1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Blended Component Units

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. For details regarding Assembly Bills 1X 26 and 1X 27 and the status of the related litigation and future operations of redevelopment agencies, refer to OCDA's separate financial statements. Copies of the financial statements can be obtained from the OC Community Resources 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

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.

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

Discretely Presented Component Unit

Children and Families Commission of Orange County The Commission is administered by a governing board of nine members, who are appointed by the Board. Its purpose is to develop, adopt, promote and implement early childhood development programs in the County, funded by additional State taxes on tobacco products approved by California voters via Proposition 10 in November 1998. The Commission is presented as a discretely presented component unit of the County because, although the County Board has no control over the revenues, budgets, staff, or funding decisions made by the Commission, the appointed Commission members serve at the will of the Board members who appoint them. For details regarding the Commission's extraordinary item and impact of AB99, refer to the Commission's separate financial statements. A separate stand-alone annual financial report can be obtained by writing to the Children and Families Commission of Orange County, 17320 Redhill Avenue, Suite 200, Irvine, CA 92614, or by accessing Orange County's website at the following address: http://egov.ocgov.com/ocgov/Auditor-Controller - David Sundstrom/Financial Statements

B. Government-Wide and Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Government-Wide Financial Statements

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

- *Statement of Net Assets*
- *Statement of Activities*

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

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

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

- 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 shown in the Statement of Net Assets, net of depreciation.

- Restricted Net Assets This category represents restrictions imposed on the use of the County's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. All of the County's net asset restrictions are externally imposed by outside parties, constitutional provisions or enabling legislation. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service payments. At June 30, 2011, the County's governmental activities reported restricted net assets of $1,426,459 restricted for other postemployment benefits, pension benefits related to the Orange County Retirement System (OCERS) Investment Account, capital projects, debt service, legally segregated funds restricted for grants and other purpose, and regional park endowment. Restricted Net Assets for business-type activities amounted to $134,969 and are restricted for the use of Airport and Waste Management activities, including debt service, passenger facility charges (PFC), replacements and renewals, landfill closure/postclosure, and landfill corrective action. At June 30, 2011, the County reported $41,646 of net assets restricted by enabling legislation related to the Airport's PFC.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-Wide Financial Statements (Continued)

- 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 investment earnings not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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. Property taxes restricted for flood control activities provide most of this fund's revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

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

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

The County reports the following proprietary enterprise funds:

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

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

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

Additionally, the County reports the following fund types:

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

Fiduciary Fund Types The County has a total of 293 individual trust and agency funds for FY 2010-11. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, or investment trust fund is used. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

The County reports the following trust and agency funds:

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

Investment Trust

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

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

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

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

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

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

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

Revenues that are accrued include real and personal property taxes, sales taxes, property taxes in-lieu of motor vehicle license fees, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectability is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are expected to be received later than 60 days following the end of the fiscal year, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, and the receivable and deferred revenue are eliminated. Receipts that have not met all of the earning requirements are reported as unearned revenue. As of June 30, 2011, the County reported $255,140 of deferred revenue, and $72,944 of unearned revenue, in the governmental funds' Balance Sheet.

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

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

Proprietary Fund Financial Statements

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Fund Financial Statements (Continued)

Under GASB Statement No. 20, *"Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* the County has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 when preparing the government-wide and enterprise fund financial statements.

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

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

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

Fiduciary Fund Financial Statements

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

D. Budget Adoption and Revision

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

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

- *Roads*
- *Flood Control District*
- *Other Public Protection*

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

- Under a budgetary basis, investment income is recognized on an amortized cost basis. In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pool,"* all investment income, including changes in fair value (gains/losses) of investments, are recognized as interest revenue.
- Under a budgetary basis, redirected investment income is recognized as investment income in the recipient fund. In accordance with GASB Statement No. 31, investment income assigned to another fund due to management decision is recognized in the fund that reports the investment and reported as a transfer to the recipient fund in the GAAP financial statements.
- GASB Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions,"* states that all nonexchange transactions, such as government-mandated nonexchange transactions and voluntary nonexchange transactions, can be accrued only if they are measurable and "available." "Available" has been defined by GASB Statement No. 33 as "collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period." The County has established the availability period as 60 days after the end of the fiscal year or August 31. In order to ensure all transactions for the current fiscal year meet this criterion, the County analyzes revenue receipts through August 31, and records adjustments to revenue for any significant variances.
- GASB Statement No. 34, *"Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,"* states, "fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs." For the GAAP financial statements, an adjustment to record public purpose trust monies as revenue in the benefitting funds is recorded for funds which continue to be accounted for as fiduciary funds on a budgetary basis but no longer meet the definition of a fiduciary fund.
- Under a budgetary basis, intrafund transfers are recognized as other financing sources (uses). For the GAAP financial statements, intrafund transfers are eliminated to minimize the "grossing-up" of interfund transfers.
- Under a budgetary basis, the loan repayment from OC Public Library to the General Fund was recognized as other revenue within the General Fund. In accordance with GASB Statement No. 34, other revenue was adjusted and the loan payment was recorded as a reduction to the interfund receivable in the lender fund and a reduction to the interfund payable in the borrower fund for the GAAP financial statements.
- Under a budgetary basis, there are no inflows and outflows of resources at the inception of a capital lease. However, GAAP requires that governmental funds report at the inception of a capital lease both an other financing source and an expenditure equal to the net present value of the minimum lease payments.
- The County reclassified to the General Fund all the activities of certain special revenue funds which no longer meet the definition of a special revenue fund in accordance with GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"* (GASB 54).

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

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

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

Revenues and Other Financing Sources	General Fund	Roads	Flood Control District	Other Public Protection
Total Revenues and Other Financing Sources from the Budgetary Comparison Statements	$ 2,699,802	$ 72,021	$ 145,579	$ 69,241
Differences-budget to GAAP:				
Change in unrealized gain/(loss) on investment (Note 4)	413	138	418	116
GASB 31 adjustment to report redirected investment income as transfers (Note 4)	-	-	-	133
GASB 33 adjustment of revenue accruals for 60 day recognition period	(19,432)	527	(1,124)	(2,242)
GASB 34 adjustment to record Public Purpose Trust Fund's monies as revenue in benefitting fund	2,303	-	(17)	-
Adjustment to eliminate intrafund transfers	(16,420)	-	-	(500)
Reclassification of loan repayment from OC Public Library to the General Fund (Note 7)	(720)	-	-	-
Reclassification of loan from Waste Management to the General Fund (Note 7)	(15,667)	-	-	-
Reclassification of direct billing reimbursements paid by fund for the benefit of other funds	(3,990)	(219)	(36)	-
Reclassification of other revenues to an expenditure for portion of ARC funded by the County Investment Account with OCERS	(11,000)	-	-	-
Other Financing Sources in connection with the inception of a capital lease (Note 13)	133	-	-	-
Revenues and Other Financing Sources for non-budgeted funds are excluded in the Budgetary Comparison Statements	-	-	-	33
Reclassification of Special Revenue Funds to General Fund in accordance with GASB 54.	124	-	-	-
Total Revenues and Other Financing Sources as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances.	$ 2,635,546	$ 72,467	$ 144,820	$ 66,781

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

Expenditures/Encumbrances and Other Financing Uses	General Fund	Roads	Flood Control District	Other Public Protection
Actual expenditures and Other Financing Uses from the Budgetary Comparison Statements	$ 2,675,334	$ 92,673	$ 95,188	$ 52,825
Differences-budget to GAAP:				
GASB 31 adjustment to report redirected investment income as transfers (Note 4)	-	-	-	133
Adjustment of expenditure accruals for timing	4,599	(1,274)	(1,782)	(224)
Adjustment to eliminate intrafund transfers	-	-	-	(500)
Reclassification of direct billing reimbursements paid by fund for the benefit of other funds	(8,560)	(219)	(36)	-
Reclassification of loan repayment from Waste Management to the General Fund (Note 9)	(3,124)	-	-	-
Reclassification of other revenues to an expenditure for portion of ARC funded by the County Investment Account with OCERS	(11,000)	-	-	-
Capital outlay in connection with the inception of capital lease (Note 13)	133	-	-	-
Reclassification of Special Revenue Funds to General Fund in accordance with GASB 54.	18	-	-	-
Expenditures/Encumbrances and Other Financing Uses for non-budgeted funds are excluded in the Budgetary Comparison Statements	-	-	-	958
Total Expenditures and Other Financing Uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances.	$ 2,657,400	$ 91,180	$ 93,370	$ 53,192

E. Fund Balance

Effective for this fiscal year, the County has implemented GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions"* (GASB 54) for financial statement purposes. The intent of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The balance sheet reports the following five different classifications of fund balance:

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

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

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

Assigned Fund Balance Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Assigned fund balance includes fund balance appropriated at the end of the fiscal year to fund a projected excess of expected expenditures over expected revenues, approved unexpended contract amounts that will be liquidated with existing resources and resources constrained by the County for a specific purpose that are neither restricted nor committed. In June 2011, the Board approved the fiscal year 2011-12 budget. The General Fund budget utilized $20,000 of fund balance to eliminate a projected budgetary deficit, of which $1,394 has been classified as assigned fund balance.

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

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

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

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

	General Fund	Roads	Flood Control District	Other Public Protection	Teeter Plan Obligation Commercial Paper Program Note	Other Govern-mental Funds	Total Govern-mental Funds
Nonspendable:							
Inventory	$ 305	$ -	$ 323	$ 281	$ -	$ -	$ 909
Prepaid costs	266,023	3,834	4,035	1,570	-	10,581	286,043
Endowment	-	-	-	-	-	178	178
Total Nonspendable Fund Balance	$ 266,328	$ 3,834	$ 4,358	$ 1,851	$ -	$ 10,759	$ 287,130
Restricted for:							
General Government	-	-	-	-	-	394,166	394,166
Public Protection	10,557	-	327,814	117,605	-	28,715	484,691
Public Ways and Facilities	-	103,356	-	-	-	65,777	169,133
Health and Sanitation	315	-	-	-	-	200,442	200,757
Public Assistance	-	-	-	-	-	100,582	100,582
Education	-	-	-	-	-	6,516	6,516
Recreation and Cultural Services	-	-	-	-	-	137,782	137,782
Total Restricted Fund Balance	$ 10,872	$ 103,356	$ 327,814	$ 117,605	$ -	$ 933,980	$ 1,493,627
Assigned to:							
General Government	-	-	-	-	-	567	567
Public Protection	-	-	-	55	-	-	55
Public Ways and Facilities	-	-	-	-	-	1,425	1,425
Health and Sanitation	-	-	-	-	-	4,500	4,500
Public Assistance	-	-	-	-	-	19,910	19,910
Recreation and Cultural Services	- -	-	-	-	-	7,716	7,716
FY 2011-12 Appropriation	1,394	-	-	-	-	-	1,394
Total Assigned Fund Balance	$ 1,394	$ -	$ -	$ 55	$ -	$ 34,118	$ 35,567
Unassigned Fund Balance:	$ -	$ -	$ -	$ -	$ (8,074)	$ -	$ (8,074)
Total Fund Balances	$ 278,594	$ 107,190	$ 332,172	$ 119,511	$ (8,074)	$ 978,857	$ 1,808,250

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

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

The SFP also includes a General Fund Reserves Policy (GFRP) that provides guidance in the creation, maintenance and use of reserves. The GFRP is designed to provide flexibility to the County and provide:

- Resources to address unanticipated or cyclical economic conditions
- Resources for emergencies and/or catastrophic events
- Mitigation of the volatility of revenues and expenditures in managing temporary cash flow shortages
- Capacity to cover unexpected large one-time expenses and opportunities
- Capacity to fund capital investments
- Capacity to minimize borrowing costs and
- Capacity to provide some level of protection against statutory changes to County revenues and impacts from Federal and State actions

F. Cash and Investments

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

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 instruments authorized by the respective trust agreements including medium-term notes, mutual funds, investment agreements, repurchase agreements, and U.S. Government securities. Short-term investments are reported at cost, while long-term investments, such as U.S. Government securities are stated at fair value. The trustee uses an independent service to value those securities, which are based on quoted market price and stated at fair value.

The Pools value participants' shares using an amortized cost basis. Specifically, the Pools distribute income to participants based on their relative participation during the period. Income is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and reduced by (4) investment and administrative expenses. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the Pools' investments. The total difference between the fair values of the investments in the Pools and the values distributed to pool participants using the amortized cost method described above is reported in the equity section of the condensed statement of net assets (see Note 4, Deposits and Investments) as undistributed and unrealized gains. The investments in the Retiree Medical Defined Benefit Trust are managed by OCERS and are reported at fair value. Refer to Note 18, Retirement Plans, on how to obtain OCERS stand-alone annual financial statements.

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory of Materials and Supplies

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

H. Prepaid Costs

The County pays for certain types of services in advance, such as pension cost and rents, and recognizes these costs in the period during which services are provided. Prepaid costs in the fund financial statements primarily consist of the FY 2011-12 Annual Required Contribution pre-payment of $286,043 for governmental funds and $10,657 for proprietary funds. Other prepaid costs in the enterprise funds include insurance of $106 for John Wayne Airport and a deferred charge of $2,358 reported for OC Waste and Recycling, representing the agreement with the City of Irvine to prepay community amenities and transportation improvement costs associated with operating the Frank R. Bowerman Landfill for the period of 2008 through 2014. In accordance with GASB Statement No. 54, fund balances are classified as nonspendable for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds.

Prepaid costs in the government-wide financial statements also include the prepaid costs reported in the fund financial statements, as well as the County's Investment Account with OCERS for future pension costs of $107,807 (see Note 18 for additional information regarding this pension investment asset for the OCERS Pension Plan).

I. Land and Improvements Held for Resale

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

J. Capital Assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

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

Structures and Improvements	10 to 50 years
Equipment	2 to 20 years
Intangible	5 to 20 years
Infrastructure:	
Flood Channels	50 to 99 years
Roads	10 to 20 years
Bridges	50 years
Trails	20 years
Traffic Signals	15 years
Harbors	20 to 50 years

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.

K. Self-Insurance

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

L. Property Taxes

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

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

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

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

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

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due within the fiscal year and collected within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2011 is allocated to and recorded in the corresponding funds for reporting purposes.

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

The County maintains records of disputed property taxes, such as those properties for which the values have been appealed to the local Assessment Appeals Boards. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or the tax bills are corrected. As of June 30, 2011, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.5% of the combined beginning secured and unsecured property tax roll charge.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. Statement of Cash Flows

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

O. 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 2010-11 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Code of Federal Regulation, Title 2, Part 225. The County has elected to allocate indirect costs to agencies within the General Fund that are not charged CWCAP in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

P. Effects of New Pronouncements

The following lists recent GASB pronouncements implemented or are effective in FY 2010-11:

In February 2009, GASB issued Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Reference Note 2 for additional information.

In June 2010, GASB issued statement No. 59, *"Financial Instruments Omnibus."* This statement updates and improves the existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The statement was implemented without a material impact to the County.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements (Continued)

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

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

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

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

In June 2011, GASB issued Statement No. 64, *"Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53."* This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2011. Currently, the County Treasurer's Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County's investment pools and the Public Financing Advisory Committee policy prohibits derivative instruments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. 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.

R. 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 Government-Wide Statement of Net Assets for presentation purposes. In order to avoid any confusion, the following table lists the line items shown in the Governmental and Proprietary Fund financial statements that are condensed together in the Government-Wide Statement of Net Assets.

