NEW ISSUE-BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein.**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$32,700,000
ORANGE COUNTY PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS
SERIES 2006

Dated: Date of Delivery **Due: June 1, as shown on inside cover**

The above-captioned bonds (the "Bonds") will be issued by the Orange County Public Financing Authority (the "Authority") pursuant to an Indenture, dated as of October 1, 2006 (the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"), to (i) finance the construction of a cogeneration conversion project at the central utility facility of the County, (ii) fund the debt service reserve fund for the Bonds, and (iii) pay costs related to the issuance of the Bonds, including premium for bond insurance. See "THE CENTRAL UTILITY FACILITY AND THE PROJECT" herein.

Interest on the Bonds will be payable by the Trustee on June 1 and December 1 of each year, commencing December 1, 2006. The Bonds will be delivered in fully registered book-entry form only and when delivered will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. Upon receipt of payments of the principal of and premium, if any, and interest on the Bonds, DTC will remit such principal, premium, if any, and interest to its participants (as described herein) for subsequent disbursement to the beneficial owners of the Bonds. Purchasers of the Bonds will not receive physical bonds representing their interests in the Bonds purchased. See APPENDIX C – "BOOK-ENTRY SYSTEM." The Bonds will be issued in denominations of $5,000 or any integral multiple thereof.

The Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS — Redemption."

Payment of scheduled principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (the "Policy") issued by MBIA Insurance Corporation (the "Bond Insurer"). See "BOND INSURANCE" herein.

MBIA

The Bonds are limited obligations of the Authority payable solely from base rental payments (the "Base Rental Payments") to be made by the County pursuant to a Master Facilities Lease, dated as of October 1, 2006, between the Authority and the County (the "Lease"), 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. The Base Rental Payments are expected to be paid by the County in such amounts and on such dates as will enable the Authority to pay the principal of and interest on the Bonds when due and payable. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS ONLY FROM THE FUNDS DESCRIBED IN THE INDENTURE, AND THE AUTHORITY SHALL NOT INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE ISSUANCE OF THE BONDS. THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE BONDS DO NOT CONSTITUTE A DEBT OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

This cover page contains certain information for quick reference only. It is not intended to be a summary of all factors relating to an investment in the Bonds. Investors should review the entire Official Statement before making an investment decision. Attention is directed to the section of this Official Statement entitled "CERTAIN RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

The Bonds will be offered when, as and if delivered and received by the Underwriters, subject to approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. Orrick, Herrington & Sutcliffe LLP served as Disclosure Counsel to the County. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP, San Francisco, California, and for the Authority and the County by the Office of County Counsel. It is expected that the Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about October 19, 2006.

Goldman, Sachs & Co. **Banc of America Securities LLC**

Dated: October 3, 2006

$32,700,000
ORANGE COUNTY PUBLIC FINANCING AUTHORITY
LEASE REVENUE BONDS
SERIES 2006

BASE CUSIP*: 68428V

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP*
2009	$2,680,000	4%	3.47%	CF7
2010	2,785,000	4	3.52	CG5
2011	2,900,000	4	3.55	CH3
2012	3,015,000	4	3.59	CJ9
2013	3,135,000	5	3.66	CK6
2014	3,290,000	5	3.71	CL4
2015	3,455,000	5	3.76	CM2
2016	3,630,000	5	3.82	CN0
2017	3,810,000	5	3.88	CP5
2018	4,000,000	5	3.93	CQ3

** A registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.*

ORANGE COUNTY PUBLIC FINANCING AUTHORITY

COUNTY OF ORANGE, CALIFORNIA

Hall of Administration
10 Civic Center Plaza
Santa Ana, California 92701

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Orrick, Herrington & Sutcliffe LLP

Underwriter's Counsel

Nixon Peabody LLP

Financial Advisor

Sperry Capital Inc.
Sausalito, California

Trustee

Deutsche Bank National Trust Company

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the Authority or the Underwriters.

The following sentence has been provided by the Underwriters for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the County since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the Authority.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement that involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

IN MAKING ANY INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE COUNTY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND, IF DISCONTINUED, MAY BE RECOMMENCED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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INTRODUCTION

Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Indenture or the Lease referred to below. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS."

The purpose of this Official Statement, which includes the cover page and Appendices hereto (this "Official Statement"), is to furnish information concerning the Orange County Public Financing Authority (the "Authority"), a joint exercise of powers agency organized and existing under the laws of the State of California (the "State"), the County of Orange, California (the "County"), and certain other information in connection with the issuance and sale by the Authority of $32,700,000 Orange County Public Financing Authority Lease Revenue Bonds, Series 2006 (the "Bonds").

The Bonds will be issued pursuant to Articles 1 through 4 (commencing with Section 6500) of Chapter 5, of Division 7 of Title 1 of the State of California Government Code, an Indenture, dated as of October 1, 2006 (the "Indenture"), between the Authority and Deutsche Bank National Trust Company, as trustee (the "Trustee"), and a resolution of issuance adopted by the Board of Directors of the Authority on September 19, 2006. The proceeds of the Bonds will be used by the Authority to (i) finance the construction of a cogeneration conversion project at the central utility facility of the County, (ii) fund the debt service reserve fund for the Bonds, and (iii) pay costs related to the issuance of the Bonds, including premium for bond insurance. See "THE CENTRAL UTILITY FACILITY AND THE PROJECT."

In connection with the issuance of the Bonds, the County and the Authority will (a) enter into a Master Site Lease, dated as of October 1, 2006 (the "Site Lease"), pursuant to which the County will initially lease the County Operations Center and the Central Utility Facility, including the site upon which a portion of the Project will be located (as further described herein, the "Leased Facilities") to the Authority, and (b) enter into a Master Facilities Lease, dated as of October 1, 2006 (the "Lease"), pursuant to which the Authority will lease the Leased Facilities back to the County. The County is obligated under the Lease to pay Base Rental Payments to the Authority for the use and occupancy of the Leased Facilities. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Base Rental Payments" and "—The Leased Facilities."

The Bonds are special limited obligations of the Authority payable from and secured by the Base Rental Payments to be made by the County under the Lease and certain amounts held under the Indenture. The Base Rental Payments are expected to be paid in such amounts and on such dates as will enable the Authority to pay the principal of and interest on the Bonds when due and payable. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Base Rental Payments." The County has covenanted under the Lease that so long as the Leased Facilities are available for its use, the County will take such action as may be necessary to include the Rental Payments in its annual budget and to make the necessary annual appropriations therefor. The obligation of the County to make Rental Payments (other than from the sources specified in the Lease) may be abated in whole or in part if the County does not have full use and occupancy of the Leased Facilities or any portion thereof. See "CERTAIN RISK FACTORS—Abatement." The Rental Payments will be payable from legally available funds of the County. See APPENDIX A – "THE COUNTY—COUNTY FINANCIAL INFORMATION—County General Fund Budget." For information about the County, including current financial information, see

APPENDIX A – "THE COUNTY." The County's audited general purpose financial statements for Fiscal Year ended June 30, 2005 are attached hereto as APPENDIX B.

Pursuant to the Indenture, the Authority will assign to the Trustee for the benefit of the owners of the Bonds the Authority's rights (except the Authority's right to indemnification) and remedies under the Site Lease and the Lease, including its right to receive Base Rental Payments and its right to enforce amounts payable upon default. See "CERTAIN RISK FACTORS—Limitations on Remedies" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITIES LEASE—Defaults and Remedies."

Payment of scheduled principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy (the "Policy") issued by MBIA Insurance Corporation (the "Bond Insurer" or "MBIA"). See "BOND INSURANCE."

THE BONDS

The Bonds will be dated their date of delivery and will mature on the dates and in the principal amounts and bear interest per annum at the rates set forth on the inside cover page of this Official Statement. The Bonds will be issued as fully registered Bonds without coupons, in denominations of $5,000 or any integral multiple thereof.

Interest on the Bonds will be payable on June 1 and December 1 of each year (each an "Interest Payment Date"), commencing December 1, 2006, and will be calculated based on a 360-day year of twelve 30-day months. Interest with respect to any Bond will be payable by check mailed not later than the Interest Payment Date by first class mail to the respective Owners thereof at their respective addresses, as they appear on the Registration Books on the Record Date required to be maintained by the Trustee or at such other address as has been furnished to the Trustee in writing by the Owner on or prior to such Record Date, except that at the written request of an Owner of at least $1,000,000 in aggregate principal amount of Outstanding Bonds, filed with the Trustee prior to any Record Date, interest on such Bonds shall be paid to such Owner on each Interest Payment Date (unless such request has been revoked in writing) by wire transfer of immediately available funds to an account in the United States designated in such written request. The principal of the Bonds are payable when due upon surrender thereof at the Trust Office in lawful money of the United States of America. See "Book-Entry System" below.

Redemption

Extraordinary Redemption. The Bonds are subject to redemption on any date prior to their respective stated maturities, as a whole or in part by lot within each stated maturity in integral multiples of $5,000 as determined by the Trustee, from insurance proceeds and eminent domain proceeds, to the extent provided in the Lease, in the event of damage to or destruction of the Leased Facilities, at a redemption price equal to the sum of the principal amount thereof, without premium, plus accrued interest thereon to the Redemption Date. Whenever less than all of the Outstanding Bonds are to be redeemed on any one date, the Trustee shall select, in accordance with written directions from the Authority, the Bonds to be redeemed in part from the Outstanding Bonds so that the aggregate annual principal amount of and interest on Bonds that shall be payable after such Redemption Date shall be as nearly proportional as practicable to the aggregate annual principal amount of and interest on Bonds Outstanding prior to such Redemption Date.

Notice of Redemption. The Trustee on behalf and at the expense of the Authority will mail, by first class mail, notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities

Depositories and to one or more Information Services, at least 30 but not more than 45 days prior to the date fixed for redemption; provided that such notice may be conditional and provided further that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same series and maturity, of authorized denominations in aggregate principal amounts equal to the unredeemed portion of the Bond being redeemed.

At the written direction of the County, the notice of redemption shall provide that such redemption is conditional upon receipt by the Trustee of sufficient moneys to redeem the Bonds or portion thereof (a “Conditional Redemption”). The Trustee shall rescind any Conditional Redemption if sufficient moneys have not been deposited with the Trustee on or before the redemption date. The Trustee shall give notice of rescission to the Owners of any Bonds designated for redemption by the same means and in the same manner described in the preceding paragraph. The redemption shall be canceled once the Trustee has given notice of rescission. Any portion of the Bonds subject to Conditional Redemption where such redemption has been rescinded shall remain outstanding, and neither the rescission nor the failure of funds being made available in part or in whole on or before the redemption date shall constitute an event of default under the Indenture.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest on the Bonds called for redemption shall have been duly provided, the Bonds called for redemption shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date. All Bonds redeemed pursuant to the Indenture shall be cancelled by the Trustee and shall be delivered to or upon the order of the Authority. All moneys held by or on behalf of the Trustee for the payment of the principal of or interest on the Bonds, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Trustee shall not be required to pay Owners any interest on, or be liable to Owners for any interest earned on, moneys so held.

Book-Entry System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Bonds. The Bonds shall initially be issued exclusively in book-entry form and will be registered in the name of Cede & Co., as DTC’s nominee. So long as Cede & Co. is the registered owner of the Bonds (except as otherwise specified herein) references in this Official Statement to the Owners of the Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the Bonds (except as otherwise specified herein). See APPENDIX C – “BOOK-ENTRY SYSTEM.”

THE CENTRAL UTILITY FACILITY AND THE PROJECT

Central Utility Facility. The central utility facility (the "Central Utility Facility") is located at 525 N. Flower Street in Santa Ana, California. The facility is approximately 18,078 square feet and was built in 1968. The facility operates continuously, supplying heating and cooling to the Civic Center Campus in Santa Ana.

The Central Utility Facility building houses three (3) steam boilers ranging from 35,000 pph to 70,000 pph for steam production and five (5) chillers ranging from 900 to 2000 tons for chilled water production. All major transformers for electricity supplied to County Sheriff operations in the Civic Center, the Central Justice Center and the Central Utility Facility are located in the building. Ancillary mechanical equipment and electrical switchgear are also located in the Central Utility Facility building.

The Central Utility Facility produces steam heat for heating, laundry, cooking and hot water usage. Chilled water is produced for comfort cooling. The Central Utility Facility supplies steam and comfort cooling to approximately 3 million square feet in City of Santa Ana, State of California, Federal and all County buildings in the Civic Center Campus. The County purchases electricity from Southern California Edison.

