds.
- Improved S&P Ratings from A to A+ for the 2005 Lease Revenue Bonds.
- Improved S&P Ratings from A to A+ for the 2002 Lease Revenue Bonds.

The County maintains the following long-term underlying debt ratings:

June 30, 2007			
	Standard and Poor's	Moody's	Fitch
2005 Refunding Recovery Bonds	A+	Aa3	AA-
2005 Lease Revenue Bonds	A+	A1	AA-
1991 Parking COPs	NR	A1	NR
OCDA Neighborhood Development and Preservation			
Project Tax Allocation Refunding Bonds	Α	A2	NR
2002 Lease Revenue Bonds	A+	A1	AA-
2006 Lease Revenue Bonds	A+	A1	AA-
OCDA 2003 SAH Tax Allocation Revenue Bonds	NR	NR	NR
1996 Pension Obligation Bonds	NR	Aa2	NR
1997 Pension Obligation Bonds	NR	Aa2	AA-
1995 Teeter Plan Revenue Bonds	NR	NR	NR
2001 Lease Revenue Bonds	NR	A2	NR
Airport 1997 Revenue Refunding Bonds	A+	Aa3	AA-
Airport 2003 Revenue Refunding Bonds	A+	Aa3	AA-
Integrated Waste Management Department 1997 Revenue			
Refunding Bonds	NR	A1	A+

OTHER POTENTIALLY SIGNIFICANT MATTERS

The County's management determined that the following are significant matters that have a potential impact on the County's financial position or changes in financial position:

Governmental Activities

State Legislation And Budget

The Governor signed the FY 2007-08 State budget on August 24, 2007. The \$145,000,000 total budget is nearly identical to the version approved by the Assembly in July 2007. The general fund portion is \$103,000,000 and there is a \$3,400,000 reserve. The budget also contains \$2,500,000 early debt repayment and includes a \$1,300,000 shift of public transit funds to other programs. The governor made \$700,000 in vetoes to balance the budget. Many of these were in health and human services programs. The largest single reduction was \$645,000 in the Medi-Cal reserve fund. This cut is not expected to affect actual services. County departments evaluated the impacts of the State budget on county services and addressed the budgetary impacts as part of the FY 2007-08 First Quarter Budget Report.

Summary State budget features are summarized below by County budget program. Amounts quoted are State-wide unless otherwise noted.

Public Safety

- The State budget contains a significant change in the juvenile justice system. As of September 2007, less-serious juvenile offenders who currently are sent to State facilities are being retained for custody at the local level. Counties have the option of taking back offenders currently housed by the State. The State would provide local probation departments with grants of \$117 per ward per year and receive a waiver of fees currently paid to the State. In addition, counties would receive some education funds under Proposition 98, which provides schools with a guaranteed funding source.
- The Governor vetoed juvenile justice planning grants and competitive grants.
- Allocates \$122,800 to the Comprehensive Sex Offender Management Plan.
- Increases funding for local governments by \$16,900 for various expenditures including housing and medical care for inmates, and increases the daily jail rate by \$5.60 to \$77.17 (in absolute dollars).
- Citizens Options for Public Safety (COPS) and the Juvenile Justice Crime Prevention Act (JJCPA) are funded at \$119,000 each.

- The Mentally III Offender Crime Reduction (MIOCR) Act is funded at \$29,700 to continue FY 2006-07 programs.
- \$10,000 is available to be shared between Alameda County and a large urban county for Probation pilot projects.
- Corrections reform (Assembly Bill 900) was signed by the Governor on May 3, 2007. It provides \$7,650,000 in bond proceeds and other funds for a two-phase plan to build 53,000 new jail beds including 13,000 County jail beds and 16,000 re-entry beds that would be placed in local communities. In addition, \$50,000 would be designated for rehabilitation, drug treatment and vocation education programs.