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

(Dollar Amounts in Thousands)

2. CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Provisions of this statement also clarify the definitions of the general and special revenue funds which affect the activities the County reports in these funds. Definitions of other governmental fund types also have been modified for clarity and consistency. The requirements of this statement are effective for the FY 2010-11 financial statements. The implementation of GASB Statement No. 54 impacted the County's fund-level General Fund and Other Governmental Fund activities. Fund balances were restated as of the effective date of this statement, with the adjustments reflected in the Fund Balances - Beginning of the Year for the Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund and Other Governmental Funds:

	General Fund	Other Governmental Funds
Fund Balances at June 30, 2010	$ 268,284	$ 971,159
GASB Statement No. 54 Adjustment	32,164	(32,164)
Fund Balances at June 30, 2010 as Restated	$ 300,448	$ 938,995

Refer to Note 1, Summary of Significant Accounting Policies, for additional information.

3. DEFICIT FUND EQUITY

The Teeter Plan Obligation Commercial Paper Program Note Fund reported a deficit fund balance of $8,074. The deficit fund balance increased by $4,964 from the previous year. The County implemented its Teeter Commercial Paper (CP) Program on August 26, 2008, for the purpose of refunding the outstanding Teeter Bonds and to provide a continuing source of funding for the County's annual obligation to make distributions to the taxing agencies participating in the Teeter Plan. The deficit results from additional costs and interest expense of the CP Notes incurred in the first year of the CP Program, and insufficient delinquent tax collection to retire the CP principal. The increased deficit is a result of decreased delinquent tax collection to retire additional CP principal. The County will continue to monitor and manage the collection of delinquent base tax receipts, penalties, and interest in order to eliminate the deficit fund balance.

The Workers' Compensation Internal Service Fund (ISF) and the Property and Casualty Risk ISF reported deficit net asset balances of $54,936 and $18,679, respectively. The deficits result from the amount calculated in the annual actuarial study which includes case reserves, development of known claims, incurred but not reported claims, allocated and unallocated loss adjustment expenses, and a discount for anticipated investment income. The deficit for the Workers' Compensation increased by $19,143 from the previous fiscal year due to an increase in the actuarial determined liability amount and lower investment earnings in the program. The deficit for the Property and Casualty Risk increased by $7,271 from the previous year due to higher than anticipated claim payments and an increase in case reserves. Charges to County departments have not provided sufficient cash flows to entirely fund the deficits in these ISFs. The County will continue to review charges to departments and manage the funding status of the Workers' Compensation Program and the Property and Casualty Risk Program to the most efficient levels.

4. DEPOSITS AND INVESTMENTS

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

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

The maximum maturity of investments for the two Money Market Funds is 13 months with a maximum weighted average maturity (WAM) of 60 days. The maximum maturity of the Extended Fund is 5 years. The Extended Fund shall have duration not to exceed a leading 1-3 Year index +25%.

Pursuant to Sections 27130-27137 of the California Government Code, the Board has established a Treasurer's Oversight Committee (TOC) that monitors and reviews the Investment Policy Statement (IPS) and ensures that the Treasurer has an audit annually, which includes limited tests of compliance with laws and regulations. The TOC consists of the County Executive Officer, the elected County Auditor-Controller, the County Superintendent of Schools and two public members.

It is the policy of the Treasurer to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants, achieving the highest possible yield and attempt to stabilize the NAV at $1.00 for the Money Market Funds, while conforming to all applicable State statutes and Board actions regarding the investment of public funds. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer's office. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

Investments with the Treasurer totaled $6,168,069 as of June 30, 2011 consisting of $3,113,467 for the OCIP, $2,989,602 for the OCEIP, $65,000 for Specific Investments.

A. Deposits

Government Code Section 53652 et. seq. and the IPS prescribe the amount of collateral that is required to secure the deposit of public funds. The pledge to secure deposits is administered by the California Superintendent of Banks. Collateral is required for demand deposits at 110% of all deposits not covered by federal depository insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150% is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County and confirmed as part of the annual audit of the Statement of Assets held by the County Treasury. Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is 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. Federal depository insurance is available for funds deposited at any one financial institution up to a maximum of $250 for demand deposits and time and savings deposits. The County

(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

Treasurer's Pool has established separate bank and investment custody accounts for the public school and community college district participants.

Custodial Credit Risk
The custodial credit risk for deposits is the risk that the County will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. The County's deposits are not exposed to custodial credit risk, since all of its deposits are either covered by federal depository insurance or collateralized with securities held by the pledging financial institutions' trust department or agents, or County's agent, in the County's name, in accordance with California Government Code Section 53652.

Total County deposits and investments at fair value as of June 30, 2011, are reported as follows:

Deposits:		
Imprest Cash	$	2,146
Deposit Overdraft		(70,848)
Total Cash Overdrafts		(68,702)
Investments:		
With Treasurer		6,168,069
With Trustee		532,940
Total Investments		6,701,009
Total Deposits and Investments	$	6,632,307

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

Governmental Funds	$	1,952,722
Component Unit		90,116
Fiduciary Funds		3,701,820
Proprietary Funds		887,649
Total Deposits and Investments	$	6,632,307

B. Investments

The Government Code Section 53601, Board ordinances and resolutions, the County's IPS, the bond indenture documents, trust agreements, and other contractual agreements govern the investments that may be purchased and may include certain restrictions on investment maturity, maximum portfolio percentages, term, value, credit quality, and timing to minimize the risk of loss. The IPS adds further restrictions to permitted investments from the Government Code. As of June 30, 2011, the Treasurer was in full compliance with the more restrictive IPS and therefore, was also in compliance with California Government Code. The following table provides a summary listing of the authorized investments.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

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

Additional Restrictions

No investment may be purchased from an issuer that has been placed on credit watch-negative by any of the NRSROs, or whose credit rating by any of the NRSROs is less than the minimum rating required by the IPS for that class of security unless the issuer has a short-term rating of "A-1+" or "F1+" or a long-term rating of at least a "AA" or "Aa2" by S&P and Fitch or Moody's.

Repurchase agreements are limited to a one year 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.

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 must be United States dollar denominated.

(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

The current IPS expressly prohibits leverage, reverse repurchase agreements, structured notes, structured investment vehicles, and derivatives. Investments by the Treasurer are stated at fair value. Investments in the County Pool are marked to market on a daily basis. If the net asset value of the Money Market Fund for either the OCIP or the OCEIP is less than $0.995 or greater than $1.005, portfolio holdings may be sold as necessary to maintain the ratio between $0.995 and $1.005.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school and community college districts are required by legal provisions to deposit their funds with the County Treasurer. The OCEIP consists entirely of public school and community college districts' funds and therefore includes 100% involuntary participants. At June 30, 2011, the OCIP includes approximately 8.92% of involuntary participant deposits including funds for the Superior Court, certain assessment districts, and certain bond related funds for public school districts.

Investment Disclosures

The following table presents a summary of the County's investments and the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2011 (NR means Not Rated).

With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
County Investment Pool (2)							
U.S. Government Agencies							
FNMA Discount Notes	$ 167,834	$ 167,840	0.01-0.15%	07/06/11-11/23/11	0.009	AAA	5.39%
FNMA Bonds	373,210	372,239	0.05-2.44%	07/27/11-10/21/15	0.321	AAA	11.99%
Federal Farm Credit Bank	210,090	208,472	0.12-2.25%	09/16/11-02/21/13	0.048	AAA	6.75%
FHLB Discount Notes	20,146	20,146	0.02-0.07%	08/05/11-08/12/11	0.001	AAA	0.65%
FHLB Bonds	766,852	765,774	0.08-1.76%	07/27/11-12/09/14	0.280	AAA	24.63%
FHLMC Discount Notes	96,299	96,300	0.03-0.08%	07/11/11-08/29/11	0.004	AAA	3.09%
FHLMC Bonds	526,192	524,636	0.08-2.92%	07/18/11-03/02/16	0.396	AAA	16.90%
Commercial Paper	104,982	105,000	0.03-0.18%	07/05/11-12/01/11	0.088	A-1	3.37%
Negotiable Certificates of Deposit	205,587	205,559	0.11-0.57%	07/28/11-05/15/12	0.195	A-1	6.60%
Medium-Term Corporate Notes							
Corporate Notes	88,252	87,106	0.29-2.14%	08/15/11-02/11/13	0.254	A	2.83%
Corporate Notes	123,172	120,250	0.33-2.16%	08/22/11-06/01/14	0.354	AA	3.96%
Corporate Notes	92,483	91,590	0.16-2.22%	12/01/11-06/01/14	0.125	AAA	2.97%
Municipal Debt	204,134	204,134	1.55-1.82%	04/03/12-08/15/13	1.158	A	6.56%
U.S. Treasuries	105,865	105,332	0.26-0.83%	01/31/12-03/31/13	1.165	AAA	3.40%
Money Market Mutual Funds	28,369	28,369	0.01-0.08%	07/01/11	0.003	AAA	0.91%
	$ 3,113,467	**$ 3,102,747**			**0.937** (5)		**100.00%**

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
Educational Pool (2)							
U.S. Government Agencies							
FNMA Discount Notes	$ 111,058	$ 111,065	0.01-0.13%	07/20/11-11/14/11	0.011	AAA	3.71%
FNMA Bonds	302,972	302,209	0.09-2.44%	07/27/11-10/21/15	0.289	AAA	10.13%
Federal Farm Credit Bank	171,262	170,003	0.04-2.25%	07/08/11-02/21/13	0.042	AAA	5.73%
FHLB Discount Notes	100,999	101,000	0.01-0.10%	07/05/11-07/27/11	0.003	AAA	3.38%
FHLB Bonds	624,520	623,571	0.05-1.76%	07/01/11-12/09/14	0.262	AAA	20.89%
FHLMC Discount Notes	109,565	109,569	0.01-0.12%	07/05/11-11/21/11	0.006	AAA	3.66%
FHLMC Bonds	462,089	460,766	0.05-2.92%	07/18/11-03/02/16	0.361	AAA	15.46%
Commercial Paper	149,543	149,550	0.01-0.06%	07/01/11-07/29/11	0.032	A-1	5.00%
Negotiable Certificates of Deposit	224,472	224,441	0.13-0.57%	07/25/11-04/24/12	0.109	A-1	7.51%
Medium-Term Corporate Notes							
Corporate Notes	155,263	153,989	0.26-2.14%	08/15/11-02/11/13	0.226	A	5.20%
Corporate Notes	102,398	100,123	0.03-2.16%	08/22/11-06/01/14	0.233	AA	3.43%
Corporate Notes	99,353	98,344	0.14-2.22%	12/01/11-06/15/12	0.115	AAA	3.32%
Municipal Debt	190,404	190,337	1.55-1.82%	12/01/11-08/15/13	1.064	A	6.37%
U.S. Treasuries	82,583	82,168	0.26-0.83%	01/31/12-03/31/13	1.165	AAA	2.76%
Money Market Mutual Funds	103,121	103,121	0.01-0.08%	07/01/11	0.003	AAA	3.45%
	$ 2,989,602	**$ 2,980,256**			**0.792** (5)		**100.00%**
Specific Investments (2)							
U.S. Government Agencies							
FNMA Discount Notes	$ 2,797	$ 2,797	0.06-0.13%	08/24/11-12/07/11	0.032	AAA	4.30%
FNMA Bonds	3,313	3,300	0.08-0.43%	10/15/11-04/10/12	0.052	AAA	5.10%
Federal Farm Credit Bank	10,045	10,045	0.12-3.39%	07/05/11-03/05/12	0.022	AAA	15.45%
FHLB Bonds	8,215	8,210	0.05-0.27%	07/27/11-02/02/12	0.017	AAA	12.64%
FHLMC Bonds	6,402	6,395	0.05-0.13%	07/18/11-02/02/12	0.012	AAA	9.85%
GNMA Bonds	123	123	6.25%	09/20/29	0.073	AAA	0.19%
Bankers Acceptance	1,227	1,227	0.12-0.18%	07/08/11-09/28/11	0.142	A-1	1.89%
Commercial Paper	5,813	5,814	0.02-0.21%	07/01/11-10/24/11	0.127	A-1	8.94%
Negotiable Certificates of Deposit	6,352	6,351	0.21-0.28%	10/04/11-04/24/12	0.060	AA	9.77%
Medium-Term Corporate Notes							
Corporate Notes	2,013	2,000	0.39-0.41%	02/10/12	0.306	A	3.10%
Corporate Notes	1,034	1,000	0.75%	02/15/12	0.161	AA	1.59%
Corporate Notes	1,011	1,000	0.20%	12/01/11	0.105	AAA	1.56%
Repurchase Agreements	1,082	1,082	6.20%	08/15/19	8.132	NR	1.66%
Money Market Mutual Funds	15,573	15,573	0.01-0.08%	07/01/11	0.003	AAA	23.96%
	$ 65,000	**$ 64,917**			**0.291** (5)		**100.00%**
With Trustees:							
Restricted Investments with Trustees (2)							
U.S. Government Agencies							
FNMA Medium-Term Notes	$ 186,620	$ 109,718	Variable	09/01/16-09/01/21	6.770	AA	43.22%
FHLMC Discount Notes	14,742	14,378	Variable	11/21/11-12/01/11	0.030	NR	3.41%
U.S. Treasuries							
U.S. Treasuries	13,779	13,775	0.75%	10/20/11-05/31/12	0.590	AAA	3.19%
U.S. Treasuries	3,243	2,558	9.00%	11/15/18	1.410	AA	0.75%
U.S. Treasury Strips	298	54	Variable	11/15/18	7.390	AA	0.07%
Guaranteed Investment Contracts	30,575	30,575	4.27-5.01%	07/01/13-09/02/18	4.590	NR	7.08%

(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

With Trustees:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)	Rating (1)	% of Portfolio
Restricted Investments with Trustees (2) (Continued)							
Money Market Deposit Accounts	$ 10,524	$ 10,524	Variable	07/01/11	0.000	NR	2.44%
Money Market Mutual Funds							
Money Market Mutual Funds	127,028	127,028	Variable	07/01/11	0.000	AAA	29.42%
Money Market Mutual Funds	2	2	Variable	07/01/11	0.000	AA	0.00%
Money Market Mutual Funds	39,866	39,866	Variable	07/01/11	0.000	NR	9.23%
Stable Value Fund	5,121	5,121	Variable	07/01/11	0.000	NR	1.19%
	$ 431,798	**$ 353,599**			**3.580** (5)		**100.00%**
With External Orange County Retirement System (OCERS):							
Restricted Investments (3)	**$ 96,098**						
With State's Local Agency Investment Fund (LAIF):							
Restricted Investment (4)	**$ 5,044**						

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

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

(3) The Retiree Medical Trust Reports $96,098 of restricted investments with OCERS. Refer to Note 18 on obtaining OCERS Financial Statements. For the ratings of the restricted investments held with OCERS, refer to their most recently issued financial statements available at http://www.ocers.org/finance/finance.htm

(4) The Law Library fund reports $5,044 of restricted investments with LAIF. For the ratings of the restricted investments held with LAIF, refer to the California State Treasurer's web site at http://www.treasurer.ca.gov/pmia-laif/index.asp

(5) Portfolio weighted average maturity

Investment in County of Orange Taxable Pension Obligation Bonds 2011, Series A

On March 15, 2011, the OCMMF, OCEMMF and Extended Fund purchased all of the County issued Taxable Pension Obligation Bonds 2011, Series A (2011 POBs) in the principal amount of $275,920. The 2011 POBs were issued as convertible capital appreciation bonds, with a fixed rate of 1.82%, and a maturity date of June 27, 2012. The terms of the sale of the 2011 POBs from the County to the County Treasurer on behalf of the OCIP and OCEIP were negotiated at arm's length. The obligation of the County to pay principal and interest on the 2011 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2011, the outstanding principal amount of the 2011 POBs is $275,920 and the accreted interest on the outstanding POBs is $1,496. The bonds are rated A-1+ by S&P. The County's investment in the 2011 POBs is disclosed herein as Municipal Debt.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Interest Rate Risk

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

The OCIP funds of $3,113,467 and the OCEIP funds of $2,989,602 portfolio at June 30, 2011, have over 48.47% and 55.98%, respectively of the investments maturing in six months or less, 46.64% and 40.04% respectively, maturing between one and three years and 4.89% and 3.98% respectively, maturing from three to five years.