The Project. The portion of the Project to be included in the Leased Facilities consists of purchasing and installing equipment, including two natural gas powered electrical generators, heat recovery steam generators and an electrical substation and switchgear and constructing a controlled access building and infrastructure to secure and house the equipment and provide for monitoring and control by operations staff. The Project is planned to have 10.4 MW of electric generating capacity. Approximately 56,000 lbs/hr of steam will be generated from the waste heat produced by two turbine generators to be installed in the new cogeneration facility. Redundant power capability will be maintained through access to the Southern California Edison electrical grid.

During construction of the Project, the County has also determined to simultaneously upgrade the aging utility piping that serves the Civic Center Campus for steam and chilled water. Improved monitoring and control equipment will be installed throughout the network to improve efficiency and network management. Combining the utility upgrades with the necessary infrastructure and conduit installation required for the cogeneration system distribution network will reduce construction costs and impacts in the Civic Center Campus when compared to the work being done under different contracts and at different times. The infrastructure and conduit network will not be included as part of the Leased Facilities.

The net present value of the investment to construct the Project and upgrade the utility piping was calculated to have a simple payback on construction costs within 8 years. A substantial increase in the price of natural gas could adversely affect the value of the Project to the County and could lengthen the payback period.

THE LEASED FACILITIES

General. Initially, the County Operations Center and the Central Utility Facility, including the site on which a portion of the Project is to be constructed, will be subject to the leasehold of the Site Lease and the Lease. See "THE CENTRAL UTILITY FACILITY AND PROJECT" for a description of the Central Utility Facility and the Project herein.

County Operations Center. The County Operations/Data Center (the "County Operations Center"), is located at 1300 and 1400 South Grand Avenue in Santa Ana, California. The County

Operations Center has a total site area of 30.72 acres and is improved with four buildings (Bldgs. A through D). The buildings have a total area of 257,603 square feet and are further described as follows:

- Building A (1300 S. Grand Ave.) is the Purchasing Administration & Warehouse facility built in 1970 with a gross area of approximately 52,085 square feet. This building has 45 percent of its floor area improved to office space with the remaining area devoted to a print shop facility and warehouse. This facility is of concrete tilt-up construction.

- Building B (1300 S. Grand Ave.) is the Community Services Agency Headquarter. This facility was built in 1972 and has a total area of approximately 50,920 square feet. The building has three stories with an estimated 80 percent of the floor area built-out as office space. The remainder area is improved with warehouse-type space. This facility is of concrete tilt-up construction.

- Building C (1300 S. Grand Ave.) is an office/warehouse building housing the Registrar of Voters and the Public Administrator/Guardian. This facility was built in 1976, contains approximately 91,667 square feet, and is primarily comprised of warehouse space with some office build-out. The building is of concrete tilt-up construction.

- Building D (1400 S. Grand Avenue), known as the Data Center Facility, was built in 1992 and serves as a computing and telecommunications center. The building contains a gross area of approximately 62,931 square feet including 35,000 square feet of raised floor build-out.

The County Operations Center contains various County services which include Purchasing Administration Space and Warehouse, Public Administrator/Guardian, Community Services Agency Administration Space, Veteran's Service Office, Human Relations Commission, Reprographics, Registrar of Voters, Area Agency on Aging, and other services.

Release of County Operations Center. Upon the completion of the Project, the County Operations Center will be released from the leasehold created under the Lease and Site Lease after the County has filed with the Authority and the Trustee: (i) a Certificate of the County stating that the County has beneficial use of the Central Utility Facility, including the Project; and (ii) a Certificate of the County containing the amended description of the Leased Facilities and stating that such documents have been duly recorded in the official records of the County Recorder of the County.

Substitution, Release and Addition of Property. In addition to the release of the County Operations Center, the County may substitute, release or add other property for the Leased Facilities, in each case subject to the terms and conditions of the Lease. See "SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS – Substitution, Release, Addition of Property to Leased Facilities." The remedies of terminating the Lease and reletting the Leased Facilities are not available to the Authority or the Trustee.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds and other available amounts are estimated to be applied as follows:

Estimated Sources:	
Bond proceeds[(1)]	$34,840,046.85
Estimated Uses:	
Deposit to Acquisition and Construction Fund	$32,556,091.42
Deposit to Reserve Fund	1,742,002.34
Costs of Issuance [(2)]	541,953.09
TOTAL USES	$34,840,046.85

(1) Includes net premium of $2,140,046.85.
(2) Costs of Issuance include amounts to pay legal fees, financial advisory fees, rating agency fees, bond insurance premium, printing costs and other issuance costs, including the underwriters' discount.

BOND DEBT SERVICE SCHEDULE

The following is the debt service schedule for the Bonds.

Bond Year (ending June 1)	Principal	Interest	Total Debt Service
2007		$ 938,073	$ 938,073
2008		1,521,200	1,521,200
2009	$ 2,680,000	1,521,200	4,201,200
2010	2,785,000	1,414,000	4,199,000
2011	2,900,000	1,302,600	4,202,600
2012	3,015,000	1,186,600	4,201,600
2013	3,135,000	1,066,000	4,201,000
2014	3,290,000	909,250	4,199,250
2015	3,455,000	744,750	4,199,750
2016	3,630,000	572,000	4,202,000
2017	3,810,000	390,500	4,200,500
2018	4,000,000	200,000	4,200,000
	$32,700,000	$11,766,173	$44,466,173

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Base Rental Payments

The Bonds are secured by and payable from the Base Rental Payments that are to be made by the County to the Authority under the Lease so long as the County has use and possession of the Leased Facilities. The Base Rental Payments are expected to be paid in such amounts and on such dates as will enable the Authority to pay the principal of and interest on the Bonds when due and payable. The Lease requires the County to make Base Rental Payments on the fifteenth day of the month preceding each interest payment date, in payment for the use and possession of the Leased Facilities.

The County has covenanted in the Lease to take such action as may be necessary to include the Base Rental Payments in its annual budgets and to make the necessary annual appropriations for such payments. See APPENDIX A – "THE COUNTY—COUNTY FINANCIAL INFORMATION—County General Fund Budget."

All Base Rental Payments will be paid directly by the County to the Trustee and will be held in trust by the Trustee in the Revenue Fund under the terms of the Indenture. Pursuant to the Indenture, on or before each Interest Payment Date the Trustee will apply such amounts in the Revenue Fund as are necessary to make principal and interest payments with respect to the Bonds as the same shall become due and payable. Base Rental Payments are expected to be used, first, for payment of interest on the Bonds; second, for payment of the principal of the Bonds as it becomes payable; and third, for replenishment of the Reserve Fund as provided in the Indenture. After making any deposits necessary for the foregoing purposes, the Trustee will transfer any amounts remaining in the Revenue Fund to or upon the direction of the County to be used for any lawful County purpose.

The Base Rental Payments will be abated proportionately during any period in which, by reason of any damage to or destruction of the Leased Facilities, there is substantial interference with the use and occupancy of the Leased Facilities by the County. The abatement will continue for the period commencing on the date of such damage or destruction and ending on the date of completion of the work to repair or of the replacement of the damaged or destroyed Leased Facilities. Any abatement of Base Rental Payments could affect the Authority's ability to pay debt service on the Bonds, even though the Lease requires the County to maintain rental interruption insurance and the Indenture establishes a Reserve Fund. See "CERTAIN RISK FACTORS—Abatement."

THE BASE RENTAL PAYMENTS DO NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED ANY FORM OF TAXATION. THE BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

If the County defaults on its covenants in the Lease to include Base Rental Payments in the applicable annual budgets, the Trustee, to the extent set forth in the Lease, may retain the Lease and hold the County liable for all Base Rental Payments on an annual basis. In no event, however, may Base Rental Payments be accelerated. The remedies of terminating the Lease and reletting the Leased Facilities are not available to the Authority or the Trustee. See "CERTAIN RISK FACTORS—Limitations on Remedies."

The Leased Facilities

In connection with the issuance of the Bonds, the County will lease the Leased Facilities to the Authority under the terms of the Site Lease. See "THE LEASED FACILITIES." Under the Lease, the Authority will lease back the Leased Facilities to the County. Upon expiration of the Lease, title to the Leased Facilities will vest in the County.

Upon completion of the Project, the County Operations Center will be released from the Site Lease and Lease pursuant to the provisions of the Lease. In addition, the County may substitute, release or add other property for the Leased Facilities, in each case subject to the terms and conditions of the Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Substitution, Release, Addition of Property to Leased Facilities."

Reserve Fund

The Indenture establishes a Reserve Fund, the moneys in which will be held in trust as a reserve for the payment when due of all debt service payments on the Bonds or to make the final payment on the Bonds at maturity. Under the Indenture, the Reserve Fund Requirement means an amount equal to one-half of the least of (i) ten percent of the original proceeds of the Bonds; (ii) maximum annual debt service on all Bonds Outstanding; or (iii) 125% of average annual debt service on all Bonds Outstanding. So long as the Authority is not in default under the Indenture, any amounts on deposit in the Reserve Fund in excess of the Reserve Fund Requirement on any Interest Payment Date will be transferred to the Interest Account of the Revenue Fund. In lieu of funding the Reserve Fund with cash or investment securities, the Authority at its option may fund all or any portion of the Reserve Fund Requirement by providing to the Trustee a surety bond, an insurance policy or a letter of credit issued by a financial institution or municipal bond insurance company or similar entity meeting the requirements of the Indenture in an amount sufficient, together with other available funds on deposit in the Reserve Fund, so that the sum on deposit in the Reserve Fund shall equal the Reserve Fund Requirement. Upon the issuance of the Bonds, the Reserve Fund will be cash funded in an amount equal to the Reserve Requirement. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE INDENTURE—Creation and Application of Funds and Accounts."

Action on Default

The County expects to lease the Leased Facilities for the full term and to make all scheduled Base Rental Payments under the Lease. Should the County default under the Lease, however, the Trustee, as the Authority's assignee, may retain the Lease and hold the County liable for each installment of Base Rental Payments as it becomes due. The remedies of terminating the Lease and reletting the Leased Facilities are not available to the Authority or the Trustee. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITIES LEASE-—Defaults and Remedies." See also "CERTAIN RISK FACTORS—Limitations on Remedies."

In no event may Base Rental Payments due over the term of the Lease be accelerated. In the event of a default, only Base Rental Payments for the then-current Fiscal Year, to the extent of funds already appropriated but not already paid, may be enforced. See "CERTAIN RISK FACTORS—No Acceleration Upon Default."

Insurance

The County covenants in the Lease to maintain or cause to be maintained rental interruption insurance (provided such insurance is commercially available and subject to a reasonable deductible) in an amount sufficient to pay the maximum annual Base Rental Payments for any two-year period (subject to a deductible not to exceed $100,000), as well as fire and extended coverage insurance on the Leased Facilities (subject to a deductible not to exceed $100,000), in an amount equal to the lesser of all outstanding principal components of Base Rental Payments due under the Lease or the full replacement value of the Leased Facilities. The County will also obtain title insurance covering the Leased Facilities in accordance with the terms of the Lease. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITIES LEASE—Insurance."

Net insurance proceeds of fire and extended coverage insurance shall be used to replace or repair the Leased Facilities or, if the County so elects, may be applied to the prepayment of Base Rental Payments and a corresponding redemption of the Bonds. See "THE BONDS—Redemption."

Substitution, Release, Addition of Property to Leased Facilities

The County and the Authority, with the consent of the Bond Insurer, may substitute, release or add real property and the improvements, buildings, fixtures and equipment thereon for all or a part of the Leased Facilities for purposes of the Lease and the Site Lease, subject to the terms and conditions of the Lease. The Lease requires the County to provide to the Trustee, among other things, evidence that the annual fair rental value (which may be based on the construction or acquisition cost or replacement cost of such facility to the County) of the facilities that will constitute the Leased Facilities after such substitution, release or addition will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year, as well as assurances that the substitution, release or addition does not adversely affect the County's use and occupancy of the Leased Facilities or the tax-exempt status of interest on the Bonds. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITIES LEASE—Substitution; Release, Addition of Property."

Additional Bonds

In addition to the Bonds, the Authority and the Trustee may by supplemental Indenture provide for the issuance of Additional Bonds, subject to satisfaction of certain provisions contained in the Indenture. Additional Bonds will be payable from the Revenues as provided in the Indenture and secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing the outstanding Bonds theretofore issued under the Indenture, subject to the terms and conditions of the Indenture. See "APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE – Additional Bonds" herein.

