The Net Change in Fund Balances for governmental funds of \$(73,004) in the Statement of Revenues, Expenditures, and Changes in Fund Balances differs from the Change in Net Assets for governmental activities of \$(51,091) reported in the government-wide Statement of Activities. The differences arise primarily from the long-term economic focus of the Statement of Activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

Net Change in Fund Balances – Total Governmental Funds

\$ (73,004)

When capital assets used in governmental activities are purchased or constructed in the current fiscal year, the resources expended for those assets are reported as expenditures in the governmental funds. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation or amortization expense. In addition, donations, transfers, gains or losses from sales and other disposals/acquisitions of capital assets are not reported in governmental funds. These assets, and their associated depreciation/amortization expense, must be reported or removed in the government-wide financial statements. The details of the expenditures of capital outlay, capital contributions, depreciation/amortization and other disposals/acquisitions of capital assets are as follows:

Expenditures for Capital Outlay:		
Land	10,597	
Structures and Improvements	80,758	
Equipment	9,662	
Other Disposals/Acquisitions of Capital Assets,		
net of Gains/Losses on Sale	10,793	
Depreciation/Amortization Expense	(120,482)	
Capital Contributions	(2,099)	(10,771)

The issuance of long-term debt (i.e. bonds) is recorded as an other financing source in the governmental funds because it provides current financial resources. Similarly, the repayment of principal on long-term debt or the payment of other long-term liabilities is reported as an expenditure in the governmental funds because current financial resources have been consumed. Bond proceeds, net of payments to escrow agents and principal payments, are reported as financing sources in governmental funds and thus contribute to the change in fund balance. These transactions do not have any effect on net assets in the government-wide financial statements. The details of the principal and other long-term liability payments and other financing sources are as follows:

SARI Line Loan Proceeds	(10,000)	
Principal and Other Long-Term Liability Payments:		
Bonds Payable	129,509	
Notes Payable	3,671	
Capital Lease Obligations	4,319	
Arbitrage Rebate Payable	493	
Proceeds From Issuance of Bonds Payable	(34,380)	93,612

Revenues related to prior years that are available in the current fiscal year are reported as revenue in the governmental funds. In contrast, revenues that are earned, but unavailable in the current year are deferred in the governmental funds. For government-wide reporting, revenue is recognized when earned, regardless of availability. The following amounts reflect the net effect of the timing differences for revenue recognition:		
Government Mandated and Voluntary Nonexchange, net of Allowance for Uncollectible Accounts Property Tax Revenues	(47,052) (457)	(47,509)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds until paid. The following amounts represent the net effect of these differences in the treatment of long-term liabilities:		
Accrued Interest Expense on Bonds Payable Amortization of Deferred Charges Debt Issuance Costs / Premium Compensated Employee Absences Expense Pension Costs and Amortization of the County's Investment Investment Account with OCERS Estimated Litigation and Claims Expense Interest Accretion on Capital Appreciation Bonds	2,255 997 (2,676) (940) (10,504) (12,000) (13,867)	(36,735)
Internal service funds (ISF) are used by management to charge the costs of certain activities, such as insurance, transportation, and telephone services to individual governmental funds. The loss of internal service funds is eliminated in the Statement of Activities as an adjustment to the various functions to arrive at a break-even basis. Also, general or non-program revenues and expenses of the internal service funds are recorded in governmental activities.		
Allocation of ISF's Operating Loss to Governmental Activities, net of Business-Type Activities Consolidation of Nonoperating Revenues/Expenses to Governmental Activities	(24,212) 9,195	(15,017)
For FY 2011-12, the Other Postemployment Benefits (OPEB) cost was \$40,840 and the County contributed \$35,197, which was deposited in to the Retiree Medical Trust. The underfunded amount against annual required contribution reduced the net OPEB asset and was treated as an increase to the employee benefits expense.		
Extraordinary Gains/(Losses) adjustments related to the dissolution of the Orange County Redevelopment Agency. (Refer to Note 2 – Extraordinary Items)		(5,643) 43,976
Change in Net Assets of Governmental Activities	<u>\$</u>	(51,091)

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