As of June 30, 2011, variable-rate notes comprised 24% of both the OCIP and OCEIP. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment re-prices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing WAM, the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

The annual average daily investment balance of the OCIP and the OCEIP was $3,316,704 and $2,959,950, respectively with an average gross effective yield of 0.67% and 0.63%, respectively for the year ended June 30, 2011.

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

At June 30, 2011, the OCMMF and OCEMMF amounted to $1,380,571 and $1,637,794, respectively. In accordance with the Board formally approved IPS, the County Treasurer manages investment related risk for deposits and investments by limiting the WAM to 60 days in the Money Market Funds. At June 30, 2011, the WAM of both the OCMMF and the OCEMMF was 59 days. At the same date, the NAV of the Money Market Funds for both pools was $1.00 (in absolute dollar amounts).

Interest Rate Risk-Duration (Extended Fund)

At June 30, 2011, the Extended Fund (which includes funds from both OCIP and OCEIP) balance was $3,084,704. Of this amount, the OCIP owned 56.18% and the OCEIP owned 43.82%. In accordance with the IPS, the Treasurer manages investment related risk for deposits and investments by limiting duration to +25% of a leading 1-3 Year index. The portfolio duration for the Extended Fund as of June 30, 2011, was 1.53 years. This was computed using the Macaulay duration method. For purposes of computing duration, the maturity date of callable bonds is the length of time until the final maturity.

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

As of June 30, 2011, the Extended Fund consisted of the following investments:

Investment Type	Fair Value (Amounts in Thousands)	Macaulay Duration (In Years)
Certificate of Deposits	$ 90,030	0.16
Medium-Term Corporate Notes	360,001	0.96
Municipal Debt	249,727	1.29
Treasuries	188,449	1.16
U.S. Government Agencies	2,196,497	1.74
Total Fair Value	$ 3,084,704	
Portfolio Duration		1.53

Custodial Credit Risk
For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The IPS does not permit investments in uninsured and unregistered securities not held by the County. The Treasurer utilizes third party delivery versus payment (DVP), which mitigates any custodial credit risk. Securities purchased by the Treasurer are held by a third party custodian, Northern Trust, in their trust department to mitigate custodial credit risk. At year-end, in accordance with the IPS, the County's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

Credit Risk
This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from any two of the NRSROs as explained above. For an issuer of short-term debt, the rating must be no less than "A-1" or "SP-1" (S&P), "P-1" or "MIG 1/VMIG 1" (Moody's), or "F1" (Fitch), while an issuer of long-term debt shall be rated no less than an "A" in the Money Market Funds and "AA" in the Extended Fund. A further restriction is that only 50% of the Extended Fund can be rated as AA, the remaining must be AAA rated. As of June 30, 2011, the County's investments were in compliance with the IPS limits. Subsequent to June 30, 2011, the U.S. Government Debt was downgraded to AA from AAA. On September 13, 2011, the Board approved an amended IPS which exempts U.S. Government Debt from any ratings restrictions.

Concentration of Credit Risk
This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As June 30, 2011, all investments were in compliance with State law and with the IPS. See the preceding table for concentrations of holdings in U.S. government agencies.

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

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements
In lieu of separately issued financial statements for the entire pools and the external portion of the pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2011:

Entire Pool

Statements of Net Assets

	County Investment Pool	Educational Investment Pool	Total
Net Assets Held for Pool Participants	$ 3,144,765	$ 2,949,280	$ 6,094,045
Equity of Internal Pool Participants	$ 2,965,911	$ -	$ 2,965,911
Equity of External Pool Participants	177,378	2,948,350	3,125,728
Undistributed and Unrealized Gain	1,476	930	2,406
Total Net Assets	$ 3,144,765	$ 2,949,280	$ 6,094,045

Statements of Changes in Net Assets

	County Investment Pool	Educational Investment Pool	Total
Net Assets at July 1, 2010	$ 3,212,675	$ 2,645,919	$ 5,858,594
Net Changes in Investments by Pool Participants	(67,910)	303,361	235,451
Net Assets at June 30, 2011	$ 3,144,765	$ 2,949,280	$ 6,094,045

External Pool Portion

Combining Statement of Fiduciary Net Assets

	County Investment Pool	Educational Investment Pool	Total
Assets			
Pooled Cash/Investments	$ 177,024	$ 2,943,272	$ 3,120,296
Receivables			
Interest/Dividends	422	6,278	6,700
Due from Other Governmental Agencies	2	--	2
Total Assets	177,448	2,949,550	3,126,998
Liabilities			
Due to Other Governmental Agencies	70	270	340
Total Liabilities	70	270	340
Net Assets			
Held in Trust	177,378	2,949,280	3,126,658
Total Net Assets	$ 177,378	$ 2,949,280	$ 3,126,658

(Dollar Amounts in Thousands)

4. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Combining Statement of Changes in Fiduciary Net Assets

	County Investment Pool	Educational Investment Pool	Total
Additions:			
Contributions to Pooled Investments	$ 291,578	$ 6,550,642	$ 6,842,220
Interest and Investment Income	1,057	22,011	23,068
Less: Investment Expense	(119)	(3,239)	(3,358)
Total Additions	292,516	6,569,414	6,861,930
Deductions:			
Distributions from Pooled Investments	260,057	6,266,053	6,526,110
Total Deductions	260,057	6,266,053	6,526,110
Change in Net Assets Held in Trust For External Investment Pool	32,459	303,361	335,820
Net Assets Held in Trust, Beginning of Year	144,919	2,645,919	2,790,838
Net Assets Held in Trust, End of Year	$ 177,378	$ 2,949,280	$ 3,126,658

5. CHANGES IN CAPITAL ASSETS

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

	Primary Government				
	Balance July 1, 2010	Increases	Decreases	Adjustments	Balance June 30, 2011
Governmental Activities:					
Capital Assets Not Depreciated/Amortized:					
Land	$ 689,544	$ 83,930	$ --	$ --	$ 773,474
Land Use Rights (Permanent)	--	175	--	--	175
Construction in Progress	371,647	65,338	(147,156)	(886)	288,943
Intangible in progress	55,992	11,026	(41,178)	--	25,840
Total Capital Assets Not Being Depreciated/Amortized:	1,117,183	160,469	(188,334)	(886)	1,088,432
Capital Assets, Depreciable/Amortizable:					
Structures and Improvements	1,033,278	93,244	--	(5,270)	1,121,252
Equipment	347,970	12,577	(14,153)	47	346,441
Software	1,490	50,253	--	--	51,743
Land Use Rights (Amortizable)	--	571	--	--	571
Infrastructure:					
Flood Channels	953,546	10,412	--	--	963,958
Roads	135,437	28,381	--	(1,351)	162,467
Bridges	72,345	3,021	--	--	75,366
Trails	42,718	6,819	--	--	49,537
Traffic signals	10,668	--	--	--	10,668
Harbors and Beaches	37,625	--	--	--	37,625
Capital Assets, Depreciable/Amortizable	2,635,077	205,278	(14,153)	(6,574)	2,819,628
Less Accumulated Depreciation/Amortization For:					
Structures and Improvements	(480,845)	(41,617)	--	--	(522,462)
Equipment	(263,476)	(21,685)	13,848	35	(271,278)
Software	(499)	(8,162)	--	--	(8,661)
Land Use Rights (Amortizable)	--	(170)	--	--	(170)
Infrastructure:					
Flood Channels	(229,751)	(12,923)	--	--	(242,674)
Roads	(60,074)	(17,942)	--	--	(78,016)
Bridges	(24,002)	(4,046)	--	--	(28,048)
Trails	(26,077)	(2,389)	--	--	(28,466)
Traffic signals	(9,541)	(221)	--	--	(9,762)
Harbors and Beaches	(23,879)	(870)	--	--	(24,749)
Total Accumulated Depreciation/Amortization	(1,118,144)	(110,025)	13,848	35	(1,214,286)
Capital Assets, Depreciable/Amortizable (Net)	1,516,933	95,253	(305)	(6,539)	1,605,342
Governmental Activities Total Capital Assets, Net	$ 2,634,116	$ 255,722	$ (188,639)	$ (7,425)	$ 2,693,774

(Dollar Amounts in Thousands)

5. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government				
	Balance July 1, 2010	Increases	Decreases	Adjustments	Balance June 30, 2011
Business-Type Activities:					
Capital Assets Not Depreciated:					
Land	$ 38,083	$ --	$ --	$ --	$ 38,083
Construction in Progress	197,907	167,605	(41,231)	(987)	323,294
Total Capital Assets Not Being Depreciated	235,990	167,605	(41,231)	(987)	361,377
Capital Assets, Depreciable:					
Structures and Improvements	324,592	37,787	--	(1,137)	361,242
Equipment	79,539	3,623	(1,361)	--	81,801
Infrastructure	489,468	3,692	--	2,124	495,284
Capital Assets, Depreciable	893,599	45,102	(1,361)	987	938,327
Less Accumulated Depreciation For:					
Structures and Improvements	(166,590)	(10,209)	--	(212)	(177,011)
Equipment	(44,813)	(7,734)	1,194	--	(51,353)
Infrastructure	(264,418)	(17,333)	--	--	(281,751)
Total Accumulated Depreciation	(475,821)	(35,276)	1,194	(212)	(510,115)
Capital Assets, Depreciable (Net)	417,778	9,826	(167)	775	428,212
Business-Type Activities Total Capital Assets, Net	$ 653,768	$ 177,431	$ (41,398)	$ (212)	$ 789,589

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

Government Activities:	
General Government	$ 13,130
Public Protection	44,778
Public Ways and Facilities	26,047
Health and Sanitation	3,446
Public Assistance	6,311
Education	1,766
Recreation and Cultural Services	10,123
Internal Service Funds' Depreciation Expense Allocated to Various Functions	4,424
Total Governmental Activities Depreciation/Amortization Expense	110,025
Business-Type Activities:	
Airport	15,830
Waste Management	19,446
Total Business-Type Activities Depreciation Expense	35,276
Total Depreciation/Amortization Expense	$ 145,301

6. RECEIVABLES

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

Accounts Receivable

$1,430 of accounts receivable for governmental activities is not expected to be collected within the next fiscal year. The amount consists of invoices billed by OC Animal Care for dog license fees and penalties.

Deposits Receivable

$1,259 in deposits receivable for governmental activities is not expected to be collected within the next fiscal year. $400 represents a deposit required by the vendor (Cardinal Health) per the price agreement with HCA; the deposit will be returned within 60 days of the expiration of the price agreement. $756 represents operating funds deposited into a management account administered by Lewis Investment Company, LLC, for payment of costs related to the entitlement of the Greenspot Property located within the City of Highland and $97 represents condemnation deposits with the court or state.

Notes Receivable

$30,536 of notes receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, $29,080 consists of loans to build affordable, low to moderate income, and senior housing. $1,007 is from the sale of surplus County property. The remaining $449 is for rehabilitation loans and loans provided to first time home buyers.

Loans Receivable

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

Due from Other Governmental Agencies

$103,916 due from other governmental agencies is not expected to be received within the next fiscal year. Of this amount, $89,405 is owed by the State of California to the County for various Senate Bill (SB90) mandated cost reimbursements for programs and services the State requires the County to provide; and allowance for doubtful accounts for SB90 has been established for claims that have been outstanding for more than seven years. $12,147 is owed by the State to HCA for reimbursement of the Cost Report Settlement Process for Medi-Cal Services provided by HCA and its contractors. $2,210 represents Federal Coverage Initiative Grant funds owed by the State to HCA for reimbursement of costs related to the Medical Services Initiative program. $149 is due from Riverside County for the cost-share related to the Seven Oaks Dam-Santa Ana River Project.

(Dollar Amounts in Thousands)

7. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2011 is as follows:

Due To/From Other Funds:

	Receivable Funds								
Payable Funds	General Fund	Roads	Flood Control District	Other Public Protection	Other Governmental Funds	Waste Management	Compressed Natural Gas	Internal Service Funds	Total
General Fund	$ -	$ 105	$ 718	$ 7,135	$ 12,253	$ 1	$ 1	$ 1,824	$ 22,037
Roads	1,956	-	835	-	-	4	-	4	2,799
Flood Control District	3,227	749	-	-	175	20	-	5	4,176
Other Public Protection	5,349	-	-	-	31	-	-	12	5,392
Other Governmental Funds	36,300	651	304	2	10,476	1	-	83	47,817
Airport	1,717	-	-	1	-	-	-	411	2,129
Waste Management	2,244	-	-	-	1	-	-	62	2,307
Compressed Natural Gas	19	-	-	-		-	-	3	22
Internal Service Funds	2,534	1	-	-	27	-	1	1	2,564
Teeter Plan Obligation Commercial Paper Program Note	8	-	-	-	-	-	-	-	8
Total	$ 53,354	$ 1,506	$ 1,857	$ 7,138	$ 22,963	$ 26	$ 2	$ 2,405	$ 89,251

Interfund Transactions between Primary Government and Component Unit:

Receivable Entity	Payable Entity	Amount
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	$ 827

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

Advances To/From Other Funds:

Receivable Entity	Payable Entity	Amount
General Fund	Other Government Funds	$ 338
Waste Management	General Funds	28,149

The interfund loans represent an advance made to OC Public Libraries from the General Fund for the Public Library Headquarter building, and an advance made to the General Fund from Waste Management for various information technology capital projects.

8. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from landfill gas lease agreements, cell tower operators and a material recovery facility. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2011, approximates $17,282.

The County leases real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2011 are as follows:

Fiscal Year(s) Ending June 30	Governmental Activities	Business-type Activities
2012	10,729	21,519
2013	9,613	5,714
2014	9,373	4,799
2015	9,407	3,311
2016	8,072	2,715
	47,194	38,058
2017-2021	42,698	12,119
2022-2026	46,063	12,552
2027-2031	46,889	2,434
2032-2036	50,446	--
2037-2041	30,933	--
2042-2046	1,464	--
	218,493	27,105
Total future minimum rentals	$ 265,687	$ 65,163

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $257 (Flood Control District), $1,654 (OC Parks), $1,531 (OC Dana Point Harbor), $26,725 (Airport), $139 (CEO IT), and $34 (Other Governmental Funds) for the year ended June 30, 2011.