BOND INSURANCE

The following information concerning the Bond Insurer and the Policy has been furnished by the Bond Insurer for use in this Official Statement, and has not been independently certified or verified by the Authority. No representation is made by the Authority as to the accuracy, completeness, or adequacy of such information or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date of this Official Statement. Reference is made to APPENDIX G for a specimen of the Policy.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Insurance Policy. The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation. MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation. As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA. Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. MBIA does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

MBIA Financial Information. As of December 31, 2005, MBIA had admitted assets of $11.0 billion (audited), total liabilities of $7.2 billion (audited), and total capital and surplus of $3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2006, MBIA had admitted assets of $11.3 billion (unaudited), total liabilities of $6.9 billion (unaudited), and total capital and surplus of $4.3 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of June 30, 2006 and for the six month periods ended June 30, 2006 and June 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at http://www.mbia.com and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

(1) The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C. (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA at its principal executive offices.

In the event the Bond Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

THE AUTHORITY

The Authority was formed pursuant to the provisions of Articles 1 through 4 of Chapter 5 of Division 7 of Title 1 of the California Government Code and a Joint Exercise of Powers Agreement, dated October 7, 1997, as amended, by and between the County and the Orange County Development Agency (the "Agency"). The Authority was formed to assist the County in financing public capital improvements and other projects. The Authority functions as an independent entity and its policies are determined by a five-member board consisting of the members of the County Board of Supervisors. The Authority has no employees and all staff work is done by County staff or by consultants to the Authority. The County and the Agency are not responsible in any manner for the debts and obligations of the Authority.

THE COUNTY

See APPENDIX A – "THE COUNTY" for more information regarding the County.

CERTAIN RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Bonds. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Official Statement in evaluating the Bonds. There can be no assurance that other risk factors will not become material in the future.

Limited Obligation

The Bonds are limited obligations of the Authority payable solely from the Base Rental Payments to be made by the County pursuant to the Lease, and the purchaser must assume the entire risk that the

County will meet its obligations under the Lease. The County has the obligation to make the Base Rental Payments specified in the Lease for each Fiscal Year for which the Lease is in force, but only to the extent to which the County has use and possession of the Leased Facilities. However, Base Rental Payments will not be made in the event of an abatement, and there is no assurance that funds will be available for payment of the Bonds. See "Limitation on Sources of Revenues" below.

The Base Rental Payments are payable from the County's General Fund, from which a number of other debts and obligations of the County now existing or which may be incurred in the future will also be payable. See APPENDIX A – "THE COUNTY" and APPENDIX B – "AUDITED BASIC FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR ENDED JUNE 30, 2005."

Limitation on Sources of Revenues

There are limitations on the ability of the County to increase revenues payable to the General Fund. The ability of the County to increase the *ad valorem* property taxes (which has historically been a primary source of revenues for counties in California) is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. In addition, California voters in 1986 approved an initiative statute that limits the imposition of new or higher taxes by local agencies, including the County. In 1996, voters approved Proposition 218, which adds Articles XIII C and XIII D to the State Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS." These same legal limitations generally restrict the ability of counties to increase fees in excess of the amount needed to provide the service or facilities with respect to which such fees are charged. Additional limitations may also be imposed through legislation or initiatives.

At the same time that limitations have been imposed on the ability of the County to raise revenues, State and federally mandated expenditures for justice, health and welfare have increased. In recent years, the annual increase in mandated expenditures has exceeded the annual increase in County revenues. Recently enacted Proposition 1A prohibits the State from mandating activities on counties without providing required funding. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A." In the event the County's revenue sources are less than its total obligations, the County could choose to fund other municipal services before making Base Rental Payments. See "Recurring State Budget Deficits" below.

Abatement

The obligation of the County under the Lease to make Base Rental Payments is in consideration for the use and right of possession of the Leased Facilities. The obligation of the County to make Base Rental Payments may be abated in whole or in part if the County does not have full use and right of possession of the Leased Facilities.

The amount of Base Rental Payments due under the Lease will be abated during any period in which by reason of damage or destruction there is substantial interference in the County's use and right of possession of the Leased Facilities. Such damage could be caused by earthquake or other calamity. The County is not required to maintain earthquake insurance under the Lease. Any such abatement will continue for the period commencing with the date of such damage or destruction and ending with the restoration of the Leased Facilities or any portion thereof to a useable condition. Reserve Fund moneys and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Bonds in the event Base Rental Payments received by the Trustee are insufficient to pay principal of or interest on the Bonds as such amounts become due. ***In the event Base Rental Payments are abated, no assurances can be given that moneys on deposit in the Revenue Fund and Reserve Fund or that the proceeds of rental interruption insurance will be sufficient to pay the debt service on the***

Bonds. In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Fund Requirement.

Limitations on Remedies

In the event of default by the County under the Lease, the remedies provided in the Lease may be unenforceable due to the application of principles of equity or state and federal laws relating to bankruptcy, moratorium, reorganization and creditors rights generally.

The enforcement of any of the remedies provided in the Lease could prove both expensive and time consuming. The rights of the Authority under the Lease have been assigned to the Trustee pursuant to the Indenture, and the Trustee is expected to undertake any remedies against the County in the case of an event of default. The remedies available under the Lease are limited to the Trustee suing for Base Rental Payments as each installment becomes due or such other remedy that does not permit any party other than the County to use, maintain, own, occupy, encumber or sell the Leased Facilities. The remedy of terminating the Lease or reletting the Leased Facilities will not be available to the Trustee. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITIES LEASE—Defaults and Remedies."

In addition, the enforceability of the rights and remedies of the Trustee and the Owners of the Bonds, and the obligations of the County under the Lease, may become subject to the United States Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights now or hereafter in effect; equity principles that may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the Base Rental Payments due over the term of the Lease. The County will only be liable for Base Rental Payments for the then-current Fiscal Year to the extent of funds already appropriated. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITIES LEASE—Defaults and Remedies."

Bankruptcy

In a bankruptcy of the County, the Authority or its assignee and the Owners may be prohibited from taking any action against the County, any official of the County, or any property of the County (including the Leased Facilities) to enforce the terms of the Lease, unless the consent of the bankruptcy court in such bankruptcy is first obtained. The bankruptcy court is not required to give its consent. This prohibition on action may even prohibit the Trustee from using funds in its possession to make payments on the Bonds. As a result, Owners may experience delays in the payment of the Bonds.

In a bankruptcy case, a plan of adjustment for the County could be confirmed that would allow for enforcement of the Lease, but the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants and other terms or provisions of the Lease and the Bonds may be altered by the bankruptcy court. Such a plan could be confirmed even over the objections of the Authority or its assignee and the Owners, and without their consent.

In addition, if the Lease is determined to constitute a "true lease" by the bankruptcy court (rather than a financing lease providing for the extension of credit), the County could choose not to perform under the Lease and the claim of the Owners could be substantially limited. An allowable claim could be substantially less than the amount of the Bonds outstanding, resulting in the Owners suffering a substantial loss.

Changes in Law

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of moneys securing or available to make the Base Rental Payments. Similarly, the California electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution, which could have the effect of reducing moneys securing or available to pay the Base Rental Payments. See for example "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Articles XIII C and XIII D of the State Constitution" and "—Statutory Limitations."

Recurring State Budget Deficits

The State has been experiencing budgetary shortfalls in recent fiscal years. Although the ability of the State to use local government revenues to balance future State budgets has been limited by recently enacted Proposition 1A, State budget decisions may still have a profound impact on the County as the provider of many State mandated services. See "STATE OF CALIFORNIA BUDGET INFORMATION" below.

STATE OF CALIFORNIA BUDGET INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the Department of Finance website, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the State budget is posted by the Office of the Legislative Analyst (the "LAO") at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the County or the Underwriters, and the County and the Underwriters take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2005-06

On July 11, 2005, Governor Schwarzenegger signed the 2005-06 Budget Act. The 2005-06 Budget Act projected 2005-06 General Fund revenues of $84.5 billion, expenditures of $90 billion and an ending reserve balance of $1.3 billion (including an allowance for $900 million of tax refunds which the State might be obligated to make).

The Governor's original budget identified a budget shortfall of $8.6 billion without implementation of the policy changes identified in the Governor's budget proposal. However, the upward revision in Fiscal Year 2004-05 and 2005-06 projected tax revenues, among other factors, permitted the Governor to address a smaller budget shortfall of $6 billion and to maintain a $500 million reserve through \$6.5 billion of expenditure and savings "solutions," and without tax increases. The 2005-06 Budget Act also eliminated the proposed issuance of additional "Economic Recovery Bonds," which were to provide \$1.7 billion to the General Fund in the original budget proposal.

The 2005-06 Budget Act assumed local government revenues would increase during the next few years due in part to increases in property taxes and sales and use tax to local governments. Property taxes and sales and use tax are major sources of discretionary revenue for local governments, including the County. The 2005-06 Budget Act projected property taxes to local governments to be approximately \$22.98 billion, an increase of 14 percent above the amount expected to be received in the Fiscal Year 2004-05, as a result of the strong housing market and increased sales of non-residential real estate. The sales and use tax in Fiscal Year 2005-06 was also expected to increase by approximately 4.5 percent above the amount expected to be received in Fiscal Year 2004-05. The sales and use tax was expected to provide local governments with over \$4 billion for discretionary purposes, in addition to \$2.7 billion for public safety, \$2.7 billion for health programs and \$1.3 billion for county transportation purposes. In addition, the 2005-06 Budget Act projected VLF revenues, which provide funding for local health programs, to increase by 4.0 percent during the next two years.

Certain of the features of the 2005-06 Budget Act affecting counties included the following:

1. The 2005-06 Budget Act included funding in various budgets that supported activities by local government agencies where the local agencies have significant discretion over the use of the funds. Such programs included law enforcement, realigned health and mental health services, public health, property tax administration, Williamson Act open space preservation contracts, libraries, recreational facilities, flood control, and housing. Funding for these programs was budgeted at approximately \$5.6 billion in 2005-06, which represented a reduction of approximately \$368 million from the amount expected to be received in Fiscal Year 2004-05 (based upon May Revision estimates).

2. The 2005-06 Budget Act included funding for local governments to make up the difference between the 0.65-percent rate of the VLF and the previous 2 percent rate through a reallocation of property tax from schools and community colleges to cities and counties. The 2005-06 Budget Act also included the accelerated repayment of all of the VLF revenue that the local governments did not receive in 2003-04 due to the suspension of the VLF backfill, which was not required to be paid until Fiscal Year 2006-07. The County received repayment of the VLF gap loan from the State on July 26, 2006, resulting in an additional \$26.5 million of additional resources to the County which had not been included in its 2005-06 budget.

3. The 2005-06 Budget Act fully funded Proposition 42 (transportation) funding, at approximately \$1.3 billion. Proposition 42 funds had been diverted to State General Fund use in prior years.

State Budget for Fiscal Year 2006-07

On June 30, 2006, Governor Schwarzenegger signed the 2006-07 Budget Act. Total spending is set at \$127.9 billion, including General Fund expenditures of \$101.3 billion. The 2006-07 Budget Act projects General Fund revenues of \$94.4 billion. The resulting operating shortfall of \$6.9 billion is expected to continue in the range of \$4.5 to \$5 billion over the next two fiscal years. The 2006-07 shortfall will leave the State General Fund with an ending reserve balance of \$2.1 billion (not including the fiscal impacts of future collective bargaining contracts approved by the Legislature).

The total revenue forecast by the 2006-07 Budget Act is a 1.7 percent increase over the \$92.7 billion forecast for the 2005-06 fiscal year. The total expenditures forecast by the 2006-07 Budget Act are 9.2 percent higher than the $92.7 billion forecast for the 2005-06 fiscal year. The 2006-07 Budget Act set aside a combined total of more than $4.9 billion, representing 4.7 percent of total General Fund resources available, to address the state's debt. A budget reserve of $2.1 billion and early debt prepayments of $2.8 billion were established.

Certain of the features of the 2006-07 Budget Act affecting counties include the following:

1. Payment on deferred mandates owed to local agencies was increased from $83 million to $169.9 million, which represents the increase in payments from one to two years of the fifteen years of installment obligations owed to local agencies (CSAC Budget Action Bulletin No. 5).

2. Funding was increased for public-safety programs, including juvenile crime prevention and intervention, front-line enforcement services, mentally ill diversion programs, and local correctional officer training and methamphetamine abatement.

3. A package of modifications was made to the CalWORKS program, California's welfare program, which will ensure that more families in California are working and moving toward self-sufficiency. The package provides counties with additional resources to assist these families.

4. The 2006-07 Budget Act fully funds Proposition 42 (transportation), at approximately $1.4 billion. It also repays $1.4 billion of past Proposition 42 related loans, of which, $446 million is designated for cities and counties for local road and street maintenance.