Health & Social Services

- The second half of FY 2006-07 costs for AB 3632, which provides mental health services to special education students, will be funded. Funding for FY 2007-08 costs is expected to be included in FY 2008-09. This would create a one-time Net County Cost of \$4,000.
- Medi-Cal is funded with an increase of \$2,300,000 reflecting increases in caseload and cost per eligible person.
 County grants for the Medi-Cal outreach, enrollment, retention and utilization program were cut. Funding for counties to implement a Medi-Cal self-certification pilot was cut.
- Healthy Families Program funding increased 8.9% due to a projected increase in enrollment.
- Proposition 36 (Substance Abuse & Crime Prevention Act-SACPA) funding is \$100,000, and funding for the Substance Abuse Offender Treatment Program (OTP) is \$20,000, for a combined total of \$120,000, which is a \$25,000 reduction from last year. The OTP requires an 11% County match.
- Early and periodic screening, diagnosis, and treatment (EPSDT) funding is increased based on cost and caseload increases. The EPSDT funding deficiency reimbursement for prior years' claims will be made over three years. The budget contains full funding for FY 2006-07 and the FY 2007-08 baseline.
- Proposition 63 (Mental Health Services Act) funding is expected to increase by \$495,700.
- All State funding (\$54,800) for AB 2034 (Integrated Services for Homeless Mentally III) adults was eliminated.
- Funding for local health department pandemic flu preparedness and response planning was cut.
- Realignment revenues are expected to grow by 4.8%. This is consistent with the County's Strategic Financial Plan assumption.
- CalWORKs funding is maintained for current level of service and administration. Program changes are
 proposed to save nearly \$450,000 including suspension of the July 1, 2007 Cost of Living Adjustment (COLA),
 increases sanctions on families that fail to comply with work requirements and no inflationary adjustments for
 County administration.
- County foster family home base rates will increase by 5% effective January 1, 2008.
- Transitional Housing Program funding increased by \$19,700 to fully fund counties with existing approved plans.
- CalWORKs Child Care will receive an \$88,300 increase based on estimated caseload growth.
- Adult Protective Services funding is \$88,300. The Governor deleted the augmentation of \$12,000.
- Child Welfare Services funding for Orange County will increase by \$3,200 (\$896 Net County Cost) and will require additional staff.
- Food Stamps funding for Orange County will increase due to caseload growth by \$1,100 (\$165 Net County Cost).
- State participation in In-Home Supportive Services (IHSS) wages and benefits increases from \$11.10 to \$12.10 per hour (in absolute dollars). IHSS administration funding in Orange County would increase 3.2% or \$145. Orange County caseloads are estimated to increase by 7.9%, faster than the State-wide estimate of 5.4%.
- The Governor's Health Care Reform proposal is not reflected in the budget proposal. The proposal could give
 counties a new responsibility of providing or coordinating health care for the estimated 750,000 undocumented
 medically indigent adults State-wide.

Child Support Services:

- The State will backfill the loss of federal matching incentives with \$23,000 in general funds to avert a \$67,600 reduction to the program.
- The State proposes level funding for local program expenditures. This may affect service levels as the increased cost of doing business is unfunded.
- Provides \$20,000 in federal funds to be matched by \$10,000 in county funds to support local staff and services.

Infrastructure & Environmental Resources

- Transportation funding (Propositions 42 and 1B): Proposition 42 (Transportation Congestion Improvement Act) was fully funded at \$1,500,000. Proposition 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security) allocates \$950,000 for local streets and roads. Clean up language is needed to reconcile the allocation of \$950,000 between counties and cities. Counties should receive between \$400,000 and \$475,000.
- Allows counties to compete for the \$300,000 infill incentive grant portion of Proposition 1C housing funds.
- Propositions 1-E (Disaster Preparedness and Flood Prevention Act) and Proposition 84 (Water Quality, Safety and Supply, Flood Control, Natural Resources Protection, Park Improvements) Bonds were approved by the voters in November 2006 to provide funding for the State's Flood Subvention reimbursement program. The State Flood Control Subvention funding of \$16,000 was reverted to the General Fund and could be restored from these bond funds. Orange County received \$15,400 of flood subvention funds in FY 2006-07. As of June 30, 2007, the amount of outstanding claims is expected to be \$83,674.