(Dollar Amounts in Thousands)

9. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2011, were as follows:

	Transfer In Funds						
Transfer Out Funds	General Fund	Other Public Protection	Other Governmental Funds	Waste Management	Compressed Natural Gas	Internal Service Funds	Total
General Fund	$ -	$ 7,294	$ 101,970	$ 113	$ -	$ 5,652	$ 115,029
Flood Control District	3,178	-	-	-	-	-	3,178
Other Public Protection	22,745	-	-	-	-	5	22,750
Other Governmental Funds	164,143	398	54,426	-	350	-	219,317
Waste Management	13,094	-	-	-	-	-	13,094
Compressed Natural Gas	-	-	-	-	-	50	50
Internal Service Funds	504	-	-	-	-	-	504
Teeter Plan Obligation Commercial Paper Program Note	28,000	-	-	-	-	-	28,000
Total	$ 231,664	$ 7,692	$ 156,396	$ 113	$ 350	$ 5,707	$ 401,922

Interfund transfers reflect a flow of assets between funds and component units of the primary government without an equivalent flow of assets in return. Routine transfers were made in the current fiscal year (1) to relay cash/resources from contributing County funds to various debt service funds for the retirement of long-term obligations (2) to transfer Measure H Tobacco Settlement revenues and Public Protection Sales Tax (PSST) excess revenue in compliance with the specific statutory requirements (3) to make available cash distribution based on Bankruptcy Recovery Plan, and (4) to transfer excess unrestricted revenues to finance various County programs based on budgetary authorizations by the Board. The details of the significant transfers are outlined below:

Routine Transfers

a. Transfer from the General Fund
- A total of $73,470 was transferred to Debt Service Fund in connection with debt service payments for the various County debt issues.
- $12,013 was transferred to Other Governmental Funds to finance the County's 60 percent share of the Social Services Agency Wraparound Program.
- $10,793 was transferred to Other Governmental Funds in order to distribute available cash to the remaining claimants of the bankruptcy loss as part of the Bankruptcy Recovery Plan.
- $6,495 was transferred to Other Public Protection for annual transfer of PSST excess revenue to meet future public protection needs.
- $1,651 was transferred to Internal Service Funds for medical reimbursements.
- $1,400 was transferred to Other Governmental Funds to pay for operating costs and debt service obligation associated with the parking facilities.

b. Transfer from Flood Control District
- $3,178 was transferred to the General Fund for the Watershed Management Program.

9. INTERFUND TRANSFERS (Continued)

Routine Transfers (Continued)

c. Transfer from Other Public Protection
- $10,624 was transferred to the General Fund to support the Sheriff Department's operations.
- $10,312 was transferred to the General Fund for the reimbursement of various County programs as follows:
  - $5,500 for the Probation's Youth Offender Block Grant expenditures
  - $3,462 for District Attorney Department programs
  - $1,350 for the Clerk-Recorder's information technology, capital acquisitions and/or improvements

d. Transfer from Teeter Plan Obligation Commercial Paper Program Note
- $28,000 of excess penalties and interest from delinquent tax payments was transferred to the General Fund.

e. Transfer from Other Governmental Funds
- $124,005 was transferred to the General Fund for the reimbursement of various County programs as follows:
  - $87,455 for Proposition 63, Mental Health Services Act expenses
  - $20,908 for Social Services Agency Wraparound Program
  - $8,782 for emergency medical services
  - $6,860 for Centers for Disease Control pandemic flu H1N1 costs
- $28,547 of tobacco settlement monies were transferred to the General Fund to finance HCA's various health care programs and Sheriff Department's operational costs.
- $1,923 of bond proceeds was transferred to the General Fund for the Cogeneration Plant at the County's Central Utility Facility.
- $1,298 was transferred to Debt Service Funds for debt service payments related to Low and Moderate Income Housing Program.

f. Transfer from Enterprise Funds
- $13,094 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 COPs Lease Financing as part of the Bankruptcy Recovery Plan.

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

Non-Recurring Transfers

g. Transfer from the General Fund
- $3,461 was transferred to Information Technology Internal Services Fund as an interfund loan to offset the cost of a network infrastructure upgrade project. Due to delays in the project, the timeframe and mechanism for the loan repayment has not been determined.
- $2,568 was transferred to Other Governmental Funds for a capital project at the Sheriff's Department.

h. Transfer from Other Governmental Funds
- $42,553 represented the fund balance of OC Dana Point Harbor that was transferred from OC Parks due to management's decision to separately report the activities of OC Dana Point Harbor from OC Parks.
- $5,019 was transferred to Capital Project for the reimbursement of the following County costs:
  - $2,322 for Sheriff's Community Stabilization Program
  - $1,425 for District Attorney's Community Stabilization Program
  - $1,272 for OC Public Work's Community Stabilization Program
- $2,000 of excess funds in the debt service fund was transferred to Santa Ana Heights Surplus fund for Low and Moderate Income Housing Program.
- $1,000 was transferred to the General Fund for a capital project for the Sheriff's Department

(Dollar Amounts in Thousands)

10. SHORT-TERM OBLIGATIONS

Teeter Plan Obligation Commercial Paper Notes Series A

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

On July 13, 2010, the County redeemed $138,100 of its $210,975 CP outstanding at June 30, 2010, and issued an additional $84,025 in CP. The additional CP issued financed the purchase of delinquent property tax receivables associated with the Teeter Plan. Proceeds of this purchase paid the participating agencies in the Teeter Plan the full amount of their taxes from the secured property tax roll. As of June 30, 2011, the outstanding principal amount of the CP notes was $156,900. Refer to Note 20 Subsequent Events, for additional information.

2010-2011 Tax and Revenue Anticipation Notes Series A

On July 1, 2010, the County issued its 2010-2011 Tax and Revenue Anticipation Notes Series A (the "Notes") in the aggregate principal amount of $150,000 to finance the seasonal cash flow requirements of the County during the fiscal year ending June 30, 2011. The Notes are secured by a pledge of certain general fund monies. The County paid the notes on June 30, 2011. Refer to Note 20, Subsequent Events, for information regarding the 2011-12 Tax and Revenue Anticipation Notes.

Taxable Pension Obligation Bonds, 2011 Series A

On March 15, 2011, the County issued Taxable Pension Obligation Bonds, 2011 Series A (the "2011 POBs") in the principal amount of $275,920. The 2011 POBs were issued in order to prepay the County's FY 2011-12 pension obligation. The 2011 POBs were purchased by the Treasurer at a rate of 1.82% for investment in the County Pool. The 2011 POBs were issued as convertible capital appreciation bonds, with a fixed rate, a maturity date of June 27, 2012, and an optional put feature, which allows the Treasurer upon 90-days notice to liquidate the investment on April 13, 2012. The obligation of the County to pay principal and interest on the 2011 POBs is an obligation imposed by law and is absolute and unconditional. As of June 30, 2011, the outstanding principal amount of the 2011 POBs reported in the General Fund was $275,920 and the accreted interest was $1,496. Refer to Note 4, Deposits and Investments, and Note 18, Retirement Plans, for additional information.

Description	Balance July 1, 2010	Issuances & Discount/ Premium Amortization	Accreted Interest	Retirements	Balance June 30, 2011	Amounts Due within One Year
County of Orange						
Teeter Plan Obligation Commercial Paper Notes, Series A						
Date of Original Issuance: August 26, 2008						
Interest Rate: Variable						
Original Amount: $178,300						
Various Dates of Maturity with Installments Not to Exceed 270 Days from Date of Issuance	210,975	84,025	--	(138,100)	156,900	156,900

10. SHORT-TERM OBLIGATIONS (Continued)

Description	Balance July 1, 2010	Issuances & Discount/ Premium Amortization	Accreted Interest	Retirements	Balance June 30, 2011	Amounts Due within One Year
County of Orange 2010-2011 Tax and Revenue Anticipation Notes, Series A						
Date Issued: July 1, 2010						
Interest Rate: 2.00%						
Original Amount: $150,000						
Maturing in installments through June 30, 2011	--	150,000	--	(150,000)	--	--
County of Orange Taxable Pension Obligation Bonds, 2011 Series A						
Date Issued: March 15, 2011						
Interest Rate: 1.82%						
Original Amount: $275,920						
Maturing in installments through June 27, 2012	--	275,920	1,496	--	277,416	277,416
Total	$ 210,975	$ 509,945	$ 1,496	$ (288,100)	$ 434,316	$ 434,316

11. LONG-TERM OBLIGATIONS

General Bonded Debt

General Obligation Bonded Debt

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25% of the last equalized assessment property tax roll. At June 30, 2011, the County had no net general obligation bonded debt. The County's legal debt limit for the year was $5,259,395. In order for the County to issue general obligation bonds secured by ad valorem taxes on real property, California Constitution Article XIIIA, Section 1 requires the approval of 2/3 of the voters voting on the proposition.

Bankruptcy Obligations

Refunding Recovery Bonds 2005 Series A

On August 18, 2005, the County issued its $146,005 Refunding Recovery Bonds 2005 Series A (2005 Recovery Bonds) at a premium of $9,318. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the Recovery Refunding Bonds 1995 Series A (1995 Recovery Bonds), were used to refund and defease the outstanding 1995 Recovery Bonds and pay costs of issuance for the 2005 Recovery Bonds. As of June 30, 2011, the outstanding principal amount, including the premium of the 2005 Recovery Bonds, and interest were $71,194 and $8,369, respectively.

Lease Revenue Refunding Bonds Series 2005

On August 16, 2005, the Orange County Public Financing Authority (OCPFA) issued its $419,755 Lease Revenue Refunding Bonds Series 2005 (Series 2005 Bonds) at a premium of $19,973. The proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the 1996 Recovery Certificates of Participation (Recovery COPs), were used to defease certain non-callable Recovery COPs, the remainder was used to fund a debt service reserve fund for the Series 2005 Bonds, and pay costs of issuance of the Series 2005 Bonds. As of June 30, 2011, the outstanding principal amount, including the premium of the Series 2005 Bonds, and interest were $191,819 and $25,266, respectively.

11. LONG-TERM OBLIGATIONS (Continued)

Bankruptcy Obligations (Continued)

Lease Revenue Refunding Bonds Series 2005 (Continued)

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

Revenue Bonds Payable and Certificates of Participation

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, Certificates of Participation (COPs) representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the $33,579 Refunding COPs (Civic Center Parking Facilities Project), which are payable through December 2018. At June 30, 2011, the outstanding principal amount and interest of the Refunding COPs were $4,064 and $16,763, respectively.

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

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

In July 2001, OCDA issued its $26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 (NDAPP Refunding Bonds). A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease $26,140 of the $27,072 outstanding NDAPP Series A 1992 Tax Allocation Revenue Bonds. The NDAPP Refunding Bonds, payable through September 2022, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the Neighborhood Development and Preservation Project Area. As of June 30, 2011, the outstanding principal amount including premium of the Series 2001 Bonds and interest on the NDAPP Refunding Bonds were $19,379 and $6,272, respectively.

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

In May 2002, the OCPFA issued the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002, in the principal amount of $80,285, payable through June 2019, with a premium of $3,164. The Lease Revenue Refunding Bonds were issued to (1) redeem the outstanding Refunding COPs (Juvenile Justice Center Facility), (2) finance the acquisition of certain software and computer equipment for the general governmental purposes of the County, and (3) pay costs related to the issuance of the bonds, including bond insurance premiums. As of June 30, 2011, the outstanding principal amount, including the premium of the Series 2002 bonds, and interest were $47,355 and $11,325, respectively.

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

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Lease Revenue Bonds, Series 2006

On October 19, 2006, the OCPFA issued its $32,700 Lease Revenue Bonds, Series 2006 (Series 2006 Bonds) at a premium of $2,140. The Lease Revenue Bonds, payable through June 2018, were issued to finance the construction of a cogeneration conversion project at the County's central utility facility, fund a debt service reserve fund for the bonds, and pay costs relating to the issuance of the bonds. As of June 30, 2011, the outstanding principal amount, including the premium of the Series 2006 Bonds, and interest were $26,340 and $5,069, respectively.

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

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

In November 2003, OCDA issued $38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project (SAHP) Area 2003 at a premium of $1,660. The proceeds of the bonds and other available monies were used to refund and defease the outstanding 1993 Tax Allocation Revenue Bonds, fund a reserve account for the new bonds, and pay the cost of issuing the bonds. The SAHP Refunding Bonds, payable through September 2023, are secured by a pledge of tax increment revenues allocated and paid to OCDA attributable to the SAHP. As of June 30, 2011, the outstanding principal amount, including premium of the Series 2003 Bonds and interest of the SAHP, were $29,430 and $10,034, respectively.

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

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

On May 11, 2000, a cash tender offer of certain outstanding Pension Obligation Bonds was completed. The County purchased and canceled $288,290 (maturity value) of Pension Obligation Bonds for a cost of $179,016. On June 22, 2000, the debt service on the outstanding Pension Obligation Bonds was provided for through the deposit with the trustee of $175,492 principal amount of "AAA" rated debt securities issued by Fannie Mae, along with $9,151 in debt service funds already being held by the trustee. In accordance with irrevocable instructions, these securities, together with other cash amounts and investments held by the trustee, will be used solely to retire the remaining Pension Obligation Bonds as they mature. Because this was an economic defeasance and not a legal defeasance, this debt will be reported in the County's financial statements until it is fully redeemed. As of June 30, 2011, the outstanding principal amounts for the Series 1996A and 1997A Pension Bonds were $29,197 and $25,483, respectively.

Airport Revenue Refunding Bonds, Series 2003

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

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Airport Revenue Refunding Bonds, Series 2003

On May 29, 2003, the County issued, in the principal amount of $48,680, Airport Revenue Refunding Bonds Series 2003 (2003 Bonds), the proceeds of which, together with certain monies deposited with the trustee, refunded and defeased the 1993 Bonds. The interest expense incurred and the amount included as part of the cost of capital assets under construction for the 2003 Bonds for the fiscal year ended June 30, 2011, were $1,490. The outstanding principal amount, including premium and interest, for 2003 Bonds as of June 30, 2011, were $31,167 and $6,350, respectively.

The 2003 Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, and (3) other miscellaneous revenue. The 2003 Bonds are payable through July 2018. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2011, the principal and interest paid and total net revenues were $4,581 and $38,368, respectively.

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the County issued the Airport Revenue Bonds Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of $233,115, with an original issue net premium of $288. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds, and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as the construction of the new terminal C, Parking Structure C, and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. For fiscal year ended June 30, 2011, the interest expense incurred and the amount included as part of the cost of capital assets under construction for the 2009A Bonds were $3,289 and $3,216, respectively, and for the 2009B Bonds were $7,984 and $7,440, respectively. The outstanding principal amount, including net premium, of the 2009A and 2009B Bonds as of June 30, 2011, were $65,958 and $162,112, respectively, and the outstanding interest were $58,503 and $105,927, respectively.

The 2009A and 2009B Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, (3) other miscellaneous revenue and (4) available Passenger Facility Charges (PFC) revenues. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2011, the principal and interest paid and total net revenues were $15,785 and $49,567, respectively. The total net revenues include $11,199 of PFC revenue.

Waste Management System Refunding Revenue Bonds, Series 1997

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

11. LONG-TERM OBLIGATIONS (Continued)

Revenue Bonds Payable and Certificates of Participation (Continued)

Waste Management System Refunding Revenue Bonds, Series 1997 (Continued)

permits relating to the system. The bonds are payable through December 2013. The outstanding principal amount and interest on these bonds as of June 30, 2011, were $20,006 and $1,627, respectively. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 120% of the aggregate debt service requirement over the life of the bonds.

Advance Refunding

During this and in prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2011, $17,085 of legally defeased debt remains outstanding.