5. Funding augmentations for the Foster Care program and Child Welfare Services are aimed at, among other things, improving outcomes and caseload reduction.

LAO Budget Overview

In July 2006, the LAO released a report highlighting major features of the 2006-07 Budget Act. In this report the LAO cautions that, based on the current projections of revenues and expenditures under the 2006-07 Budget Act policies, the state will continue to face operating shortfalls in 2007-08 and 2008-09 of approximately $4.5 billion to $5 billion. It also points out that although the 2006-07 Budget Act ends with a projected reserve of $2.1 billion, the reserve could shrink by $100 million if the tentative agreement between the administration and Service Employees International Union is approved.

Publications from the LAO can be read in full by accessing the LAO's website (www.lao.ca.gov) or by contacting the LAO at (916) 445-4656. Information on the website is not incorporated herein by reference.

Future State Budgets

No prediction can be made by the County as to whether the State will continue to encounter budgetary problems in this or in any future Fiscal Years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of fixture State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the State Constitution

Section 1(a) of Article XIII A of the State Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to (1) ad valorem taxes to pay interest or redemption charges on indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (3) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" ("Full Cash Value"). The Full Cash Value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors.

Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above.

The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of property damaged or destroyed in a disaster.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Article XIII B of the State Constitution

State and local government agencies in California are each subject to annual "appropriations limits" imposed by Article XIII B of the State Constitution ("Article XIII B"). Article XIII B prohibits government agencies and the State from spending "appropriations subject to limitation" in excess of the appropriations limit imposed. "Appropriations subject to limitation" are generally authorizations to spend "proceeds of taxes," which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed "the cost reasonably borne by that entity in providing the regulation, product, or service" (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not "proceeds of taxes," appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters or appropriations required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, a county's appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If county revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

Section 7900, et seq. of the California Government Code defines certain terms used in Article XIII B and sets forth the methods for determining the appropriations limits for local jurisdictions. Relying on these definitions, and Chapter 60, Statutes of 1990 effective August 1, 1990, which implemented Proposition 111, the County has determined that its appropriations limit for "proceeds of taxes" for Fiscal Year 2006-07 is $4,671,175,448, an increase of 5.197% over Fiscal Year 2005-06. Estimated appropriations for Fiscal Year 2006-07 subject to the limitation total $835,180,236.

Articles XIII C and XIII D of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of the County to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the general fund, require a two-thirds vote. The voter approval requirements of Article XIII C reduce the County's flexibility to deal with fiscal problems by raising revenue through new or extended or increased taxes and no assurance can be given that the County will be able to raise taxes in the future to meet increased expenditure requirements.

Article XIII D contains several new provisions making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. The County has several County service areas in discrete unincorporated communities that pay for services that otherwise would have to be funded, if they are funded at all, through the General Fund. If the County is unable to continue to collect assessment revenues for these programs, the programs might have to be curtailed and/or funded by amounts in the General Fund. The County is unable to predict whether it will be able to continue to collect assessment revenues for these programs in light of Article XIII D. If such assessment revenues cannot be collected, the County is unable to predict whether or to what extent it would use any General Fund moneys to maintain which affected programs. The provisions of Article XIII D will also make it more difficult for the County to establish assessment-based programs in the future.

Article XIII D also contains several new provisions affecting a "fee" or "charge," defined for purposes of Article XIII D to mean "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service." All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) with respect to any parcel or person, exceed the proportional cost of the service attributable to the parcel, (iv) are for a service not actually used by, or immediately available to, the owner of the property in question, or (v) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services (or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D), no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The County has two enterprise funds that are self supporting from fees and charges, which could, depending upon judicial interpretation of Proposition 218, ultimately be determined to be property related for purposes of Article XIII D. In the event that fees and charges cannot be appropriately increased, or are reduced pursuant to exercise of the initiative power (described in the following paragraph), the County may have to decide whether to support any deficiencies in these enterprise funds with moneys from the General Fund or to curtail service, or both.

In addition to the provisions described above, Article XIII C removes prohibitions and limitations on the initiative power in matters of any "local tax, assessment, fee or charge." Consequently, the voters of the County could, by future initiative, repeal, reduce or prohibit the future imposition or increase of any local tax, assessment, fee or charge. "Assessment," "fee" and "charge," are not defined in Article XIII C and it is not clear whether the definitions of these terms in Article XIII D (which are generally property-related as described above) would limit the scope of the initiative power set forth in Article XIII C. If the Article XIII D definitions are not held to limit the scope of Article XIII C initiative powers, then the Article XIII C initiative power could potentially apply to revenue sources that currently constitute a substantial portion of general fund revenues. No assurance can be given that the voters of the County will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

The interpretation and application of Proposition 218 will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

Proposition 1A

As part of Governor Schwarzenegger's agreement with local jurisdictions, Senate Constitutional Amendment No. 4 was enacted by the Legislature and subsequently approved by the voters as Proposition 1A ("Proposition 1A") at the November 2004 election. Proposition 1A amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and vehicle license fee revenues as of November 3, 2004. Beginning with fiscal year 2008–09, the State will be able to borrow up to 8 percent of local property tax revenues, but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two–thirds of both houses of the Legislature approves the borrowing. The amount borrowed is required to be paid back within three years. The State also will not be able to borrow from local property tax revenues for more than 2 fiscal years within a period of 10 fiscal years. In addition, the State cannot reduce the local sales tax rate or restrict the authority of local governments to impose or change the distribution of the statewide local sales tax.

Proposition 1A also prohibits the State from mandating activities on cities, counties or special districts without providing for the funding needed to comply with the mandates. Beginning in fiscal year 2005–06, if the State does not provide funding for the mandated activity, the requirement on cities, counties or special districts to abide by the mandate would be suspended. In addition, Proposition 1A expanded the definition of what constitutes a mandate on local governments to encompass State action that transfers to cities, counties and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility. The State mandate provisions of Proposition 1A do not apply to schools or community colleges or to mandates relating to employee rights.

Statutory Limitations

A statutory initiative ("Proposition 62") was adopted by State voters at the November 4, 1986 General Election, which (1) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity voting in such election, (2) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within that jurisdiction voting in such election, (3) restricts the use of revenues from a special tax to the purpose or for the service for which the special tax was imposed, (4) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (5) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities and (6) requires that any tax imposed by a local governmental entity on or after August 1, 1985 be ratified by a majority vote of the electorate voting in such election within two years of the adoption of the initiative or be terminated by November 15, 1988. Proposition 62 requirements are generally not applicable to general taxes and special taxes levied prior to its November 4, 1986 effective date.

On September 28, 1995, the California Supreme Court filed its decision in S*anta Clara County Local Transportation Authority v. Carl Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara decision*"), which upheld a Court of Appeal decision invalidating a 1/2-cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote of the electorate for the levy of a "special tax," as required by Proposition 62. The *Santa Clara* decision did not address the question of whether or not it should be applied retroactively.

In deciding the *Santa Clara* case on Proposition 62 grounds, the Court disapproved the decision in *City of Woodlake v. Logan*, 230 Cal. App. 3d 1058 (1991) ("*Woodlake*"), where the Court of Appeal had held portions of Proposition 62 unconstitutional as a referendum on taxes prohibited by the California Constitution. The California Supreme Court determined that the voter approval requirement of Proposition 62 is a condition precedent to the enactment of each tax statute to which it applies, while referendum refers to a process invoked only after a statute has been enacted. Numerous taxes to which Proposition 62 would apply were imposed or increased without voter approval in reliance on *Woodlake*. The Court notes as apparently distinguishable, but did not confirm, the decision in *City of Westminster v. County of Orange*, 204 Cal. App. 3d 623 (1988), which held unconstitutional the provision of Proposition 62 requiring voter approval of taxes imposed during the "window period" of August 1, 1985 until November 5, 1986. Proposition 62 as an initiative statute does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature. After the passage of Proposition 218, certain provisions of Proposition 62 (e.g. voter approval of taxes) are governed by the State Constitution.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

The County levied a hotel tax in 1961, and has subsequently increased the hotel tax two times, in 1984 and 1990. The 1990 increase raised the County's hotel tax from eight to ten percent; the current tax levied on the occupancy of any hotel room in the County. The County collects approximately $250,000 a year in hotel taxes. If a court determined that the 2% hotel tax increase in 1990 (after the effective date of Proposition 62) is in violation of Proposition 62, it would invalidate the increase and require, in accordance with Proposition 62, that the portion of the 1% general ad valorem property tax levy allocated to that jurisdiction be reduced by $1 for every $1 in revenue attributable to the invalid hotel tax for each year that such tax increase was collected and subject to a claim.

Future Initiatives

Article XIII A, Article XIII B and Propositions 62, 218 and 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

LITIGATION

No litigation is pending or threatened against the Authority or the County concerning the validity of the Site Lease, the Lease or the Bonds, and an opinion of the Office of County Counsel to that effect will be furnished to the Underwriters at the time of delivery of the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, bond counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the County have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Lease, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the County have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the County or the beneficial owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the County and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the County or the beneficial owners to incur significant expense.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the issuance of the Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. See APPENDIX E – "PROPOSED FORM OF BOND COUNSEL OPINION." Orrick, Herrington & Sutcliffe LLP served as Disclosure Counsel to the County. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, San Francisco, California. None of Bond Counsel, Disclosure Counsel or Underwriters' Counsel undertake any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority and for the County by the Office of the County Counsel.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services ("S&P"), and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "Aaa," "AAA" and "AAA," respectively, to the Bonds with the understanding that the Bond Insurance Policy will be issued by the Bond Insurer as described herein upon delivery of the Bonds. The underlying ratings on the Bonds, without regard to the Bond Insurance Policy, are "A1" by Moody's, "A" by S&P and "AA-" by Fitch, respectively. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from Moody's, S&P and Fitch, respectively. No assurance can be given that any rating issued by the rating agencies will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agencies, if in their judgment circumstances so warrant. Except as provided under "CONTINUING DISCLOSURE" below, the Authority, the County and the Trustee undertake no responsibility to bring to the attention of the Holders of the Bonds any revision or withdrawal of the ratings. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Goldman, Sachs & Co., as representative of itself and the other Underwriter listed on the front cover hereof (collectively, the "Underwriters") from the County. The Underwriters have agreed to purchase the Bonds at a purchase price equal to $34,691,946.85, which represents the par amount of the Bonds, plus a net premium of $2,140,046.85, less an underwriters' discount of $148,100. The purchase contract pursuant to which the Bonds are being sold provides that the Underwriters will purchase all of the Bonds if any such Bonds are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL ADVISOR

The County has retained Sperry Capital, Inc., Sausalito, California, as Financial Advisor to the Authority in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

FINANCIAL STATEMENTS

The County's Basic Financial Statements for Fiscal Year 2004-05 included in this Official Statement have been audited by Macias Gini & Company LLP, independent auditors, as stated in their report included in the Financial Statements. See APPENDIX B – "AUDITED BASIC FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR ENDED JUNE 30, 2005."

CONTINUING DISCLOSURE

The County has covenanted for the benefit of the Owners and beneficial owners of the Bonds to provide certain financial information and operating data relating to the County by not later than 240 days following the end of the County's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2005-06 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the County with each Nationally Recognized Municipal Securities Information Repository and with the State Depository, if any. Any notice of material events will be filed by the County with the Municipal Securities Rulemaking Board and with the State Depository, if any. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). Failure of the County to comply with these covenants does not constitute an Event of Default under the Lease. The Annual Reports due on March 1, 2001, 2002, 2003 and 2004 for Community Facilities District No. 86-2 (Rancho Santa Margarita) of the County of Orange Series A of 2001 Special Tax Bonds and the annual report due November 1, 2003 for the County's Newport Coast Phase IV Assessment District No. 01-1 Limited Obligation Improvement Bonds Fixed Rate Series 2003 B were filed late by the County. As of the date hereof, however, the County is in compliance with its continuing disclosure undertakings.

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MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof, which do not purport to be complete or definite, and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the legal documents described herein are available upon request from the County of Orange, Hall of Administration, 10 Civic Center Plaza, Third Floor, Santa Ana, California 92701, Attention: Public Finance Manager.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

ORANGE COUNTY PUBLIC FINANCING AUTHORITY

By: /s/ Thomas G. Mauk
Executive Director

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APPENDIX A

THE COUNTY

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THE COUNTY

General

The County is bordered on the north by Los Angeles and San Bernardino Counties, on the east by Riverside County, on the southeast by San Diego County and on the west and southwest by the Pacific Ocean. Approximately 42 miles of ocean shoreline provide beaches, marinas and other recreational areas for use by residents and visitors.