General Government

- Past claims for mandated cost reimbursements were scheduled to be paid over a 15 year period. Since two
 years worth of SB-90 mandated cost reimbursements were paid in FY 2006-07, no State payments to local
 government will be made in FY 2007-08.
- The Property Tax Administration grant continues to be suspended. The governor vetoed the one-time grant to assessors (\$3,500 State-wide allocated proportionately to each county) to assess "fractionally-owned" aircraft.
- Public Library Foundation and Direct/Interlibrary loan programs were reduced (\$290 reduction for Orange County).

Deterioration of the 2007-08 State Budget

In mid November of 2007 both the Governor and the State Legislative Analyst Office (LAO) announced that the state's fiscal outlook was dimming. A cumulative State budget shortfall of \$10 billion is projected by the LAO, \$1.9 billion in 2007-08 and \$8 billion in 2008-09. Continued softness in the state's economy, revenue reductions/delays, and court ordered payments were cited by the LAO as reasons for the fiscal outlook changes. No actions have been taken by the State which would impact County programs in 2007-08. County Departments have been requested to monitor State activities closely and try to anticipate any negative fiscal impacts on County programs. The Governor will be presenting a proposed 2008/09 state budget to the legislature in January of 2008, at which time the County will conduct an analysis of impacts to the County's programs and budgets for the next fiscal year.

Long-Term Financial Planning

County Accounting and Personnel System (CAPS) Upgrade

CAPS is a vital part of the County's infrastructure that is needed for business processes such as financial planning and budget development, maintaining the County's financial records, collecting costs for federal and state claiming, procuring goods and services, paying vendors, processing the County's payroll, and administering enterprise-wide human resource functions. CAPS maintains financial records for the County's budget of approximately \$5,200,000 and maintains human resource records and processes payroll for a work force of over 18,000 employees.

CAPS is based on 1980s technology and is becoming costly to maintain and operate. In addition, the vendor has informed the County that it will discontinue support of the version of software deployed at the County, within the next three to five years. The County has an action plan to upgrade its current financial application, which will reduce system support operations and maintenance costs and allow for growth for the next 15 years. The County is also looking for similar alternatives for the human resource application and has contracted with AgreeYa Solutions, Inc. to assist in the analysis of these alternatives. These alternatives will be documented and presented to the County by January 2008.

The Fit Analysis of the Financial Systems was conducted and completed in March 2007 at a cost of \$2,600 including County and contractor staffing. From this analysis, the County contracted with CGI, Inc. to assist in the implementation of the CGI Financial and Procurement software, Advantage 3.x. This project is in progress with a phase 1 implementation date of July 2009 and phase 2 by July 2011. The total estimated project cost is \$42,400 (Phase 1 - \$32,200, Phase 2 - \$10,200).

Phase 1 will implement the County's primary operational needs to support the following areas:

- Chart of Accounts
- General Accounting
- Fixed Assets
- Disbursements
- Cost Accounting
- eCommerce (commodities purchases)
- Contracts

Phase 2 implementation will provide:

- Accounts Receivable/Collections
- Vendor Self Service

The Board of Supervisors approved a contract with AgreeYa Solutions, Inc. to analyze the human resource and payroll functions in the context of industry best practices and solutions that would support them. This contract has been completed through phase one at a cost of \$250 including County and contractor staffing. A comprehensive vision related to the County's human resource and payroll operations has been developed and requirements have been documented to support the County's goals. The research and recommendations will be presented to the Board of Supervisors by January 2008. The estimated timeframe and the associated costs for a personnel system solution is estimated at \$20,000 to \$25,000 and will include both the fit analysis and implementation project spanning a two year period. This project should include similar objectives that were identified during the financial analysis:

- Quantify the level-of-effort and related costs to implement a solution
- Identify a technically capable and cost effective platform to run the system
- Refine the costs for operating the systems after implementation
- Develop a project plan, with required funding, for the implementation

Property Tax Management System Upgrade

The County's property tax assessment, collection and allocation system processes approximately \$5,500,000 annually in property taxes for the cities, school districts and special districts within the County. The current system was developed in the late 1980s and early 1990s in a programming language which is difficult to acquire knowledgeable staff to maintain. Under the Board of Supervisors' directions, a contract was awarded to Sierra Systems to perform the following:

- Document the current business rules
- Identify opportunities for improvement
- Envision a future operational model that includes:
 - Recommendation of environment
 - Strategies for implementation
 - Uses cases

This needs assessment was completed in July 2007 at a cost of \$1,500. The next phase was the development of a Request for Proposal which was released in August 2007 that will target the programming development of a replacement property tax management system based on the business processes documented during the needs assessment. Selection of a vendor is scheduled for completion by December 2007 with the contract being presented to the Board for approval in February 2008. The development and phased implementation of a replacement application is expected to take two to three years at an estimated cost of \$18,000 to \$25,000, including County and contractor staffing.

Teeter Plan Review

On June 29, 1993, the Board of Supervisors adopted the Teeter Plan pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code. The taxing agencies in Orange County which have agreed to participate in the Teeter Plan program annually receive the full amount of their share of taxes from the secured property tax roll, whether or not these taxes have been collected. The Teeter Plan provides these participating agencies with stable and timely cash flow without the collection risk, and the County receives the delinquency penalty amounts when the taxes are paid.

On June 27, 1995, the Orange County Special Financing Authority (Authority) issued the Taxable and Tax-exempt Teeter Plan Revenue Bonds, Series A through E totaling \$155,000. Revenues from the Teeter Plan pay the bond debt service as well as the Authority's annual purchase of unpaid secured property tax receivables from the County at a purchase price which does not exceed 100% of the property tax due excluding penalties.

Whenever there are insufficient Teeter Plan revenues for purchase of all of the receivables, the County is obligated to pay the amount of the shortfall since the County must pay the participating agencies 100% of the unpaid secured local tax amount. Annually in November, the Authority could transfer to the County General Fund any surplus Teeter Plan cash amount in excess of a 1.15 to 1 ratio of Teeter assets to total liabilities as long as the transfer amount does not exceed \$10,000.

Due to the higher delinquency of the current unpaid secured local roll experienced in FY 2006-07, the Board of Supervisors directed that a detailed review of the entire Teeter Plan program be undertaken. Pursuant to the Insurance Agreement with Ambac Assurance Corporation (Ambac) which insures the principal and interest payments of the Taxable and Tax-exempt Teeter Plan Revenue Bonds, Series A through E, the County must also advise Ambac in 2008 on its intent to gradually end the program (if at all) prior to the November 1, 2014 final bond maturity date. The review to be completed in 2008 will analyze options including, but not necessarily limited to, defeasance of existing debt, Teeter financing mechanisms, restructuring or termination of the Teeter Plan, or implementation of no change.

The following table summarizes the Teeter Participants' share of secured prior year penalties collected over the past three years that are transferred to the Authority:

Teeter Participants' Share of Secured PY Penalty Collections									
		2004-05		2005-06		2006-07			
County Funds	\$	869	\$	957	\$	1,083			
Non-County Funds		1,168		1,189		1,516			
Schools		4,348		4,718		5,538			
Total	\$	6,385	\$	6,864		8,137			

These penalties, in addition to the collected delinquent secured taxes, are used to pay the Authority's Revenue Bonds, purchase unpaid secured property tax receivables, and transfer excess Teeter Plan cash to the County General Fund. Should the County elect to terminate the Teeter Plan, the Authority will no longer receive the Teeter participants' share of secured prior year penalty collection, and there would be no revenue to transfer cash to the General Fund. The following table lists the excess Teeter Plan transfer to the General Fund over the past three years:

Excess Teeter Plan Cash Transfer to General Fund				
	2004-05	2005-06		2006-07
Transfer to County General Fund	\$ 5,335	\$ 8,6	17 \$	5,849

Requests for Information

We hope that the preceding information has provided a general overview of the County's overall financial status. For questions or comments concerning information contained in this report, please contact the Auditor-Controller's Office, County of Orange, 12 Civic Center Plaza, Santa Ana, CA 92702 or you can access our website at http://www.ac.ocgov.com.