Schedule of Long-Term Debt Obligations, Fiscal Year 2010-11

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2011, were as follows:

Description	Balance July 1, 2010	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2011	Amounts Due within One Year
Governmental Funds:					
County of Orange					
Refunding Recovery Bonds - 2005 Series A:					
Date Issued: August 18, 2005 to Refund and Defease the Outstanding Refunding Recovery Bonds - Series 1995A					
Interest Rate: 3.00% to 5.00%					
Original Amount: $146,005					
Maturing in Installments Through June 1, 2015.	$ 86,827	$ (1,188)	$ (14,445)	$ 71,194	$ 16,470
Deferred Amount on Refunding	(5,208)	1,042	--	(4,166)	(1,042)
Orange County Public Financing Authority					
Lease Revenue Refunding Bonds, Series 2005:					
Date Issued: August 16, 2005 to Refund and Defease the 1996 Recovery Certificates of Participation - Series 1996A.					
Interest Rate: 3.00% to 5.75%					
Original Amount: $419,755					
FY 2010-11 Principal and Interest: $61,340					
FY 2010-11 Total Pledged Revenues: $74,726					
Maturing in Installments Through July 1, 2017.	246,072	(2,683)	(51,570)	191,819	58,000
Deferred Amount on Refunding	(15,971)	2,129	--	(13,842)	(2,129)
Orange County Public Facilities Corporation,					
Refunding Certificates of Participation:					
(Civic Center Parking Facilities Project)					
Date Issued: August 1, 1991 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) to Refund the 1987 COPs Bond Issue					
Interest Rate: CIB - 4.40% to 6.75%					
Interest Rate: CAB - 6.85% to 7.05%					
Original Amount: CIB - $24,495					
Original Amount: CAB - $9,084					
FY 2010-11 Principal and Interest: $2,600					
FY 2010-11 Total Pledged Revenues: $2,526					
Maturing in Installments Through December 1, 2018.	4,758	--	(694)	4,064	642

(Dollar Amounts in Thousands)

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2010-11 (Continued)

Description	Balance July 1, 2010	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2011	Amounts Due within One Year
Orange County Development Agency Tax Allocation Refunding Bonds - Series 2001: (Neighborhood Development and Preservation Project)					
Date Issued: July 11, 2001 to Refund the Series A 1992 Tax Allocation Revenue Bonds					
Interest Rate: 4.00% to 5.50%					
Original Amount: $26,160					
FY 2010-11 Principal and Interest: $2,173					
FY 2010-11 Total Pledged Revenues: $19,560					
Maturing in Installments Through September 1, 2022.	$ 20,554	$ --	$ (1,175)	$ 19,379	$ 1,344
Deferred Amount on Refunding	(712)	55	--	(657)	(55)
Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds - Series 2002					
Date Issued: May 1, 2002 to Refund the Outstanding Refunding Certificates of Participation.					
Interest Rate: 3.00% to 5.50%					
Original Amount: $80,285					
FY 2010-11 Principal and Interest: $7,091					
FY 2010-11 Total Pledged Revenues: $74,726					
Maturing in Installments Through June 1, 2019.	52,088	(213)	(4,520)	47,355	4,951
Deferred Amount on Refunding	(1,967)	219	--	(1,748)	(219)
Orange County Public Financing Authority Lease Revenue Bonds, Series 2006					
Date Issued: October 19, 2006					
Interest Rate: 4.00% to 5.00%					
Original Amount: $32,700					
FY 2010-11 Principal and Interest: $4,202					
FY 2010-11 Total Pledged Revenues: $74,726					
Maturing in Installments Through June 1, 2018.	29,295	(55)	(2,900)	26,340	3,077
Orange County Development Agency Santa Ana Heights Project Area 2003 Tax Allocation Refunding Bonds:					
Date Issued: November 13, 2003 to Refund the 1993 Tax Allocation Revenue Bonds					
Interest Rate: 2.00% to 5.25%					
Original Amount: $38,465					
FY 2010-11 Principal and Interest: $2,958					
FY 2010-11 Total Pledged Revenues: $10,907					
Maturing in Installments Through September 1, 2023.	31,122	(137)	(1,555)	29,430	1,752
Deferred Amount on Refunding	(1,235)	92	--	(1,143)	(92)

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2010-11 (Continued)

Description	Balance July 1, 2010	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2011	Amounts Due within One Year
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1996 A: Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB) Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB) To Refund the Taxable POBs Series 1994 A Interest Rate: CIB - 7.47% to 7.72% Interest Rate: CAB - 8.09% to 8.26% Original Amount: CIB - $81,680 Original Amount: CAB - $40,000 Maturing in Installments Through September 1, 2010 (CIB) and September 1, 2016 (CAB).	$ 31,696	$ --	$ (2,499)	$ 29,197	$ 6,538
County of Orange Taxable Refunding Pension Obligation Bonds - Series 1997 A: Date Issued: January 1, 1997 - Current Interest Rate Bonds (CIB) Date Issued: June 14, 1997 - Capital Appreciation Bonds (CAB) To Refund the Taxable POBs Series 1994 A Interest Rate: CIB - 5.71% to 7.36% Interest Rate: CAB - 7.33% to 7.96% Original Amount: CIB - $71,605 Original Amount: CAB - $65,318 Maturing in Installments Through September 1, 2010 (CIB) and September 1, 2021 (CAB).	27,635	--	(2,152)	25,483	619
Subtotal - Governmental Funds	$ 504,954	$ (739)	$ (81,510)	$ 422,705	$ 89,856

(Dollar Amounts in Thousands)

11. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2010-11 (Continued)

Description	Balance July 1, 2010	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2011	Amounts Due within One Year
Enterprise Funds:					
Airport Revenue Refunding Bonds - Series 2003:					
Date Issued: May 29, 2003 to Refund 1993 Airport Revenue Bond Issue					
Interest Rate: 2.50% to 5.00%					
Original Amount: $48,680					
FY 2010-11 Principal and Interest: $4,581					
FY 2010-11 Total Pledged Revenues: $38,368					
Maturing in Installments Through July 1, 2018.	$ 34,473	$ (291)	$ (3,015)	$ 31,167	$ 3,412
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	(3,302)	748	--	(2,554)	(637)
Airport Revenue Bonds - Series 2009A and 2009B:					
Date Issued: July 9, 2009					
Interest Rate: 3.00% to 5.75%					
Original Amount: $233,115					
FY 2010-11 Principal and Interest: $15,785					
FY 2010-11 Total Pledged Revenues: $49,567					
Maturing in Installments Through July 1, 2039.	232,928	(413)	(4,445)	228,070	5,007
Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds - Series 1997:					
Date Issued: November 18, 1997 to Refund $77,445 of the OCPFC 1988 Certificate of Participation (Solid Waste Management System)					
Interest Rate: 4.375% to 5.75%					
Original Amount: $77,300					
FY 2010-11 Principal and Interest: $7,167					
FY 2010-11 Total Pledged Revenues: $18,703					
Maturing in Installments Through December 1, 2013.	26,013	(57)	(5,950)	20,006	6,327
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(275)	190	--	(85)	(71)
Subtotal - Enterprise Funds	289,837	177	(13,410)	276,604	14,038
Total	$ 794,791	$ (562)	$ (94,920)	$ 699,309	$ 103,894

11. 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:

	Governmental Funds		Enterprise Funds		
Fiscal Year(s) Ending June 30	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2012	$ 87,439	$ 35,026	$ 14,154	$ 13,492	$ 150,111
2013	56,223	39,724	15,905	12,793	124,645
2014	54,407	29,332	17,305	12,072	113,116
2015	55,993	26,291	10,660	11,512	104,456
2016	43,159	37,332	11,040	11,069	102,600
2017-2021	109,286	96,516	54,115	47,062	306,979
2022-2026	12,403	3,805	52,940	34,131	103,279
2027-2031	--	--	56,950	18,654	75,604
2032-2036	--	--	22,815	9,136	31,951
2037-2040	--	--	22,940	2,485	25,425
Total	418,910	268,026	278,824	172,406	1,138,166
Add: Premium	25,351	--	419	--	25,770
Less: Deferred Amount on Refunding	(21,556)	--	(2,639)	--	(24,195)
Principal Payable, Net	$ 422,705	$ 268,026	$ 276,604	$ 172,406	$ 1,139,741

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within One Year
Governmental Activities:					
Bonds and COPs Payable:					
Revenue Bonds	$ 356,525	$ --	$ (61,720)	$ 294,805	$ 64,475
Certificates of Participation	4,758	--	(694)	4,064	642
Pension Obligation Bonds	59,331	--	(4,651)	54,680	7,157
Recovery Bonds	79,806	--	(14,445)	65,361	15,165
Add: Premium on Bonds Payable	29,627	--	(4,276)	25,351	5,954
Less: Deferred Amount on Refunding	(25,093)	--	3,537	(21,556)	(3,537)
Total Bonds & COPs Payable, Net	504,954	--	(82,249)	422,705	89,856
Interest Accretion on Capital Appreciation Bonds Payable	152,697	14,661	--	167,358	--
Other Long-Term Liabilities:					
Compensated Employee Absences Payable	168,306	134,662	(129,144)	173,824	90,079
Arbitrage Rebate Payable	1,609	8	(733)	884	790
Capital Lease Obligations Payable	80,114	134	(4,174)	76,074	4,393
Insurance Claims Payable	179,114	122,447	(113,168)	188,393	51,746
Net Pension Obligation	647	224	(232)	639	--
SARI Line Obligation	--	36,000	(2,001)	33,999	13,265
Total Other Long-Term Liabilities	429,790	293,475	(249,452)	473,813	160,273
Total Governmental Activities Long-term Liabilities	$ 1,087,441	$ 308,136	$ (331,701)	$ 1,063,876	$ 250,129

(Dollar Amounts in Thousands)

11. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities (Continued)

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within One Year
Business-Type Activities:					
Bonds Payable:					
Revenue Bonds	$ 292,234	$ --	$ (13,410)	$ 278,824	$ 14,155
Add: Premium on Bonds Payable	1,180	--	(761)	419	591
Less: Deferred Amount on Refunding	(3,577)	--	938	(2,639)	(708)
Total Revenue Bonds Payable, Net	289,837	--	(13,233)	276,604	14,038
Other Long-Term Liabilities:					
Compensated Employee Absences Payable	4,991	3,882	(3,655)	5,218	2,451
Arbitrage Rebate Payable	217	105	--	322	--
Landfill Site Closure/Postclosure Liabilities *	163,885	3,339	(3,896)	163,328	1,615
Pollution Remediation Obligation **	7,426	6,787	(865)	13,348	848
Total Other Long-Term Liabilities	176,519	14,113	(8,416)	182,216	4,914
Total Business-Type Activities Long-Term Liabilities	$ 466,356	$ 14,113	$ (21,649)	$ 458,820	$ 18,952

* Refer to Note 14 for additional information regarding the decrease in Landfill Site Closure/Postclosure Liabilities.
** Refer to Note 17 for additional information regarding the increase in Pollution Remediation Obligation.

Special Assessment District Bonds

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

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

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

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

Major capital outlay expenditures relating to these bonds are accounted for in the "Service Areas, Lighting Maintenance and Assessment Districts" Special Revenue Fund. Special assessment district and community facilities district bonds outstanding as of June 30, 2011, amounted to $589,540.

11. LONG-TERM OBLIGATIONS (Continued)

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2011, is $173,824 compared with $168,306 at June 30, 2010. Employees are entitled to be paid annual leave, compensated time, and in some cases vacation and sick time depending on job classification, length of service, and other factors. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

OC Flood Control District, Santa Ana Regional Interceptor Line Loans (SARI), New Obligation for FY 2010-11

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

In April 2011, OCFCD received a $36,000 loan from OCSD. As of June 30, 2011, the outstanding loan principal was $33,999. The loan amount is recorded on the government-wide Statement of Net Assets as due to other governmental agencies. In May 2011, the Board awarded the construction contract for the SARI Yorba Linda Spur in the amount of $7,210, and the Board awarded the construction contract for the SARI Mainline in the amount of $42,000 in August 2011. The $10,000 loan from SAWPA will be remitted to the OCFCD in FY 2011-12.

12. CONDUIT DEBT OBLIGATIONS

From 1980 through 2011, the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate income families.

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

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

As of June 30, 2011, there were 35 series of bonds outstanding, with an aggregate principal amount payable of $451,869.

(Dollar Amounts in Thousands)

13. LEASES

Commitments Under Operating Leases

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

Fiscal Year Ending June 30	Equipment	Real Property	Total
2012	$ 3,587	$ 27,428	$ 31,015
2013	144	23,068	$ 23,212
2014	29	20,499	$ 20,528
2015	9	18,697	$ 18,706
2016	4	16,379	$ 16,383
2017 - 2021	3	25,899	$ 25,902
Total	$ 3,776	$ 131,970	$ 135,746

Total expenditures for equipment rentals and operating leases incurred for FY 2010-11 was $52,494.

Capital Leases

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

Land	$ 18,707
Equipment	133
Less: Accumulated Depreciation	(8)
Structures & Improvements	80,377
Less: Accumulated Depreciation	(25,156)
Total	$ 74,053

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, 2011:

Fiscal Year Ending June 30	
2012	$ 10,139
2013	9,727
2014	9,832
2015	8,574
2016	8,762
2017-2021	45,618
2022-2026	26,537
2027	490
Total Minimum Lease Payments	119,679
Less: Amount Representing Interest	(43,605)
Present Value of Net Minimum Lease Payments	$ 76,074

14. LANDFILL SITE CLOSURE AND POSTCLOSURE CARE COSTS

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

OCWR owns or operates the following waste disposal sites:

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

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

The total landfill closure and postclosure care liability at June 30, 2011 was $163,328. The total liability represents the cumulative amount accrued based on the percentage of the active landfill capacities that have been used to date (25.53% for FRB, 67.94% for Olinda Alpha and 22.26% for Prima Deshecha), less actual costs disbursed related to both closure and postclosure of the Santiago and Coyote Canyon landfills. The 22.26% amount for Prima Deshecha represents the cumulative amount of landfill capacity used for both Zone 1 and Zone 4. This amount was segregated to more accurately reflect the greater usage to date of Zone 1 in relation to the closure and postclosure care costs. OCWR will recognize the remaining estimated cost of closure and postclosure care of $177,174 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2010 dollars (using the 2010 inflation factor of 1.010). OCWR has enough landfill capacity to operate the system for a minimum of twenty-five years. However, OCWR intends to operate the landfills well beyond this period as a result of approved and planned expansions.

In compliance with Title 27- Environmental Protection of California Code of Regulations, OCWR makes annual cash contributions to its escrow funds to provide financial assurance for estimated future landfill closure costs based on the GASB Statement No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs,*" formula. Also in compliance with regulations, OCWR has executed pledge of revenue agreements to provide financial assurance for estimated future landfill postclosure costs. The agreements state that OCWR pledges revenue from future gate fees deposited to pay for estimated postclosure maintenance or shall obtain alternative coverage within sixty (60) days if OCWR ceases at any time to retain control of its ability to allocate pledged revenue to pay postclosure maintenance costs. OCWR has proactively pre-funded this cost based on the state mandated formula that computes landfill capacity as a percentage of the total landfill capacity times the total estimated cost for postclosure maintenance. The estimated costs for future closure and postclosure maintenance are annually adjusted based on state provided inflation factors. The state mandated formula under which contributions to both closure and postclosure funds are calculated would provide for the accumulation of sufficient cash to cover all estimated costs when each landfill site reaches maximum capacity. If additional costs for closure or postclosure maintenance are determined due to changes in technology or higher regulatory requirements, these costs may need to be covered by increasing the amount charged to landfill customers.