County Government

The County is a charter county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by an elected five-member Board of Supervisors with each Supervisor serving a four-year term. The chairman and vice chairman positions are elected annually by the members of the Board.

County administration consists of fifteen County officers. Seven County officers are elected by a countywide vote to four-year terms: the Assessor, Auditor-Controller, Clerk-Recorder, District Attorney, Public Administrator, Sheriff-Coroner and the Treasurer-Tax Collector. The County Executive Officer ("CEO"), County Counsel, Public Defender, Internal Auditor, Health Officer, Clerk of the Board and Agriculture Commissioner are County officers that are appointed by the Board of Supervisors. The Chief Probation Officer is appointed by the Board of Supervisors with the concurrence of the Presiding Judge of the Orange County Superior Court. The County management team includes department and agency heads appointed by the CEO.

County Services

The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial facilities (including some judicial support programs), airport service, roads, solid waste management, harbors, beaches and parks, lifeguard services and a variety of public assistance programs. Other services provided by special districts, which are governed by the Board of Supervisors, include lighting, maintenance, and flood control.

Certain municipal services are provided by the County, on a contract basis, to some of the 34 incorporated cities within its boundaries. This plan is designed to allow cities to contract with the County for municipal services without incurring the cost of creating numerous city departments and facilities. Under the plan, the County provides any or all services to a city at the same level as provided in the unincorporated areas, or at any higher level the city may contract for. Services are generally provided at cost.

County Employment

As of July 1, 2006, the number of permanent employee positions was 16,623. The following table sets forth the total number of County employees for each of the last ten years:

TABLE A-1

COUNTY OF ORANGE
Employment Positions[1]
(As of July 1)

1997	13,260
1998	12,308
1999	13,127
2000	13,993
2001	15,901
2002	17,053
2003	16,676
2004	16,489
2005	16,504
2006	16,623

(1) Excludes Court employees beginning in 1998.
Source: County of Orange.

County employees are represented by 14 bargaining units of seven labor organizations, the principal labor organization being the Orange County Employees Association ("OCEA") which consists of the Community Services, County General, Office Services, Probation Services, Probation Supervisory and Management, Sheriffs Special Officers & Deputy Coroner, Supervisory Management and Health Care Professional Units, representing approximately 11,501 employees. Labor agreements are in place for most labor organizations, including OCEA, through June 2007 covering approximately 12,446 employees. Unionized County employees and their appropriate bargaining agents are shown in the following table:

TABLE A-2

COUNTY OF ORANGE
Employee Bargaining Representation
and Number of Employees
(As of July 1, 2006)

Bargaining Agents	Number of Employees	Contract Term
Orange County Employees Association	11,501	June 2007
American Federation of State, County and Municipal Employees	1,158	June 2008
Orange County Managers Association	897	January 2006[1]
Orange County Attorneys Association	501	June 2007[1]
Association of Orange County Deputy Sheriffs	1,771	October 2006[1]
International Union of Operating Engineers	143	June 2006[1]
Service Employees International Union	444	June 2007

(1) Currently in negotiations; employees continue to operate under existing contract.
Source: County of Orange.

On September 12, 2006, the Board of Supervisors approved agreements with OCEA and SEIU. They provide for a general salary increase of 4.75% effective June 23, 2006, monies available for market adjustments for certain classifications of employees, pension cost payments by employees and retiree medical restructuring. See "Post Employment Health Care Benefits."

COUNTY FINANCIAL INFORMATION

Financial Statements

The County's accounting policies and audited basic financial statements conform with generally accepted accounting principles for financial reporting established by the Governmental Accounting Standards Board (the "GASB").

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 and accumulated depreciation are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

The fund financial statements for the governmental funds are prepared under the modified accrual basis of accounting and the current financial resources measurement focus with revenues being recorded when available and measurable and expenditures recorded when related fund liabilities are incurred, with all current unpaid liabilities being accrued at year end. Fund financials 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.

The County Auditor-Controller maintains the accounting system and records of account for all County funds. A separate Internal Audit Department, which reports to the Board of Supervisors, continually monitors internal controls. Legal compliance audits of State programs are conducted by State Controller auditors.

All of the County funds can be divided into three major categories of funds: governmental, proprietary and fiduciary. Governmental funds include most of the County's basic services and are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Proprietary funds consist of two types of funds: enterprise funds (which the County uses to account for its airport and waste management operations) and internal service funds (which are used to accumulate and allocate costs internally among the County's various functions, such as insurance services, transportation, publishing and information technology). Fiduciary funds are used to account for assets held on behalf of outside parties, including County agencies and other governments.

The major governmental funds include the following funds: the County's General Fund (the chief operating fund of the County), Roads, Public Library, Tobacco Settlement, Refunding Recovery Bonds and Recovery Certificates of Participation and Debt Prepayment (closed in August 2005), 2005 Refunding Recovery Bonds and 2005 Lease Revenue Refunding Bonds, Flood Control District, Harbors, Beaches and Parks and Other Governmental Funds. The funds are briefly described below:

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

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

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

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

  - 80% for specified health care services

  - 20% for public safety.

- The Refunding Bonds and Recovery Certificates of Participation and Debt Prepayment Fund accounts, which were closed following the refunding and defeasance of the related bonds in August 2005.

- The 2005 Refunding Recovery Bonds and 2005 Lease Revenue Refunding Bonds for the debt service transactions handled by the trustee bank.

- The Flood Control District 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.

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

The following table presents a summary of revenues and other financing sources, expenditures and other financing uses, and the net changes in fund balances for the governmental funds described above for the Fiscal Years ended June 30, 2004 and 2005.

TABLE A-3

GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Year Ending June 30, 2004 and June 30, 2005
(In Thousands)

	Revenues and Other Financing Sources		**Expenditures and Other Financing Uses**		**Net Change in Fund Balances**	
	2004	2005	2004	2005	2004	2005
General Fund	$2,291,343	$2,442,533	$2,308,807	$2,424,356	($17,464)	$18,177
Roads	47,973	38,765	39,856	43,881	8,117	(5,116)
Public Library	29,156	32,433	32,471	30,972	(3,315)	1,461
Tobacco Settlement	31,375	31,031	41,858	32,179	(10,483)	(1,148)
Refunding Bonds and Recovery COPs & Debt Prepayment	102,998	119,543	98,045	100,445	4,953	19,098
Flood Control District	72,870	72,629	75,936	125,086	(3,066)	(52,457)
Harbors, Beaches, and Parks	71,207	81,359	71,218	72,429	(11)	8,930
Other Governmental	476,960	443,531	429,867	323,639	47,093	119,892
TOTAL	$3,123,882	$3,261,824	$3,098,058	$3,152,987	$25,824	$108,837

Source: Orange County Comprehensive Annual Financial Reports June 30, 2005.

The following table sets forth the audited Total Governmental Funds and General Fund Combined Balance Sheet for Fiscal Year ended June 30, 2004 and for Fiscal Year ended June 30, 2005.

TABLE A-4

COUNTY OF ORANGE
GENERAL FUND COMBINED BALANCE SHEET[1]
June 30, 2004 and June 30, 2005
(In Thousands)

	2003-04		2004-05	
	Total Governmental Funds	General Fund	Total Governmental Funds	General Fund
ASSETS				
Pooled Cash/Investments[1][2]	$1,424,752	$382,395	$1,535,483	$384,667
Imprest Cash Funds[2][4]	1,313	1,247	1,303	1,237
Restricted Cash and Investments with Trustee[2]	510,326	-	526,102	2,721
Investments[1][2]	6,199	-	5,655	-
Receivables	76,541	34,460	140,675	35,653
Deposits In-Lieu of Cash			654	
Due from Other Funds[3]	86,303	36,562	86,072	42,825
Due from Component Unit[3]	320	320	464	463
Due from Other Governmental Agencies	259,475	242,236	278,123	264,963
Inventory of Materials and Supplies[1][4]	1,102	295	1,065	319
Prepaid Costs[1][4]	1,083	52	915	4
Land and Improvements Held for Resale[1][4]	1,703	-	1,255	-
Notes Receivable	21,590	1,719	23,802	-
Total Assets	$2,390,707	$699,286	$2,601,568	$732,852
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$60,891	$47,427	$68,506	$56,119
Salaries and Employee Benefits Payable	66,284	60,411	74,439	67,883
Deposits from Others	71,124	1,780	141,198	4,449
Due to Other Funds[3]	75,815	42,460	80,676	37,254
Due to Other Governmental Agencies	30,403	22,835	41,214	25,509
Unapportioned Taxes	210	171	2,000	2,000
Deferred Revenue[1]	245,874	221,037	244,592	218,296
Total Liabilities	550,601	396,121	652,625	411,510
Fund Balances				
Reserved[4]	1,093,446	179,186	1,118,312	157,794
Unreserved, Reported in:				
General Fund	123,979	123,979	163,548	163,548
Special Revenue Funds	340,750	-	319,167	-
Debt Service Funds	101,447	-	122,873	-
Capital Projects Funds	180,477	-	225,030	-
Permanent Fund	7	-	13	-
Total Fund Balances	1,840,106	303,165	1,948,943	321,342
Total Liabilities and Fund Balances	$2,390,707	$699,286	$2,601,568	$732,852

Source: Orange County Comprehensive Annual Financial Reports June 30, 2004 and June 30, 2005.

(1) See Note 1 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2005 in BASIC FINANCIAL STATEMENTS of this Official Statement.

(2) See Note 3 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2005 in BASIC FINANCIAL STATEMENTS of this Official Statement.

(3) See Note 6 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2005 in BASIC FINANCIAL STATEMENTS of this Official Statement.

(4) See Note 12 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2005 in BASIC FINANCIAL STATEMENTS of this Official Statement.

The following table presents a more detailed summary of revenues, expenditures and changes in fund balances for the General Fund for Fiscal Years 2001-02 through 2004-05.

TABLE A-5

COUNTY OF ORANGE
COMPARISON OF STATEMENT OF GENERAL FUND
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
(In Thousands)

	2001-02	**2002-03**	**2003-04**	**2004-05**
REVENUES				
Taxes	$ 209,481	$ 221,223	$ 237,544	$ 393,078
Licenses, Permits & Franchises	7,488	6,649	8,099	7,698
Fines, Forfeitures & Penalties	44,648	48,623	40,210	41,451
Use of Money and Property	18,079	11,859	6,869	13,277
Intergovernmental Revenues	1,319,000	1,355,112	1,361,531	1,310,949
Charges for Services	268,648	307,929	311,082	327,191
Other Revenues	70,175	120,723	169,632	219,841
TOTAL REVENUES	$1,937,519	$2,072,118	$2,134,967	$2,313,485
EXPENDITURES				
General Government*	$ 129,710	$ 197,922	$ 272,762	$ 326,782
Public Protection	686,119	748,922	788,007	797,812
Public Ways and Facilities	24,314	26,058	27,967	27,168
Health and Sanitation	417,373	435,898	439,376	443,965
Public Assistance	595,628	612,374	605,829	609,016
Capital Outlay	28,979	17,536	39,681	73,011
Principal Repayment	2,689	3,362	3,635	3,533
Capital Lease Interest	4,165	4,227	4,687	6,201
TOTAL EXPENDITURES	$1,888,977	$2,046,299	$2,181,944	$2,287,488
Excess of Revenues Over Expenditures	48,542	25,819	(46,977)	25,997
Other Financing Sources (Uses)				
Operating Transfers In	89,596	95,671	138,234	90,206
Operating Transfers Out	(110,741)	(160,348)	(126,863)	(136,868)
Capital Lease Proceeds	1,696	2,817	18,142	38,842
Excess of Revenues & Other Sources Over Expenditures and Other Uses	29,093	(36,041)	(17,464)	18,177
Fund Balance, July 1	327,577	356,670	320,629	303,165
FUND BALANCES (June 30)	$356,670	$320,629	$303,165	$321,342

Source: *Orange County Office of Auditor-Controller, Comprehensive Annual Financial Reports.*

*Includes transfers from OCERS Investment Account. See "COUNTY RETIREMENT SYSTEM" herein.

County General Fund Budget

Budget Process

The County's budget process usually begins in late December. The CEO/County Budget Office (the "Budget Office") prepares budget policy and detailed budget instructions for County departments. County departments then prepare their budget requests and submit them to the Budget Office. The

Budget Office reviews and analyzes the department's budget requests and makes recommendations to the CEO. The Budget Office will also, in coordination with the County Auditor-Controller's office, establish the level of non-departmental, County-wide revenues that will be available to the County. The budget is compiled, balanced and reviewed with the Chief Financial Officer and CEO. The Board of Supervisors annually holds budget hearings and adopts a final budget for the County (including the General Fund) in June. The Board of Supervisors adopted a final budget for Fiscal Year 2006-07 on June 27, 2006.

Strategic Financial Plan. In 1997, the County initiated a strategic financial planning process to establish strategic priorities (i.e. infrastructure and program initiatives that are not included in baseline operations). The process is a management tool and provides a structure to help the County face both short-term and long-term operational decisions.

The main focus of the Strategic Financial Plan is the "Discretionary General Fund," which represents the County programs that are funded by General Purpose Revenue. Revenue received in the General Fund that is not specific to a program or service is referred to as "General Purpose Revenue." General Purpose Revenue totals $558.7 million or about 11% of the total Fiscal Year 2006-07 adopted budget and approximately 21% of the General Fund Budget; in comparison, General Purpose Revenues totaled $446.3 million or about 9% of the total Fiscal Year 2005-06 adopted budget and approximately 17% of the General Fund Budget. General Purpose Revenues are available to meet debt service requirements, match or maintain requirements in State and federal programs; and to otherwise be allocated at the Board of Supervisors' discretion.

The basic revenue forecast, which is prepared by a team from Chapman University, has a ten-year horizon. The detailed operating expense forecast has a five-year horizon, which is extended for an additional five years at a "bottom-line" level using some basic growth and inflation assumptions. The ten-year horizon is used to estimate the ability of the County to fund the operation of new facilities.

In 1998 the Board determined that all new Strategic Priorities would be funded according to the following principles:

- The County would not construct any facility that it could not afford to operate in the foreseeable future;
- One-time revenues would be used for one-time expenses;
- The County's budget must continue to be balanced throughout the five-year forecast; and
- Prudent debt management and defeasance had to be incorporated into the planning process.

In August 2005, the County successfully refinanced its bankruptcy related debt obligations, which resulted in $4.7 million annual savings for the General Fund, $102.5 million net present value total savings, and shortened the repayment period by 10 years. The County issued the Refunding Recovery Bonds, 2005 Series (the "2005 Recovery Bonds"), in the amount of $146,005,000 and, together with monies from the Debt Prepayment Fund, refunded and defeased the outstanding Refunding Recovery Bonds, 1995 Series A (the "1995 Recovery Bonds"). Also, in August 2005, the County issued the 2005 Lease Revenue Refunding Bonds (the "2005 Lease Revenue Bonds"), in the amount of $419,755,000 to refund and defease the outstanding 1996 Recovery Certificates of Participation, Series A (the "1996 Recovery Certificates").

The County has also established a Strategic Priority reserve within the General Fund for designated and undesignated purposes (approximately $139.3 million, as of June 30, 2006).

Certain other funds, held outside the County General Fund have also been established under the Strategic Plan including (all amounts as of June 30, 2006):

- A Designated Special Revenue Fund, (outside the General Fund) to be used for capital projects and interfund borrowings in the amount of approximately $25.5 million;

- Program reserves (outside the General Fund) in the amount of approximately $142.7 million for sheriff and law enforcement, child support and health departments.

In addition, the County maintains an account in OCERS, separate from OCERS monies used to fund OCERS benefits, originally funded with proceeds of the County's 1994 pension obligation bonds, which had a balance as of December 31, 2005 of approximately $158 million (the "Investment Account"). Pursuant to an agreement between the County and OCERS, the County may direct the expenditure of any portion of the Investment Account to offset County contributions to OCERS. However, the monies in the Investment Account may not be withdrawn by the County or used for expenditures other than OCERS contributions.

Comparative Budgets for Fiscal Years 2004-05 through 2006-07.

The following table sets forth the County's adopted General Fund Budgets for Fiscal Years 2004-05 through 2006-07, the current modified budget for Fiscal Years 2004-05 and 2005-06, the variance between the adopted budget and the current modified budget for Fiscal Year 2005-06, and the change between the adopted budgets for Fiscal Years 2005-06 and 2006-07.

TABLE A-6

COMPARISON OF GENERAL FUND ADOPTED BUDGETS FOR FISCAL YEARS 2004-05, 2005-06 AND 2006-07 (In Thousands of Dollars)

	2004-05		2005-06			2006-07	
	Adopted Budget	Current Modified Budget	Adopted Budget	Current Modified Budget	Variance between Adopted Budget and Current Modified Budget	Adopted Budget	Change from 2005-06 Adopted Budget
REQUIREMENTS:							
Public Protection	$780,079,975	$812,024,125	$813,382,873	$842,435,896	4%	$891,899,342	10%[8]
Health & Community Services	1,166,382,223	1,182,398,700	1,209,793,803	1,231,125,020	2	1,264,580,408	5[9]
Infrastructure & Environmental Resources	93,427,136	95,124,839	96,666,868	99,129,142	3	106,637,820	10[10]
General Government & Services	119,948,714	120,921,310	120,837,353	141,451,795	17[5]	143,711,146	19[11]
Capital Improvements	43,144,791	44,092,229	65,178,110	72,660,849	11[6]	92,293,061	42[12]
Debt Service	74,835,394	77,557,282	77,326,505	379,084,739[16]	390[7]	96,810,876	25
Insurance, Reserves & Misc.	203,282,198	238,636,670	219,505,127	232,162,565	6	312,273,650	42[14]
Increases to Reserves	-	-	-	55,195,861	-	31,350,000	-
Total Requirements	**$2,481,100,431**	**$2,570,755,155**	**$2,602,690,639**	**$3,053,245,867**	**17%**	**$2,939,556,303**	**13%**
AVAILABLE FUNDS:							
Fund Balance Available	$107,100,000	$145,262,326[10]	$105,000,000	$166,804,638	59%	$118,515,000	13%
Taxes							
Property Tax	199,302,728	319,302,728	350,101,530	350,101,530	0	443,967,556	27[13]
Sales Tax	43,611,008	43,611,008	44,373,008	44,373,008	0	44,996,008	1
Licenses, Permits & Franchises	8,157,656	7,367,656	7,580,410	7,580,410	0	8,101,248	7
Fines, Forfeitures & Penalties	37,868,792	33,089,152	37,819,609	38,021,002	1	41,584,330	10
Use of Money & Property[1]	9,526,995	9,526,995	15,445,385	15,086,748	-2	18,149,023	18
Intergovernmental Revenues[2]	1,344,080,193	1,268,115,970	1,308,252,212	1,378,786,153	5	1,367,742,624	5
Charges for Services	354,051,756	355,148,879	362,216,404	366,533,445	1	381,265,260	5
Miscellaneous Revenues [3]	212,761,408	215,586,410	213,112,218	229,401,525	8[5]	296,562,813	39[14]
Other Financing Sources[4]	130,919,663	155,314,918	146,086,852	456,557,408[16]	213[7]	218,672,441	50[15] [17]
Decreases to Reserves	33,720,232	18,429,113	12,703,011	-	0	-	
Total Available Funds	**$2,481,100,431**	**$2,570,755,155**	**$2,602,690,639**	**$3,053,245,867**	**17%**	**$2,939,556,303**	**13%**

Sources: Orange County CEO Budget Services; Orange County Auditor-Controller.

(1) Includes interest income.

(2) Comprised of federal and State grants, matching funds and State-distributed revenues, including vehicle license fees. See "Vehicle License Fees" below.

(3) Includes money or other assets donated, paid or transferred to the County from private agencies, persons or other sources.

(4) Operating transfers and residual equity transfers from other funds within the County.

(5) Increase is mainly due to County's increase in $15.2 million appropriations for Registrar of Voter's Voter Verifiable Paper Audit Trail System and increase in employer contribution to retirement cost.

(6) Increase is mainly due to County's Re-budgeted Capital Improvements $6.8 million

(7) Increase is attributable to a County's debt refinancing – 2005 Refunding Recovery Bonds $146 million and prepayment of FY 06-07 pension obligation $126 million.

(8) Increase is attributable to a County's Public Protection Budget for Sheriff's Theo Lacy Jail and Probation's Youth Leadership Academy.

(9) Increase is attributable to a County's Health Care Agency's MSI program $10 million and Proposition 63 Mental Health Services Act program $40 million.

(10) Increase is attributable to a County's Watershed & Coastal Resources Appropriations for Upper Newport Bay Restoration project $7 million.

(11) Increase is attributable to a County's CAPS project $15.4 million increase.

(12) Increase is attributable to a County's cogeneration plant project $4 million increase, Central Justice Center floor by floor project $14.5 million, Photo Voltaic project $2.8 million, and South County capital projects $3.7 million.

(13) Increase is attributable to "triple flip" in the State's 04-05 Budget, which replaced $63.2 million lost VLF revenue with an allocation of property tax revenue from amounts in the County's Educational Revenue Augmentation Fund (ERAF), and the remainder projected to result from property tax revenue growth mainly due to $27.7 million restoration of two-year diversion of property tax revenue from the State.

(14) Increase is mainly due to County's increase in employer contribution to retirement cost.

(15) Increase is mainly due to County's increase in Operating Transfer for Proposition 63 Mental Health Services Act program, SSA Wraparound program, Central Justice Center project cost from Special Revenue Fund, etc.

(16) Increase is attributable to 2005 Refinancing of Bankruptcy related debts of $155 million and Prepayment of FY 06-07 Pension Obligations of $115 million included in FY 05-06.

(17) FY 06-07 includes $111 million Prepayment of FY 07-08 Pension Obligation funded from the Cost Applied to General Fund Agency 004 vs. FY 05-06 funded by Other Financing Sources - Long-term Debt Proceeds.

General Discussion of General Fund Budgets for Fiscal Year 2004-05 through 2006-07

The largest single source of funding in the General Fund portion of the County Budget is intergovernmental revenues. Intergovernmental revenues accounted for an estimated 54.2% and 50.3% of all General Fund funding sources for Fiscal Years 2004-05 and 2005-06, and are budgeted to account for an estimated 46.5% of General Fund funding sources for Fiscal Year 2006-07. Intergovernmental revenues are derived primarily from State and federal sources, and are dedicated to fund mandated public assistance programs in the health and welfare areas. The County derives 30% of its revenues from the State, as the County receives the revenues in payment for services provided for the State. See "STATE OF CALIFORNIA BUDGET INFORMATION" in the forepart of this Official Statement.

State legislation (adopted as part of the "triple flip" in the State's 2004-05 Budget) replaced lost vehicle license fee ("VLF") revenues with an allocation of property tax revenues from amounts in the County's Educational Revenue Augmentation Fund ("ERAF"). As a consequence, unrestricted VLF revenues declined from $145 million in Fiscal Year 2004-05 to $54 million in Fiscal Year 2005-06. Due to the pledge and intercept of VLF revenues for debt service payments on the 1996 Recovery Certificates, applicable State legislation provided the County with an amount of unrestricted VLF revenues equal to $54 million plus growth until the County refinanced its 1996 Recovery Certificates in August 2005. Beginning in Fiscal Year 2006-07, the State intercept of VLF revenue will no longer occur. Instead, the County will receive approximately $54 million directly and account for it in General Purpose Revenues. The debt payment of 2005 Recovery Bonds will be paid through County General Fund debt services. See "Vehicle License Fees" below.

Real property taxes are projected to increase approximately $151 million from Fiscal Year 2004-05 to Fiscal Year 2005-06. Approximately $135.8 million of the projected increase in property revenues for Fiscal Year 2005-06 is attributable to transfers from the ERAF, and the remainder projected to result from property tax revenue growth of approximately 14% mainly due to restoration of two-year diversion of property tax revenue by the State. Budgeted property tax revenues in Fiscal Year 2004-05 and Fiscal Year 2005-06 include the impact of the two-year diversion of property tax revenue by the State, (with an estimated impact of $27.7 million per year for the County). This two-year diversion was also part of the State's 2004-05 and 2005-06 Budgets. See "STATE OF CALIFORNIA BUDGET INFORMATION" in the forepart of this Official Statement.

Additional Assumptions Incorporated into the 2006-07 Budget. The following additional assumptions are incorporated into the 2006-07 Budget:

- Secured property taxes are assumed to grow at 14% and unincorporated area sales tax at 1%.

- A two-year payment of State mandate reimbursements to the County will be paid during Fiscal Year 2006-07, representing Fiscal Years 2006-07 and 2007-08 payments of the state's 15-year plan to retire the mandate debt. See "STATE OF CALIFORNIA BUDGET INFORMATION" in the forepart of this Official Statement.

- County contributions to OCERS for Fiscal Year 2005-06 will be based upon Fiscal Year 2004-05 rates, as adjusted to reflect the addition of the 2.7% at age 55 formula for general members, as calculated by OCERS prior actuary. Fiscal Year 2006-07 OCERS contributions reflect the December 31, 2005 actuarial valuation completed by OCERS' current actuary. Medical plan benefits for retirees continue to be paid on a "pay as you go" basis. See "COUNTY RETIREMENT SYSTEM" below.