(Dollar Amounts in Thousands)

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

As of June 30, 2011, a total of $89,543 has been set aside for estimated closure and postclosure costs and is included in the accompanying Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. This amount includes what OCWR has proactively prefunded for postclosure care.

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities, acceptable and prohibited waste types, and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Refer to Note 17, Estimated Liability for Other Litigation, Claims and Pollution Remediation, for additional discussion regarding pollution remediation liabilities.

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

The County has established a procedure for encumbering appropriations for purchase orders, contracts, and other commitments authorizing delivery of merchandise or rendering of services. An encumbrance system reduces the possibility of commitments being made in excess of budgeted appropriations due to the lag time between issuance of purchase orders, contracts, and other obligations, and the actual provision of services or goods and subsequent receipt of invoices and billings from the vendors and contractors. In accordance with GASB Statement No. 54, *"Fund Balance Reporting and Governmental Fund Type Definitions,"* the County's total significant encumbrances for governmental funds in the aggregate are reported as follows, at June 30, 2011:

General Fund	$	52,474
Roads		67,791
Flood Control District		30,695
Other Public Protection		3,266
Other Governmental Funds		30,152
Total Encumbrances for Governmental Funds	$	184,378

At June 30, 2011, the County's total commitments for major contracts entered into for computer software in development, equipment, land, and structures and improvements were as follows, listed by fund within governmental or business-type activities:

Project Title		Significant Commitments
Governmental Activities:		
Roads		
Antonio Parkway Widening Project - Ladera Planned Community to Ortega Hwy	$	16,384
Foothill Circulation Project - Alton Parkway to Irvine Boulevard		11,939
Katella Avenue - Smart Street Improvement Project		8,885
Midway City Drainage Improvements Phase I & II		7,147
Ortega Highway Widening Project - Antonio Parkway to Central Entrance		2,525
Alton Parkway Road Extension - Irvine Boulevard to Commercentre Drive		1,470
		48,350

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Project Title	Significant Commitments
Governmental Activities (Continued):	
Flood Control District	
Santa Ana River Interceptor Line Project	7,210
Edinger Storm Channel Improvement	5,599
Los Alamitos Pump Station: New Pump and Pump House	3,465
Santa Ana River Mainstem Project - Acquisition of Prado Dam Property	1,050
	17,324
Other Governmental Funds	
Purchase of Law Enforcement Vehicles	3,047
Laguna Niguel Library Expansion Project	2,507
Replace Penal Valves and Refurbish Showers at the Central Men's Jail and Central Women's Jail	1,813
Central Jail Complex Consolidated Maintenance Project	1,259
	8,626
Business-Type Activities:	
Airport	
Terminal C Gate Expansion	11,436
Improvement of Tenant Airline Offices	6,687
Construction of Common Use Passenger Processing System (CUPPS)	2,758
Passenger Loading Bridges for Terminal A, B and C	2,747
Airport Improvement Program Project Management	2,652
Material Testing and Construction Inspection Services for Airport Improvement Plan Projects	1,189
	27,469
Waste Management	
Frank R. Bowerman Construction Management, Construction Quality Control Slide/Buttress	1,497
	1,497
Total Commitments	$ 103,266

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

15. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

The COE's estimated combined cost of all project components is $2,050,000. OCFCD's cost share is estimated to be $388,000 for acquisition of real property rights, relocation (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction of the Prado Dam Project. As of June 30, 2011, the OCFCD has expended about $457,956 on the entire Santa Ana River Project.

The construction of Seven Oaks Dam and most channel improvements in Riverside, San Bernardino, and Orange counties have been completed. The relocation and protection of State Route (SR) 71 adjacent to Prado Dam (a joint OCFCD and Caltrans project) and construction to raise the Prado Dam embankments and install new outlet gates is complete. Landscaping along the SAR in Orange County was completed in May 2010. Design for the construction of interior dikes in the Prado Dam reservoir, and for improvements and protection of SR-91 in the SAR canyon are also underway. The COE completed construction of National Housing Tract Dike and Sewage Treatment Plant Dike in 2008. Landscaping for these Dikes began in September 2009 and completed in June 2011. Several environmental mitigation studies and restoration/preservation projects are underway in all three counties. All property right acquisitions for the Seven Oaks Dam and along the lower SAR in Orange County up to Weir Canyon Road are completed. The escrow for purchase of the Green River Golf Course was closed on September 29, 2006. This property is required for construction of protection along SR-91 and nearby mobile homes, open space/recreation mitigation and to accommodate increased flooding when the Prado Dam outlet gates are constructed and operational. The first phase of SR-91 protection is currently under construction and is expected to be completed in May 2012. The OCFCD has awarded the $7,210 construction contract for the Yorba Linda Spur, a component of the SARI relocation project, was awarded on May 3, 2011, and is expected to be completed by May 2012. Construction of the Auxiliary Embankment (an extension of the Prado Dam) was initiated in November 2010 at a cost of $13,000 and is expected to be completed in November 2012. The OCFCD continues to acquire property rights for the Prado Dam Project, subject to the availability of funding.

The project has been authorized by the State Legislature for reimbursement of up to 70% of the Local Sponsors' expenses through the State Flood Control Subvention Fund, which is administered by the Department of Water Resources (DWR). As of June 30, 2011, the OCFCD has submitted $291,415 in claims, and received $199,469 in reimbursements. An additional $29,154 in claims is in the process of being prepared for submittal to the DWR, for a total of unpaid claims for expenses through June 30, 2011, of approximately $121,100. Of this amount, $82,500 was appropriated by the State for FY 2011-12, and therefore was accrued as revenue in the government-wide financial statement. Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid, subject to available funding, with the remaining 10% paid after an audit by the State Controller's Office.

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

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

16. SELF-INSURANCE

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

16. SELF-INSURANCE (Continued)

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention. The Workers' Compensation Program ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to $15,000.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to $5,000. Commercial insurance is purchased for property and other risk exposures. Excess liability insurance provides up to an additional $100,000 in liability coverage. During FY 2010-11, a verdict against the County and two of its employees in the amount of $4,913 was upheld in the appellate court and the California Supreme Court declined to accept the case for hearing. The County subsequently issued payment in the full amount of the verdict plus interest. In addition to the verdict amount, payment was also made for the awards of attorney fees and costs at the trial and appellate levels which brought the total payment issued for this case to $9,651. The County recovered $600 from one insurance carrier and is pursuing recovery from various insurance carriers that may cover a portion of the costs of this case. The primary excess carrier in this case is insolvent but is considering payment of some portion of the accrued damages in excess of our $5,000 Self-Insured Retention (SIR). The process for submitting all required documentation for consideration by that carrier is underway. In the past three fiscal years, this case is the only instance in which the County has sustained a loss that impacted its excess insurance coverage.

Independent actuarial studies are prepared annually for the Workers' Compensation and Property and Casualty Risk ISFs. The reported unpaid claims liabilities are based on the results of those annual actuarial studies and include case reserves, development of known claims, incurred but not reported claims, allocated loss adjustment expenses and unallocated loss adjustment expenses. Unpaid claims liabilities are calculated considering inflation, claims cost trends, including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Unpaid claims liabilities have been discounted at a rate of 2.84% to reflect anticipated future investment earnings.

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

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

Through December 31, 2010, the County's Premier Wellwise and Premier Sharewell PPO Plans had a lifetime coverage maximum of $3,000 and $1,000, respectively, for each covered employee or dependent. As of January 1, 2011, the lifetime coverage maximum was eliminated. The dental insurance coverage is up to $1,500 annually (absolute dollars) for each covered employee or dependent. The short-term disability insurance coverage is up to 12 months or when the employee returns to work, whichever comes first. Unemployment benefits coverage by the statute is up to 26 weeks and up to an additional 51 weeks of benefits coverage through the Federal-State Extended Duration program or when the employee returns to work or no longer meets the requirements for the benefits. The self-insured AD&D benefit is for Reserve Deputy Sheriffs only and has a maximum benefit of $5,000 (absolute dollars).

(Dollar Amounts in Thousands)

16. 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	Unemployment Insurance	Health & Other Insurance	Total
Unpaid Claims, Beginning of FY 2009-10	$ 119,274	$ 27,926	$ 2,049	$ 8,918	$ 158,167
Claims and Changes in Estimates	26,952	33,173	6,239	63,885	130,249
Claim Payments	(23,773)	(19,109)	(4,566)	(61,854)	(109,302)
Unpaid Claims, End of FY 2009-10	$ 122,453	$ 41,990	$ 3,722	$ 10,949	$ 179,114
Claims and Changes in Estimates	40,825	17,884	2,762	60,976	122,447
Claim Payments	(26,763)	(21,994)	(2,738)	(61,673)	(113,168)
Unpaid Claims, End of FY 2010-11	$ 136,515	$ 37,880	$ 3,746	$ 10,252	$ 188,393

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION

Estimated Liability for Litigation and Claims

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

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

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

Retired Employees Association of Orange County, Inc. v. County of Orange In late 2006, the County determined that due to a large unfunded liability, the current Retiree Medical Program needed to be changed. These changes were challenged in two separate lawsuits filed by Orange County's retirees. The first, Retired Employees Association of Orange County, Inc. ("REAOC") v. County of Orange, filed in November 2007, sought declaratory and injunctive relief contesting the splitting of the pool for purposes of determining health insurance premiums. The Board authorized County Counsel to retain the law firm of Meyers Nave Riback Silver & Wilson ("Meyers Nave") to handle this litigation and the Harris case discussed below. In the REAOC case, after lengthy litigation, on June 19, 2009, the Federal Court ruled in the County's favor on Cross-Motions for Summary Judgment. Plaintiff appealed that decision and oral argument was heard at the Ninth Circuit Court of Appeal on June 10, 2010.

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

"Whether, as a matter of California law, a California county and its employees can form an implied contract that confers vested rights to health benefits on retired county employees."

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

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

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

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

However, the Court also confirms that to create such a vested benefit through an implied contract, the plaintiffs must prove that the legislative body had the specific intent to do so. The County believes that it is unlikely plaintiffs will meet this burden when the case returns to the Ninth Circuit for the final determination of the appeal.

Gaylan Harris, et al. v. County of Orange This case was filed as a class action on behalf of County retirees on January 22, 2009 by retired employee Gaylan Harris. The issues and claims in Harris are, for the most part, the same as or similar to those raised in the REAOC matter described above. Based on the Court's ruling in REAOC, the County filed a motion to dismiss the Harris action. On March 28, 2011, the trial court granted the County's motion and entered judgment in favor of the County. On April 22, 2011 the Plaintiffs appealed this decision to the Ninth Circuit. After fully briefing the case, the parties argued the matter on October 11, 2011. The court's decision is still pending.

Given the uncertainty in the related REAOC matter as to the possible outcome of the appeal in that action, it is difficult to predict the County's potential liability in the two cases at this time, but should the Plaintiffs prevail, these lawsuits could have significant financial impact on the County.

Netjets Aviation v. Guillory and *Flight Options LLC v. Webster J. Guillory* This matter involves actions filed against the counties of Orange and Santa Barbara, which were consolidated for trial in the Orange County Superior Court. Each of these actions challenges the legality of the two counties' assessments of fractionally owned aircraft as required under Senate Bill 87 (2007). SB 87 requires local assessors to assess the fleets of aircraft companies for the portion of time those fleets operate out of California airports, similar to assessments on their commercial aircraft competitors.

The fractional aircraft companies' principal claims are: 1) California does not have jurisdiction to tax their aircraft because their aircraft are not in California sufficient to vest it with taxing jurisdiction; 2) they are not liable for the assessments because they do not own the aircraft in their fleets; and, 3) the retroactive portion of SB 87 requiring assessors to issue escape assessments dating back to 2002 are unconstitutional.

The defending assessors respond to these claims generally as follows: 1) fractionally owned aircraft fleets subject to SB 87 takeoff and depart from California airports tens of thousands of times annually (and thousands of times at John Wayne Airport alone); 2) fractional aircraft companies are lawful assessees because they own, possess, and/or control the aircraft in their fleets; and, 3) the aircraft fleets were always subject to assessment under California law and SB 87 only provided clarifying rules for how the local assessors were to assess fractionally owned aircraft fleets.

The trial court ruled on November 30, 2010 that the legislation is unconstitutional. If the trial court ruling stands, the ruling would result in a tax return to the companies, resulting in a net loss to the County and its agencies of at least $500. The County would lose at least $50 in future annual tax revenue to its general fund and agencies. The County has appealed the judgment. Briefing and hearing of the appeal will take place between now and early 2012. The County has accrued liability of $500 in the fund financial statements.

County of Orange v. Association of Orange County Deputy Sheriffs The County challenged the constitutionality of the retroactive portion of an enhanced pension benefit to members of the Association of Orange County Deputy Sheriffs ("AOCDS"). The County argued the enhanced pension benefit violated the California Constitution's debt limitation provisions and its prohibition on extra compensation for public employees. The trial court dismissed the County's complaint and the appellate court issued an opinion rejecting the County's arguments. The County will pay $1,300 in settlement of AOCDS' claims on attorneys' fees and costs. The County also reached a settlement with defendant Orange County Employees Retirement System (OCERS) and will pay OCERS approximately $62 as a one-time payment and approximately $250 as the County's regular share of OCERS' administrative costs. All proceedings are complete and the case is closed. The County has accrued liability of $1,612 in the general fund financial statements.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

Alliance of Orange County Workers v. County of Orange The Alliance of Orange County Workers (AOCW) represents approximately 470 blue collar sanitation workers within the Operations and Maintenance (OSM) bargaining unit of the County. AOCW has filed a grievance with the County, alleging that its represented members are entitled to a 1.25 percent "market adjustment" salary increase, dating back to June 23, 2006, based on a commitment allegedly made in a September 1, 2006 "side letter" negotiated between the County and AOCW's predecessor, the Service Employees International Union, Local 787. The County disputes AOCW's interpretation of the side letter, and contends that no market adjustments to AOCW member salaries were ever approved by the Board. Nevertheless, the market adjustment grievance could potentially result in an arbitral back pay award against the County in the amount of $1,000, and quite possibly more, depending on (1) whether the County is compelled by a court to arbitrate the grievance, and if it is, (2) the date and scope of the arbitrator's award, should the arbitrator rule in AOCW's favor. The County's position is that the market adjustment grievance lacks merit and is neither procedurally nor substantively arbitrable. A hearing before the Superior Court was held on June 17, 2011, to determine whether the County should be compelled to arbitrate this market adjustment grievance.

On July 6, 2011, the Court (Hon. Steven L. Perk presiding) issued a ruling compelling the County to arbitrate the grievance: "Each grievance is arbitrable. This labor agreement was not repealed. The right to arbitrate continued in effect after the expiration date of the MOU. Miller vs. State of California, 18 Cal. 3rd 808. Glendale City Employees Association. v. Glendale, 15 Cal. 3d 328. The employees may individually enforce the provisions. Relyea vs. Ventura County Fire Protection Dist. (1992) 2 Cal App. 4th 875. The Mercado grievance is an issue relating to discharge/ suspension under the MOU. The market adjustment grievance arbitrability has previously been ruled upon."

On August 9, 2011, the County filed a petition for writ of mandate with the Fourth District Court of Appeal to obtain both a stay and a reversal of the trial court's July 6, 2011 order compelling arbitration. The Court of Appeal summarily denied the petition, leaving the County no choice at this point but to arbitrate the dispute. The matter is currently pending before the appellate court. The total exposure to liability in this case depends on the scope and extent of any back pay award by the arbitrator (in the event that the County's pursuit of appellate remedies fails and in the event that any such arbitral award survives a legal challenge) and is difficult to estimate at this time.