- Health care benefits costs decreased by 1.8%.

Ad Valorem Property Taxation

Taxes are levied by the County for each fiscal year on taxable real and personal property that is situated in the County based on the owner of record as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and property on which a lien on real property is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." In addition to regular secured taxes, supplemental taxes may also be levied by accelerating property reassessment when a change of ownership or completion of new construction has occurred. Supplemental tax bills representing the taxes on the increases in assessed value are prorated from the date of completion or change in ownership to the end of the fiscal year.

Secured Property Roll. Annual property taxes on the secured roll are due in two installments: November 1 and February 1 of each year. Property taxes are collected by the County Treasurer-Tax Collector in accordance with the California Revenue and Taxation Code. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a ten percent penalty accrues with respect to any delinquent payment. If such taxes remain unpaid as of July 1 of the fiscal year for which the tax was levied, the property securing the taxes is considered tax defaulted and may only be redeemed by payment of the delinquent tax, the ten percent delinquency penalty, and a redemption penalty of one and one-half percent per calendar month, or portion thereof, beginning July 1 of the year the property became tax defaulted. Properties may be redeemed under an installment plan by paying current taxes plus all delinquent taxes over a four-year period. If ad valorem taxes are unpaid for a period of five years or more, such properties may thereafter be sold by the County Treasurer-Tax Collector as provided by law.

Beginning in Fiscal Year 1993-94, the County adopted an alternative method of secured tax roll apportionment, commonly known as the "Teeter Plan." Under the Teeter Plan, secured roll property tax delinquency apportionments to participating taxing agencies (including the County) are "fronted" by the County. The Teeter Plan advances 100% of the base amount of each participating agencies' share of tax-defaulted property taxes on the secured tax roll to such agencies. Thereafter, all tax collections from tax defaulted properties, including the delinquency and redemption penalties are retained by the County. The County's annual up-front payments to participating taxing agencies are obligations of the County's General Fund.

On June 1, 1995, the Orange County Special Financing Authority (the "Teeter Authority") issued $155,000,000 Teeter Plan Revenue Bonds, 1995 Series A, B, C, D and E (the "Teeter Bonds"). Under a Sales and Servicing Agreement executed and delivered in connection with the Teeter Bonds, the County must annually sell all Teeter eligible tax-defaulted property receivables to the Teeter Authority. As the County Tax Collector collects the taxes due on such receivables, the base taxes and related delinquencies and redemptions penalties are paid to the Teeter Authority, which applies such amounts received to the payment of the Teeter Bonds.

Unsecured Property Roll. Property taxes on the unsecured roll are due as of March 1 and become delinquent on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1½% per month begins to accrue on November 1. The taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the Office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interest belonging or assessed to the delinquent taxpayer.

Allocation of Property Taxes. Property taxes are allocated to local governments pursuant to legislation implementing Article XIIIA of the California Constitution. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII A of the State Constitution." Due to legislation enacted as part of the Fiscal Year 2004-05 State Budget and effective for Fiscal Year 2004-05, counties, including the County, and cities received property taxes from the schools' allocation to replace local sales taxes and vehicle license fees transferred to the State. See "Vehicle License Fees" and "Sales Tax" below. During Fiscal Year 2005-06, secured and unsecured property tax collections, after the transfer required by State law to the ERAF which the State maintains for schools, were allocated approximately 11% to the County, 19% to the cities, 9% to the special districts, 8% to the Community Redevelopment Agency and 53% to the schools within the County.

Assessed Valuation

The County Assessor assesses all property within the County except utility property, which is assessed by the State Board of Equalization.

Since 1981-82, property in California has been assessed at 100% of full cash value. Under Proposition 13, Article XIII A of the California Constitution, the maximum *ad valorem* tax on real property is limited to 1% of the full cash value, to be collected by counties and apportioned according to law. The full cash value may be adjusted upward annually by not more than two percent to account for inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction, or may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. When property is transferred or new construction occurs it is assessed at its cash value at the time of such transfer or new construction. Due to changes in assessment under Article XIII A of the California Constitution, the County assessment roll no longer purports to be proportional to market value. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Article XIII A of the State Constitution" in the forepart of this Official Statement.

The following table shows a history of assessed valuations in the County since Fiscal Year 1997-98.

TABLE A-7

COUNTY OF ORANGE
DETAIL OF ASSESSED VALUATION

Fiscal Year	Secured	Unsecured	Total	% Change
1997-98	$169,865,046,791	$12,419,269,521	$182,284,316,312	2.81%
1998-99	179,516,778,221	13,108,960,458	192,625,738,679	5.67
1999-00	195,323,008,643	13,813,463,645	209,136,472,288	8.57
2000-01	213,564,809,154	14,983,491,508	228,548,300,662	9.28
2001-02	233,481,525,233	15,485,055,439	248,966,580,672	8.93
2002-03	252,221,711,352	17,463,152,919	269,684,864,271	8.32
2003-04	270,854,284,436	17,069,543,691	287,923,828,127	6.76
2004-05	294,656,787,665	17,145,607,805	311,802,395,470	8.29
2005-06	325,401,404,927	17,175,454,566	342,576,859,493	9.87
2006-07	356,986,560,378	20,290,922,710	377,277,483,088	10.13

Source: Orange County Office of Auditor-Controller, Assessed Valuation Reports.

Note: Figures in table include incremental value for redevelopment agencies and reflect exclusion of business inventory valuations. Property is assessed at taxable full cash value, pursuant to California Revenue and Taxation Code Section 135(a).

Secured and Unsecured Taxes

Tables A-8 and A-9 provide a list of the ten largest secured and unsecured taxpayers in the County for Fiscal Year 2006-07.

TABLE A-8

COUNTY OF ORANGE
TOP TEN SECURED TAXPAYERS
FISCAL YEAR 2006-07

	Taxpayers	Secured Taxes
1.	The Irvine Company	$ 48,787,752
2.	The Walt Disney Company	28,168,726
3.	Irvine Apartment Communities	18,995,040
4.	Southern California Edison Company	17,776,028
5.	Pacific Bell Tele Company	7,726,938
6.	Walt Disney World	7,644,481
7.	United Laguna Hills	6,791,976
8.	Irvine Company of W VA	5,308,972
9.	Maguire Properties-Park Place	4,318,317
10.	Irvine Community Development	4,283,041
	TOTAL	$149,801,271

Source: Orange County Treasurer-Tax Collector.

TABLE A-9

COUNTY OF ORANGE
TOP TEN UNSECURED TAXPAYERS
FISCAL YEAR 2006-07

	Taxpayers	Unsecured Taxes
1.	Conexant Systems Inc	7,576,754
2.	Jazz Semiconductor, Inc.	4,763,473
3.	Cox Communications Orange	3,232,237
4.	Edwards Lifesciences LLC	2,085,425
5.	Ralph Grocery Co (A Corp)	1,699,032
6.	Contour Aerospace Inc	1,410,358
7.	McDonnell Douglas Corp.	1,309,532
8.	3M Company (A Corp)	1,216,039
9.	Delphi Automotive Systems	1,213,179
10.	Albertson's Inc	1,081,370
	TOTAL	$25,587,399

Source: Orange County Treasurer-Tax Collector.

Vehicle License Fees

The VLF is an annual fee collected by the State for any vehicle subject to registration in California. Automobiles, motorcycles, pick-up trucks, commercial trucks and trailers, rental cars and taxicabs are all subject to the VLF. Prior to the State's Fiscal Year 2004-05 budget, revenue from or equal to the VLF was appropriated by the State to cities and counties for use in health, mental health and social services programs pursuant to certain State statutory mandates and as general purpose revenue (the latter being herein referred to as "unrestricted VLF revenues").

Pursuant to Section 11005 of the Revenue and Taxation Code, the State amended its allocation formula to provide that, commencing in Fiscal Year 2005-06, the State will pay to the County, from VLF revenues received statewide and deposited into the State's Motor Vehicle License Fee Account, and prior to any allocation of such funds for any other city and county, (I) in Fiscal Year 2005-06, an amount (payable in monthly installments) equal to $54 million per year, and (II) for each year after Fiscal Year 2005-06, an amount paid to the County in the prior year, adjusted for percentage changes in amounts credited to the Motor Vehicle License Fee Account from the prior year. These monthly VLF payments, together with the remaining ERAF shift allocation (paid to the County in lieu of VLF revenues, as described below), will be deposited into the County's General Fund and will be available to pay all obligations of the County. However, there can be no assurance that the State will not reduce or eliminate the annual VLF payment required by Section 11005 of the Revenue and Taxation Code, with or without any equivalent ERAF shift to the County.

Cities and counties, including the County's, share of VLF general purpose revenues was substantially reduced by the State's Fiscal Year 2004-05 budget (as part of what has been called the "triple flip") and replaced with money shifted from the ERAF, beginning in Fiscal Year 2004-05 (the "ERAF Shift"). The ERAF was originally created by the State in Fiscal Year 1992-93 to deposit certain prescribed amounts of property tax shifted from local governmental agencies to local schools. The County is authorized to transfer an allocation for Fiscal Year 2004-05 specified by the State from the ERAF to a specific fund established by the County to receive such allocation (the "VLF Property Tax

Compensation Fund"). In addition, the State has provided for an allocation in Fiscal Year 2005-06 to be deposited into the VLF Property Tax Compensation Fund based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and the increase in gross taxable assessed value of property within the County. For Fiscal Year 2006-07, the County estimates that the ERAF shift, net of the $54 million of VLF revenues payable to the County under the VLF Recovery Statutes will be $199 million.

Also as part of the State's Fiscal Year 2004-05 budget, the ERAF Shift is reduced in amounts allocated to cities and counties by a statewide aggregate of $700 million for Fiscal Years 2004-05 and 2005-06 (which is being used by the State to address its budget needs). The County's share of this reduction, approximately $27.7 million in each of Fiscal Years 2004-05 and 2005-06, was included in the County's Fiscal Year 2004-05 and 2005-06 Budgets.

Additional Revenue to County from Recovery Statutes

Legislation enacted by the State in 1995 as part of the County's recovery plan (Chapters 745, 746, 747, and 748 of the 1995 Statutes, collectively the "Recovery Statutes") diverted certain revenue to the County from other public agencies or from funds within the County, and dedicated such revenue to the payment of obligations arising out of the County's bankruptcy plan of adjustment, as described below.

1. As discussed under "Sales Tax," the deposit into the County General Fund, from sales and use taxes that otherwise would have been allocated to the County local transportation fund, the sum of $3,166,667 per month (or $38,000,000 per year) from July 1, 1996 until July 1, 2011. These transportation sales tax revenues, together with sales tax generated within the unincorporated parts of the County, will flow into the General Fund.

2. Transfer from the Orange County Development Agency (the "OCDA") to the County General Fund of $4,000,000 per year (in two equal installments on February 15 and June 15) for a period of 20 years commencing on July 1, 1996.

3. Reduction in the amount of property tax revenue allocated to the Orange County Flood District and the Harbors, Beaches and Parks Fund, initially by $4,000,000 for each fund, subject to increase based on increasing assessed valuations (estimated at $8.3 million for each fund for Fiscal Year 2006-07), thereby increasing the amount of property tax allocated to the County for deposit to the County General Fund for each Fiscal Year from 1997-98 to 2015-16.

In accordance with the requirements of the County's bankruptcy plan of adjustment, the excess (if any) of the aforementioned revenues, excluding sales taxes derived from the unincorporated areas of the County, but including certain net revenues paid into the County General Fund on account of importation of solid waste (estimated at $12.7 million for Fiscal Year 2006-07), over the debt service and other costs payable on a fiscal year basis on the 2005 Lease Revenue Bonds and all amounts payable (if any) on certain County warrants, will be applied no later than 90 days following the end of each Fiscal Year, to restore certain County administered accounts under the County's bankruptcy plan of adjustment.

Sales Tax

The sales tax is imposed upon retailers for the privilege of selling tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions have been provided for certain essentials such as food for home consumption, prescription drugs, gas delivered through mains and electricity. Other exemptions provide relief for a variety of sales ranging from custom computer software to aircraft.