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

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

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

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

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

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

A trial date in the pending litigation had been set for October 3, 2011, but was continued by the Court to January 30, 2012. Extensive discovery is continuing. The parties are in the process of negotiating a bifurcation agreement which would postpone trial of the main dispute between SSC and the District to a later date, so that the threshold issues involved in the subcontractor's case (e.g., the adequacy of the impellers supplied) can be resolved before the broader SSC-the District dispute goes to trial.

District staff has also heard from SSC during the course of the project that SSC will likely assert additional significant claims arising from asserted Project delays that may have occurred after the period of time covered by the Morrison Pump case. But no additional formal Government Code claim has been filed as of now. As of this date, the amount of the District's potential exposure to liability for the existing and yet-to-be filed claims of SSC is very difficult to estimate with any accuracy.

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

Independent of the determination of the amount of compensation that the property owner is entitled to for the District's acquisition of the property interests sought, the property owner is also entitled to relocation assistance and benefits for the costs of relocating heavy construction equipment stored or maintained by the owner on the areas being acquired by the District. Outside counsel is engaged in discussions with the owner's attorney about facilitating such relocation assistance and obtaining an agreement from the owner not to move any equipment back on to the site after relocation assistance and benefits are provided. The amount of relocation expenses to be paid and amount of additional compensation, if any, that the District will be required to pay to the property owner are yet to be determined and difficult to estimate at this time.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Liability for Litigation and Claims (Continued)

Orange County Flood Control District v. Altfillisch Construction (Continued)

The trial date is scheduled for May 4, 2012. And although a Mandatory Settlement Conference has also been scheduled for April 30, 2012, the Court indicated that the parties should engage in private mediation after the exchange of trial appraisals occurs, which is currently scheduled to take place on February 3, 2012. At the time, we will know that magnitude of Altfillisch's claim.

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

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

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

However, in making that ruling in the *Weaver* case, the Court tolled the statute of limitations applicable to the claims of the dismissed individual plaintiffs for sixty (60) days (until July 2, 2010). As a result, 128 individual actions were filed.

The Court in those actions urged all parties to all of these actions to engage in mediation. On December 17, 2010, a mediation was held before retired California Court of Appeal Justice Howard Wiener. The full day mediation culminated in Justice Wiener's presentation of a "mediator's proposal" structured to call for payments by the County of cash and non-cashable time off according to different formulas applicable to various categories of deputies. In response to that proposal, the County made a counteroffer including both cash and non-cash time off worth $1,970.

In response to that counteroffer, plaintiffs made their own counteroffer in a total value of $2,700 which included a combination of vacation hours and back pay in the amount of $10 for the one hundred thirty (130) named plaintiffs. As a result of further negotiations, a potential agreement has been reached on Plaintiff's terms but reducing the back pay to be paid from $10 per named plaintiff to $8 per named plaintiff. At the most recent status conference on September 20, 2011, Plaintiffs' counsel advised the County that they are in the process of contacting all 130 plaintiffs to see if they will accept a settlement on those terms. If a settlement is reached, it will dispose of the *Reed, Weaver,* and one hundred thirty (130) individual cases.

In Siegmund, AOCDS filed a claim on behalf of its members alleging that the County's method of calculating the overtime rate paid to deputies violates the FLSA and on May 25, 2010, the Court granted the County's motion for summary judgment finding in favor of the County and dismissing the case. AOCDS filed an appeal in the Ninth Circuit; the case is fully briefed and oral argument has been scheduled for December 9, 2011. The County has accrued liability of $1,040 in the general fund and $1,400 in the government-wide financial statements.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations

GASB Statement No. 49, *"Accounting and Financial Reporting for Pollution Remediation Obligations,"* requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. The County has identified several environmental sites at John Wayne Airport (JWA) and OC Waste and Recycling (OCWR) for which a pollution remediation liability has been recorded in the County's financial statements. The following describes the nature of the obligating events, and the estimated liability as they relate to JWA and OCWR.

John Wayne Airport (JWA)

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

In 2008, the sites were sampled as part of an assessment and the results revealed that the soil and groundwater were still impacted by chemical pollutants. In an effort to increase the removal of the chemicals, JWA's environmental consultant reevaluated the sites and recommended a change to the remediation plan.

The consultant calculated the new estimated pollution remediation liability based on a more active method of remediation that includes remedial technologies such as soil vapor extraction, dual phasing sparging and bioremediation. JWA started implementing the new remediation method in the fiscal year ending June 30, 2011, and the sites are estimated to be remediated in about six to ten years. JWA is still performing tests on the sites and the results could possibly affect the estimated pollution remediation liability as well as a change to the remedial technologies used to remediate the sites. JWA has reported a liability of $1,374 based on management's assessment and the results of the consultant's evaluation.

In 1995, JWA entered into a Memorandum of Understanding (MOU) with one of its fixed-based operator (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. The expected pollution remediation recoveries for the Old Fuel Farm site are realizable and a receivable in the amount of $393 is reported in the Statement of Net Assets as part of accounts receivable.

The estimated pollution remediation obligation as of June 30, 2011 is:

Old Fuel Farm Site	$	785
Former Fire Station # 33 Site		692
Less: Year-Ending June 30, 2011 Activity		(103)
JWA Pollution Remediation Obligation	$	1,374

Orange County Waste & Recycling (OCWR)

Five closed sites were identified and the remediation costs and time periods were calculated for each of these sites based upon the type of remediation needed and historical trend data for closed landfill sites. The combined pollution remediation obligation ending balance for the fiscal year ending June 30, 2011, after deducting actual pollution remediation expenses incurred is $11,974.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCWR) (Continued)

Cannery Former Refuse Disposal Station A park owned by the City of Huntington Beach (City) and an elementary school playground are located on a site that was formerly used as a refuse disposal station operated by the County from 1957 to 1969. Levels of methane gas that exceed regulatory limits were detected on the property. The Local Enforcement Agency (LEA) issued a Notice and Order to the City, requiring the City to remedy the landfill gas exceedances and to control potential offsite migration of landfill gases. In response to the LEA's Notice and Order, the City and the Huntington Beach City School District (School District) issued the Notices of Intent to Sue under the Resource Conservative and Recovery Act, and the Comprehensive Environmental Response, Compensation, and Liability Act to the County in 2004. The City's and School District's claims were tolled until June 2006 under a tolling agreement with the County. The City, County and School District entered into a Settlement Agreement in 2007, whereby the City would be responsible for maintaining the cover of the former disposal site and the County would assume responsibility for the collection and control of landfill gas. Pursuant to the Settlement Agreement, the County installed a landfill gas collection and control system at the site. The remaining cost to the County for on-going engineering and quality assurance/quality control is $0.

The County retained responsibility for the operation, maintenance, and monitoring of the landfill gas collection and control system installed at the site. Based on engineering estimates and existing contracts for the operation and maintenance of other disposal sites of a similar size, the age of the site, length of time that wastes have been buried, and other factors, the County anticipates that the landfill gas collection system will operate fully for 15 years.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is $133.

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

Based on engineering estimates and existing contracts for the operation and maintenance of other similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 25 years, then will most likely either be inactive or be converted to a passive system. The cost for the operation, maintenance and monitoring of the system was highest in the full first year of operation when the carbon canisters needed more regular replacement. For each subsequent year of operation, the cost will be reduced due to less frequent carbon swapping and less anticipated alternative monitoring requirements. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is $176.

The anticipated costs to operate, maintain and monitor the landfill gas collection system over the remaining anticipated operational period is reduced to $2,424.

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCWR) (Continued)

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

The County retains responsibility for the operation, maintenance, and monitoring of that system. Based on engineering estimates and existing contracts for the operation and maintenance of similar disposal sites, the County anticipates that the landfill gas collection system will operate fully for 15 years. The cost to operate and maintain the landfill gas collection system at the site for the next year of operation is $144.

The remaining obligation for landfill gas remediation at the San Joaquin site over the anticipated operational period is $1,421.

La Veta Former Refuse Disposal Station Located in the City of Orange, La Veta is a former burn, dump and refuse disposal station leased to and operated by the County from 1946 to 1956. The site has multiple owners and was developed into a YMCA facility, apartments, a mobile home park, and a small amount of open space. Recently, the County learned that the Californian Department of Toxic Substances Control (DTSC) and the United States Environmental Protection Agency previously performed limited soil and groundwater testing at the site. According to DTSC, the results of these tests indicate that further site assessment is warranted. DTSC has requested that the County enter into a Voluntary Cleanup Agreement with DTSC. In lieu of entering into a Voluntary Cleanup Agreement, the County is conducting a series of additional site investigations and assessments. Upon completion of these site assessments and based on the results contained therein, it is possible that DTSC will renew its request for a Voluntary Cleanup Agreement. The County is currently performing a complete environmental assessment of the site, under oversight by the DTSC. The remaining cost for performing the site assessment work is $414.

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

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

(Dollar Amounts in Thousands)

17. ESTIMATED LIABILITY FOR LITIGATION, CLAIMS, AND POLLUTION REMEDIATION (Continued)

Estimated Pollution Remediation Obligations (Continued)

Orange County Waste & Recycling (OCWR) (Continued)

Forster Former Refuse Disposal Station (Continued)

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

The remaining balance for landfill gas remediation at the Forster site is $7,582. Distribution of these funds will occur over time, based on specific milestones in the development of the site.

The estimated pollution remediation obligation as of June 30, 2011 is:

Cannery	$ 133
Lane Road	2,424
San Joaquin	1,421
La Veta	414
Forster Former Refuse Disposal Station	7,582
OCWR Pollution Remediation Obligation	$ 11,974

18. RETIREMENT PLANS

Orange County Employees Retirement System (OCERS)

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

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

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

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

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

According to OCERS most recent public report, entities paying into the OCERS, also known as plan sponsors, include the County of Orange, City of San Juan Capistrano, Orange County Cemetery District, Orange County Children and Families Commission, Orange County Department of Education (closed to new members), OCERS, Orange County Fire Authority , Orange County In-Home Supportive Services Public Authority, Orange County Local Agency Formation Commission, Orange County Public Law Library, Orange County Sanitation District, Orange County Superior Court, Orange County Transportation Authority, Transportation Corridor Agencies, University of California, Irvine Medical Center and Campus (closed to new members). The County payments represent approximately 82% of the total plan sponsor payments into OCERS. According to the most recent actuarial report, OCERS was 69.79% funded (69.62% for County of Orange rate groups) as of December 31, 2010. A schedule of funding progress for OCERS is included in Required Supplemental Information (RSI) section.

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

Non-vested Supplemental Targeted Additional Retiree Cost of Living Adjustment (STAR COLA) benefits are also paid by OCERS to eligible retirees and survivors. Pursuant to Government Code Section 31874.3 of the County Employees Retirement Law of 1937, the OCERS Board has the sole authority to grant STAR COLA each year. The OCERS Board understands that granting STAR COLA may increase the UAAL and therefore asks for comments from plan sponsors prior to voting on this issue. Retirees who have lost more than 20% of their purchasing power since retirement are eligible for this benefit, and currently, approximately 701 retirees (of which 682 are County retirees) who retired before April 1, 1981, and their survivors receive the STAR COLA. The STAR COLA benefits are excluded from the actuarial valuation, and are funded annually through current employer contributions.

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

Employer contributions are based on what is needed to properly fund the system. The law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS's responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2010-11, employer's contributions, as a percentage of covered payrolls, were 24.79% for General members, 43.34% for Safety-Law Enforcement members and 32.18% for Safety-Probation members, as determined by the December 31, 2008, actuarial valuation.

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

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Funding Policy (Continued)

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

In September 1994, the County issued $320,000 of pension obligation bonds, of which $318,000 in proceeds were paid to OCERS. OCERS maintains the proceeds in a County Investment Account. Amounts in the County Investment Account have been used to fund a portion of the County's contributions over time, pursuant to agreements between OCERS and the County, which allows the County significant discretion in applying the credit. As of June 30, 2011, $107,807 of such proceeds remains available for future credits to the County's pension obligations. For the fiscal year ended June 30, 2011, the County utilized $11,000 of the County Investment Account to meet its Annual Required Contribution. The County's total contribution to OCERS including drawdown from the County Investment Account for the years ending June 30, 2011, 2010, and 2009 were $307,084, $290,574, and $293,031, respectively, equal to the required contributions for each year.

On March 15, 2011, the County issued its short-term Taxable Pension Obligation Bonds, 2011 Series A in the amount of $275,920. The Bond proceeds were combined with $20,937 in contributions from certain County agencies and departments to prepay the estimated FY 2011-12 actuarially required contribution related to both the amortization of the UAAL and the normal annual contribution to OCERS. In return, the County received a 6.135% discount or $19,400 on the required employer contribution amount. The discount, combined with the interest and issuance costs resulted in a net savings of $15,100 to the County. Refer to Note 4, Deposits and Investments, and Note 10, Short-term Obligation, for additional information.

County Administered Pension Plans

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

Plan Description: On April 20, 2010, the Board approved and adopted the resolution implementing the 1.62% at 65 retirement formula for certain eligible employees and established the County of Orange 401(a) 1.62 Defined Contribution Plan for the benefit of employees who have elected the 1.62% at 65 retirement formula. The Board has the authority to amend the plan. The plan is intended to comply with the requirements of section 401(a) and is intended for retirement. The employee acquires a vested interest in the employer contribution account upon attaining early retirement age or normal retirement age for any reason of death or disability. If an employee terminates prior to early or normal retirement date other than death or disability, the employee is entitled to a vested interest of 100% of the employer contribution after five years of service.

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

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

Plan Description (Continued)

Funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the early or normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2011, the plan had one participant.

Funding Policy: This plan is a defined contribution plan funded entirely by employer contributions. As of June 30, 2011, the County provides up to a 100% match per pay period of the employee's voluntary contribution to the Internal Revenue Section 457 element of the 1.62 Defined Contribution Plan up to 2% of base salary. Total contributions for the year ended June 30, 2011, were $302 (absolute dollars) by the County and zero by the employee.

Teachers Insurance and Annuity Association of America (TIAA) serves on behalf of the County as the third party administrator of the plan and will hold all plan assets in trust. Plan participants will self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2011, the value of plan assets was $288 (absolute dollars).

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

County of Orange 401(a) Defined Contribution Plan

Plan Description: Effective January 1999, as amended and restated on December 13, 2005, the Board established the County of Orange 401(a) Plan for the benefit of eligible employees, Elected Officials, which included members of the Board, certain executive managers, certain administrative managers once classified as confidential and grandfathered in the plan, attorneys represented by the Orange County Attorney's Association, and certain other employee classifications as defined in the plan document. The Board also has the authority to amend the plan. The plan was closed to the attorneys effective June 24, 2005. The plan was closed to new administrative managers included in the Executive Policy Unit effective June 23, 2006. The plan is intended for retirement and funds may not be withdrawn until participants have separated from the County. The plan benefits for a participant who separates from service with the County or retires on or after the normal retirement date will be dependent upon the accumulated value of individual contributions and investment return. As of June 30, 2011, the plan has 704 active participants and 31 inactive participants.

Funding Policy: This plan is a defined contribution plan funded entirely by employer contributions. County contributions to the plan vary according to employee classification and range from 3% to 8% of bi-weekly compensation. Additional County contributions equal to 1.5% of compensation are made on behalf of certain employees electing not to participate in OCERS. Total contributions for the year ended June 30, 2011, were $1,001 by the County and zero by the employees. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. Plan participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the plan. As of June 30, 2011, the value of plan assets was $10,234.

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

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit 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. Eligible employees of this plan are not covered by OCERS or Social Security. Initially, the normal retirement benefits for a participant who retired on or after the normal retirement date was a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the final 30 years of credited service. The current normal retirement benefit for a participant who retires on or after the normal retirement date is the present value (or lump sum value) of the monthly annuity of the normal retirement benefit. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The Board has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

The plan was adopted in January 1992 and was closed to new participants as of February 28, 2002. This plan subsequently froze benefit accruals effective November 21, 2008. As of that date, the normal retirement benefit was changed to a single lump sum distribution equal to the greater of the participant's account balance or the present value of their normal retirement benefit. As of June 30, 2011, the plan consists of 60 active plan participants, 245 terminated plan participants entitled to but not yet receiving benefits, and 35 retirees receiving benefits.

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

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

Funding Policy: Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, the County has contributed $1,825. The annual required contribution is equal to:

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

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

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

Annual Pension Cost: GASB Statement No. 27 requires the County to have an actuarial valuation performed at least biennially to determine the plan's annual pension cost. This valuation is currently performed annually. The plan's annual pension cost was calculated using the data and assets as of June 30, 2011. The actuarial assets are valued at market value. The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution using the projected unit credit actuarial cost method, which is (a) normal cost, (b) minus employee contribution, (c) plus 30-year of the UAAL. Based on the actuarial report dated July 1, 2011, interest on the net pension obligation is $32.

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Benefit Plan (Continued)

Annual Pension Costs (Continued)

For the fiscal year ended June 30, 2011, the County's annual required contribution was $232. The actuarial assumptions included (a) 5.0% investment return, net of administrative expenses: (b) The 417(e) lump sum mortality used for ERISA-governed plans and the 30-year treasury rate with a look-back month of November: and (c) RP2000 Mortality Tables projected to 2010 with no collar distinction for males and females. The UAAL is being amortized as a level dollar on an open basis. The amortization period is 30 years. Multi-year trend information about the funding progress is presented in the RSI section following the notes to the basic financial statements.

Orange County Defined Benefit Retirement Plan
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (c=b-a)	Funded Ratio (a/b)	Annual Covered Payroll (d)	UAAL as a Percentage of Covered Payroll (c/d)
6/30/2011	4,566	8,315	3,749	54.9%	1,862	201.3%

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

Actuarially Determined Contribution (A)	$ 232
Interest on Net Pension Obligation	32
Adjustment to (A)	(40)
Annual Pension Cost	224
Contributions Made	232
Increase/(Decrease) in Net Pension Obligation	(8)
Net Pension Obligation, Beginning of Year	647
Net Pension Obligation, End of Year	$ 639

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

Orange County Defined Benefit Pan
Schedule of Employer Contributions

Fiscal Year Ended	County Contribution	Total Annual Pension Cost	Percentage Contributed	Net Pension Obligation
6/30/2009	$ 242	$ 234	103%	$ 652
6/30/2010	157	151	104%	647
6/30/2011	232	224	104%	639

(Dollar Amounts in Thousands)

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra-Help Defined Contribution Plan

Plan Description: Effective March 1, 2002, as amended and restated on December 13, 2005, the Board established a Defined Contribution Plan to replace the Defined Benefit Retirement Plan for new employees hired on or after March 1, 2002, and supplements the benefits of the Extra-Help Defined Benefit Retirement Plan for employees hired prior to March 1, 2002. Eligible employees of this plan are not covered by OCERS or Social Security. This plan is a tax-deferred retirement plan, established in accordance with Internal Revenue Code sections 457 and 3121 and is intended to comply with the Omnibus Budget Reconciliation Act of 1990. The Board has the authority to amend the plan. As of June 30, 2011, there were 2,932 active participants and 311 inactive participants in the plan.

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

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

Funding Policy: Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in the Stable Value Fund offered through Great West Retirement Services, which is designed to protect principal and maximize earnings. Great West Retirement Services serves on behalf of the County as the third party administrator of the plan and holds all plan assets in trust. There is no additional contribution made by the County. Total employee contributions for the year ended June 30, 2011, were $1,072 by the employees and zero by the County. As of June 30, 2011, the value of plan assets was $5,121.

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

Condensed Financial Statements

In lieu of separately issued financial statements for the County administered retirement funds, condensed financial statements are presented below as of and for the year ended June 30, 2011:

Statement of Net Assets	Total	Extra-Help Defined Benefit Plan	Extra-Help Defined Contribution Plan	401(a) Defined Contribution Plan
Assets				
Pooled Cash/Investments	$ 4,031	$ 4,031	$ -	$ -
Restricted Cash and Investments with Trustee	15,355	-	5,121	10,234
Receivables:				
Interest/Dividends	10	10	-	-
Due from Other Governmental Agencies	639	639	-	-
Total Assets Held in Trust	20,035	4,680	5,121	10,234
Net Assets				
Held in Trust	20,035	4,680	5,121	10,234
Total Net Assets Held in Trust	$ 20,035	$ 4,680	$ 5,121	$ 10,234

18. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Condensed Financial Statements (Continued)

Statements of Changes in Net Assets	Total	Extra-Help Defined Benefit Plan	Extra-Help Defined Contribution Plan	401(a) Defined Contribution Plan
Additions:				
Contributions to Pension Trust:				
Employer	$ 1,226	$ 225	$ -	$ 1,001
Employee	1,072	-	1,072	-
Interest and Investment Income	1,211	30	189	992
Less: Investment Expense	(4)	(4)	-	-
Total Additions	3,505	251	1,261	1,993
Deductions:				
Benefits Paid to Participants	1,786	787	567	432
Total Deductions	1,786	787	567	432
Change in Net Assets Held in Trust for Employees' Retirement	1,719	(536)	694	1,561
Net Assets Held in Trust at July 1, 2010	18,316	5,216	4,427	8,673
Net Assets Held in Trust at June 30, 2011	$ 20,035	$ 4,680	$ 5,121	$ 10,234

19. POSTEMPLOYMENT HEALTH CARE BENEFITS

County of Orange Retiree Medical Plan

Plan Description: The County of Orange Third Amended Retiree Medical Plan (the Retiree Medical Plan) is a single employer defined benefit Other Postemployment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. The Retiree Medical Plan was established by the Board. The Board is also the authority for amending the Retiree Medical Plan. The Retiree Medical Plan is not required by the County Employees Retirement Law of 1937 (“CERL”) – the statute governing County employee retirement benefits. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plans and/or Medicare A and/or B premiums. The Retiree Medical Plan specifically states that it does not create any vested right to the benefits.

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

The monthly Grant amount is determined by a formula that multiplies a base number by the number of years of qualifying County employment up to a maximum of 25 years. The base number for calendar year 2010 was $18.22 (absolute dollars) per year of County service, and the maximum monthly Grant was $455.50 (absolute dollars). The base number for calendar year 2011 is $18.77 (absolute dollars) per year of County service, and the maximum monthly Grant is $469.25 (absolute dollars). The amount of the Grant is netted against the monthly health plan premium and/or reimburses Medicare premiums paid by the retiree for retiree and dependent coverage with the retiree obligated to pay the remaining balance. Any grant in excess of the monthly health plan and/or Medicare premium payable is forfeited.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Plan Description (Continued)

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

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

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

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

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

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

Funding Policy: The County implemented an employer contribution in an amount equal to the Annual Required Contribution (ARC) for the affected labor groups except AOCDS. In order to more adequately fund benefits under the Retiree Medical Plan, on June 19, 2007, the Board adopted the County of Orange Retiree Medical Trust (Trust) effective July 2, 2007. The Trust is an Internal Revenue Code section 115 trust for which the County Chief Financial Officer is the Trustee. In addition, OCERS has established an Internal Revenue Code section 401(h) account to invest monies and act as Trustee for benefits paid through the Retiree Medical Trust (except for the lump sum payment). OCERS issues a Comprehensive Annual Financial Report (CAFR) for each fiscal year ending on December 31 which includes the Retiree Medical Trust. The most recently issued CAFR can be obtained online at www.ocers.org. by request, in writing, to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

Funding Policy (Continued)

The County is currently setting aside contributions of 0.5% for AFSCME, 4.2% for AOCDS, 6.9% for law enforcement management, 2.6% for the Probation Department safety personnel and 2.6% of payroll for all other labor groups, which is the estimated ARC for those groups. The County intends to continue contributing the full ARC each year, assuming the Retiree Medical Plan remains in effect and as currently structured. Funds were initially deposited into the Trust in December 2007 with subsequent deposits made throughout each fiscal year. The costs to administer the Trust are paid from the Trust.

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

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

Annual OPEB Cost and Net OPEB Obligation/Asset: The County's annual OPEB cost is calculated based on the ARC, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of time not to exceed 30 years. Also, the County elected to compute the Net OPEB Obligation (NOO) at transition retroactively. The following table shows the components of the County's annual OPEB cost, the amount actually contributed to the 115 and 401(h) Trusts, and changes in the County's NOO for the current year:

	FY 2010-11
Total Annual Required Contribution	$ 36,378
Interest on Net OPEB Obligation	(3,378)
Amortization on Net OPEB Obligation	2,848
Annual OPEB Cost	35,848
Contribution Made	(33,877)
Increase/(Decrease) in Net OPEB Obligation	1,971
Net OPEB Obligation, Beginning of year	(43,580)
Net OPEB Obligation/(Asset), End of year	$ (41,609)

(Dollar Amounts in Thousands)

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

County of Orange Retiree Medical Plan (Continued)

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

The County's annual OPEB Cost, the percentage of annual OPEB cost contribution to the plan, and the NOO for FY 2010-11 and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2009	25,167	143%	(57,322)
6/30/2010	34,528	60%*	(43,580)
6/30/2011	35,848	95%	(41,609)

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

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

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

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

County of Orange Health Reimbursement Arrangement (HRA)

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

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

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

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

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

Plan Description (Continued)

The HRA is intended to comply with the requirements of Internal Revenue Service (IRS) sections 105 and 106 of the Code, and meets the requirements of a health reimbursement arrangement as defined under IRS Notice 2002-45. The contributions made to reimbursement accounts, any investment gains and qualified medical expenses reimbursed under this plan are intended to be eligible for exclusion from the gross income of eligible employees, participants and retired participants (including the spouses and dependents of each) under IRS Code §105(b). The HRA may be amended by the employer or the plan administrator to comply with federal, state, or local laws, statues, regulations, or guidelines. Reimbursement of qualified medical expenses was deferred until the selection and implementation of the third party administrator. Administration of the HRA by the third party administrator began in August 2009. As of June 30, 2011, the plan had 1,925 active and 174 inactive participants.

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

ICMA Retirement Corporation serves on behalf of the County as the third party administrator of the HRA and holds HRA assets in trust. HRA participants self-direct the investment of plan contributions into any of a number of eligible investment options offered under the HRA. As of June 30, 2011, the value of HRA assets was $29,977.

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

Condensed Financial Statements:

Separate GAAP-basis reports are not currently available for the defined benefit and contribution plans. In lieu of separately issued financial statements for the County administered postemployment health care benefit trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2011:

Statements of Net Assets	Total	Retiree Medical Plan (Combined 401(h) and 115 Trusts)	Health Reimbursement Arrangement Plan
Assets			
Pooled Cash/Investments	$ 17,566	$ 17,523	$ 43
Restricted Cash and Investments with Trustee	29,632	-	29,632
Restricted Cash with OCERS	96,098	96,098	-
Interest Receivable	81	81	-
Due from Other Governmental Agencies	1,597	1,295	302
Total Asset Held in Trust	$ 144,974	$ 114,997	$ 29,977
Liabilities			
Due to Other Governmental Agencies	$ 3	$ 3	$ -
Total Liabilities	$ 3	$ 3	$ -
Net Assets			
Held in Trust	$ 144,971	$ 114,994	$ 29,977
Total Net Assets Held in Trust	$ 144,971	$ 114,994	$ 29,977

(Dollar Amounts in Thousands)

19. POSTEMPLOYMENT HEALTH CARE BENEFITS (Continued)

Condensed Financial Statements (Continued):

Statements of Changes in Net Assets	Total	Retiree Medical Plan (Combined 401(h) and 115 Trusts)	Health Reimbursement Arrangement Plan
Additions:			
Employer Contributions:	$ 41,843	$ 33,877	$ 7,966
Interest and Investment Income	15,601	13,930	1,671
Less: Investment Expense	(58)	(58)	-
Total Additions	57,386	47,749	9,637
Deductions:			
Benefits Paid to Participants	26,856	26,566	290
Total Deductions	26,856	26,566	290
Change in Net Assets Held in Trust	30,530	21,183	9,347
Net Assets Held in Trust at July 1, 2010	114,441	93,811	20,630
Net Assets Held in Trust at June 30, 2011	$ 144,971	$ 114,994	$ 29,977

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2011:

2011-2012 Tax and Revenue Anticipation Notes Series A: On July 1, 2011, the County issued its 2011-2012 Tax and Revenue Anticipation Notes Series A (the “Notes”) in the aggregate principal amount of $150,000 to finance the seasonal cash flow requirements of the County during the fiscal year ending June 30, 2012. The Notes are secured by a pledge of certain general fund monies and will mature on June 30, 2012.

Teeter Plan Obligation Commercial Paper Program Notes Series A: On July 12, 2011, the County redeemed $96,520 of its $156,900 Teeter Plan Obligation Commercial Paper Notes Series A (the “CP”) outstanding at June 30, 2011. The remaining CP outstanding after redemption was $60,380. Also, on July 12, 2011, the County issued an additional $58,384 in CP for a new outstanding balance of $118,764. The additional CP issued financed the purchase of delinquent property tax receivables associated with the Teeter Plan. From the proceeds of this issuance, the participating agencies in the Teeter Plan were paid the full amount of their taxes from the secured property tax roll. Commencing July 12, 2011, the principal and interest on the CP notes are paid with the amounts drawn upon an irrevocable transferable direct-pay letter of credit issued by Wells Fargo Bank in the authorized maximum stated amount of $214,795. The Wells Fargo Bank letter of credit replaces a letter of credit previously provided by Dexia Credit Local.

Downgrade of U.S. Government Rating by S&P: On August 5, 2011, S&P downgraded all long term outstanding debt of the U.S. Government from AAA to AA+. At that time, the IPS had a current restriction that only 50% of the Extended Fund be invested in securities rated AA or better. Therefore, since over 81% of the Extended Fund was invested in U.S. government related debt; no additional purchases of U.S. government related debt were allowed. On September 13, 2011, the Board approved an amended IPS, which exempts U.S. government obligations from credit rating requirements.

Terminal C Project: In November 2011, the Terminal C project was completed and operating for its intended use. The Terminal C project added approximately 282,000 square feet to the Airport which included the addition of six new commercial passenger gates to the Airport, modified two existing gates to accommodate the processing of international passengers by United States Customs and Border Protection (CBP) staff, replaced two temporary commuter hold rooms with two permanent facilities located at the north and south end of the Airport, added new security screening checkpoints, three baggage carousels and increased food/beverage and news/gift concessions.

Parking Structure C: The new Parking Structure C opened in November 2011 in conjunction with the completion of the Terminal C Project. The structure is approximately 725,000 square feet and provides approximately 2,000 parking spaces. Parking Structure C replaced the B1 Parking Structure which accommodated 1,240 parking spaces.