As of January 1, 2006, the breakdown of the base state and local sales tax rate of 7.75 percent is imposed on the County as follows:

- 5 percent imposed as a State General Fund tax;
- 0.5 percent dedicated to local governments (including the County) for health and welfare program realignment;
- 0.5 percent dedicated to local governments (including the County) for public safety services ("Proposition 172 Funds");
- 1.0 percent local tax imposed under the Uniform Local Sales and Use Tax Law (known as the "Bradley-Burns Act"), with 0.25 percent dedicated to county transportation purposes and 0.75 percent for city and county general-purpose use;
- 0.25 percent deposited into the Fiscal Recovery Fund to repay the State's economic recovery bonds. Upon payment of the States' Economic Recovery Bonds, this amount become available for County general purpose use; and
- 0.5 percent Optional Local Sales Tax for Mass Transit ("Measure M Sales Tax").

The allocation of 0.25 percent sales tax to the payment of economic recovery bonds became effective July 1, 2004, as part of the "triple flip" in the Governor's 2004-05 Budget and pursuant to State Proposition 57, approved by the voters on March 2, 2003. Proposition 57 authorized the issuance of up to $15 billion of economic recovery bonds secured the 0.25 % sales tax allocation. Prior to July 1, 2004, this sales tax was available to cities and counties for general purposes, under the Bradley Burns. Under the legislation implementing the "triple flip," the lost sales tax is replaced by increased property tax revenues, payable through an additional ERAF shift, equal to the lost sales tax revenues (the "Countywide Adjustment Amount").

Senate Constitutional Amendment No. 4, approved by the voters as Proposition 1A in the November 2004 election, amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by restricting the State from lowering the local sales tax rate or changing the allocation of local sales tax revenues without meeting certain conditions. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS-Proposition 1A" in the forepart of this Official Statement.

Insurance

The County has maintained a formal risk management program since the mid 1970's. Risk Management functions include: risk identification, avoidance, prevention, transfer, mitigation and financing programs. Risk financing is achieved through both self-insurance (risk retention) programs and the purchase of commercial insurance. Claims and litigation management also includes subrogation cost recovery activities.

Resources are budgeted in the Workers' Compensation Internal Service Fund and the Property and Casualty Risk Internal Service Fund. These internal service funds pay program costs including losses, expenses and administration costs. The cash reserves held in these internal services funds are retained for the payment of current and future costs. Actuarial studies are performed annually to determine the funding requirements for these activities.

Commercial insurance coverage is purchased for the County's property and for certain specialized liability exposures related to airport, helicopter, watercraft, and dam operations. Additionally, fine arts, underground storage tank, boiler and machinery, crime policies, notary bonds, and excess insurance for liability are also purchased. All other liability exposures including general, auto and workers' compensation are self-insured. Various risk control techniques, including employee accident prevention training and regular work-site inspections, have been established to minimize losses.

Litigation Management

The Office of County Counsel generally represents the County's interests in lawsuits involving actions of the Board of Supervisors, County employees or agents of the County. These actions include employment, environmental and land use, contractual obligations, inverse condemnation and property tax refunds. Legal matters controlled by the County Executive Office/Office of Risk Management are assigned to a panel of lawyers and law firms selected by Risk Management.

Litigation

There are a number of lawsuits pending against the County. The County believes, based upon the advice of County Counsel and the County Risk Manager, as applicable, that the aggregate liability it might incur as a result of adverse decisions in such cases, after giving effect to the County's self-insurance program and its excess insurance coverage, will not have a material adverse effect on the County's ability to make payments on or with respect to the Bonds.

Short Term Debt

In years prior to Fiscal Year 1995-96, the County pursued a cash management program for its General Fund through the issuance of tax and revenue anticipation notes ("TRANs"). The County currently meets its cash flow needs through interfund borrowings (including borrowings from the County Flood Control District). Notwithstanding, in order to pre-pay a portion of the County's UAAL to OCERS payable in Fiscal Year 2006-07, on January 30, 2006, the County issued its $105,990,520 Taxable Pension Obligation Bonds, Series 2006 (the "2006 POBs"). The County issued the 2006 POBs following OCERS decision to grant a 7.75% discount to County Fiscal Year 2006-07 contributions pre-paid to OCERS prior to January 31, 2006. The 2006 POBs mature on June 29, 2007.

Outstanding Long Term Debt and Lease Obligations

The County's outstanding long-term debt and lease obligations are shown in the following table.

TABLE A-10

COUNTY OF ORANGE
OUTSTANDING LONG-TERM DEBT AND LEASE OBLIGATIONS

Description	Source of Repayment	Outstanding Principal Balance (June 30, 2006)	Final Maturity Date
Orange County Public Facilities Corporation Refunding Certificates of Participation (Civic Center Parking Facilities Project), 1991	General Fund	$ 8,091,728	2018
County of Orange Refunding Recovery Bonds, 2005 Series A	General Fund	$131,630,000	2015
Orange County Special Financing Authority Teeter Plan Revenue Bonds, 1995 Series A through E(2)	Teeter Revenues	$123,725,000	2014
Orange County Public Financing Authority Lease Revenue Refunding Bonds, Series 2005	General Fund	$419,755,000	2017
County of Orange Taxable Pension Refunding Obligation Bonds, Series 1996 A(1)	General Fund	$ 55,657,232	2016
County of Orange Taxable Pension Refunding, Obligation Bonds, Series 1997 A(1)	General Fund	$ 44,059,066	2021
Orange County Public Financing Authority Telecommunications Equipment Project Lease Revenue Bonds, Series 2001	General Fund	$ 4,775,000	2008
Airport Revenue Refunding Bonds, Series 2003	Airport Revenues	$ 43,975,000	2018
Airport Revenue Refunding Bonds, Series 1997	Airport Revenues	$ 74,600,000	2012
Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds, Series 1997	Solid Waste System Revenues	$ 46,650,000	2013
Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002	General Fund	$ 65,770,000	2019
Orange County Financing Authority Tax Allocation Revenue Bonds, Series 1992 A (Neighborhood Development and Preservation Project)	OCDA Tax Increment Revenues	$ 725,000 (3)	2006
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 (Neighborhood Development and Preservation Project)	OCDA Tax Increment Revenues	$ 23,860,000	2022
Orange County Development Agency Santa Ana Heights Project Area 2003 Tax Allocation Refunding Bonds	OCDA Tax Increment Revenues	$ 35,480,000	2023

Source: County of Orange.

(1) The outstanding Taxable Refunding Pension Obligation Bonds, Series 1994A, Series 1996A and Series 1997A were economically defeased on June 22, 2000, through the deposit with the trustee of $175.492 million principal amount of AAA-rated debt securities issued by Fannie Mae, together with irrevocable instructions that these securities and other cash amounts and investments held by the trustee, will be used solely to retire the remaining Pension Obligation Bonds as they mature.
(2) Variable rate.
(3) Outstanding principal balance represents the full accreted value of the outstanding capital accretion bonds at maturity.

The County has formed 23 community facilities districts and three assessment districts, the majority of which have issued bonds to finance the construction of public facilities in newly developing areas. The bonds are paid from special taxes or assessments levied on all eligible property within each district's boundaries. The outstanding principal balance of these bonds as of June 30, 2006 was $656 million. Neither the faith and credit nor the taxing power of the County, or any political subdivision thereof, is pledged to the payment of the bonds. Additional community facilities districts or assessment districts may be formed and issue bonds. The County is unable to predict the aggregate amount of such bonds that may be outstanding in the future.

Capital and Operating Lease Obligations

The County is the lessee under a number of capital leases in effect with respect to real property and equipment used by the County. The following is a schedule by years of future minimum lease payments required by the County under capital leases together with the present value of net minimum lease payments, as of June 30, 2005. The following tables concerning capital and operating lease obligations do not include the financing leases and certificates of participation described above under "Outstanding Long Term Debt and Lease Obligations."

TABLE A-11

COUNTY OF ORANGE
CAPITAL LEASE PAYMENTS
(In Thousands)

Fiscal Year Ending June 30	
2006	$13,418
2007	13,210
2008	13,428
2009	13,696
2010	12,241
2011-2015	50,211
2016-2020	46,155
2021-2025	34,975
2026-2027	980
Total minimum lease payments	198,314
Less: amount representing interest	(92,125)
Present value of net minimum lease payments	$106,189

Source: Orange County Office of Auditor-Controller, Comprehensive Annual Financial Report for year ended June 30, 2005.

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments of the County as of June 30, 2005.

TABLE A-12

COUNTY OF ORANGE
OPERATING LEASE PAYMENTS
(In Thousands)

Fiscal Year Ending June 30	Equipment	Real Property	Total
2006	$18,707	$24,285	$42,992
2007	14,013	20,365	34,378
2008	12,825	19,346	32,171
2009	4604	17,041	21,645
2010	923	14,055	14,978
2011-2015	–	29,120	29,120
2016-2020	–	1,885	1,885
TOTAL	$51,072	$126,097	$177,169

Source: Orange County Office of Auditor-Controller, Comprehensive Annual Financial Report for year ended June 30, 2005.

Overlapping Debt and Debt Ratios

The County contains numerous municipalities, school districts, and special purpose districts such as water and sanitation districts, which have issued general obligation bonded indebtedness. Set forth in the following table is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. as of July 1, 2006. The Debt Report is included for general information purposes only. The County makes no representations as to its completeness or accuracy. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation.

TABLE A-13

ORANGE COUNTY

2005-06 Assessed Valuation:	$342,576,859,493	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	30,614,424,731	
Adjusted Assessed Valuation:	$311,962,434,762	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/06
Orange County Teeter Plan Obligations	100. %	$ 123,725,000
Metropolitan Water District	21.052	82,011,224
Coast Community College District	100.	102,718,867
North Orange County Joint Community College District	97.247	235,575,024
Rancho Santiago Community College District	100.	210,699,166
Unified School Districts	100.	581,922,656
Anaheim Union High School District	100.	128,308,955
Fullerton Joint Union High School District	90.440	57,187,844
Huntington Beach Union High School District	100.	204,458,794
School Districts	100.	200,968,685
Irvine Ranch Water District Improvement Districts	100.	164,600,000
Moulton-Niguel Water District Improvement Districts	100.	56,410,000
Santa Margarita Water District Improvement Districts	100.	198,945,000
South Coast Water District	100.	5,355,000
Cities	100.	25,185,000
Orange County Community Facilities Districts	100.	674,425,374
Other Community Facilities Districts	100.	1,287,362,995
City and Special District Special Assessment Bonds	100.	856,920,012
County 1915 Act Bonds	100.	127,283,296
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$5,324,062,892

OTHER DIRECT AND OVERLAPPING DEBT:		
Orange County General Fund Obligations	100. %	$ 583,497,000 (1)
Orange County Pension Obligations	100.	93,616,298
Orange County Office of Education Certificates of Participation	100.	19,820,000
Orange County Transit Authority	100.	1,235,000
Municipal Water District of Orange County Water Facilities Corporation	100.	20,800,000
Orange County Sanitation District Certificates of Participation	100.	130,370,000
Community College District Certificates of Participation	100.	45,485,000
Unified School District Certificates of Participation	100.	278,233,003
High School District Certificates of Participation	90.440-100.	59,676,402
School District Certificates of Participation	100.	62,910,000
City of Anaheim General Fund Obligations	100.	656,283,068
Other City General Fund Obligations	100.	546,039,014
Irvine Ranch Water District Certificates of Participation	100.	44,200,000
Moulton-Niguel Water District Certificates of Participation	100.	32,135,234
Other Special District General Fund Obligations	100.	34,445,000
TOTAL GROSS OTHER DIRECT AND OVERLAPPING DEBT		$2,608,745,019
Less: Orange County Transit Authority (80% self-supporting)		988,000
MWDOC Water Facilities Corporation (100% self-supporting)		20,800,000
City of Anaheim self-supporting obligations (100% self-supporting)		626,215,108
Other city authority self-supporting bonds		37,766,000
South Coast Water District Enterprise Revenue Bonds (100% self-supporting)		3,305,000
TOTAL NET OTHER DIRECT AND OVERLAPPING DEBT		$1,919,670,911
GROSS COMBINED TOTAL DEBT		$7,932,807,911(2)
NET COMBINED TOTAL DEBT		$7,243,733,803

(1) Excludes lease revenue bonds to be sold. Excludes accreted values. The County currently has General Fund and Pension Obligations that include capital appreciation bonds.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2005-06 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 1.55%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/06: $948,026

YV:($600)

COUNTY RETIREMENT SYSTEM

General

The County contributes to the Orange County Employees Retirement System ("OCERS"), established 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 and employees of certain cities and special districts within the County participate. OCERS is governed by the Board of Retirement (the "OCERS Board"), which is independent of the County Board of Supervisors, although the Board of Supervisors appoints four members of the nine-member OCERS Board. Certain attributes of independence of OCERS are guaranteed under the California Constitution. 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 "unfunded accrued actuarial liability" (the "UAAL") contribution, to the extent a UAAL exists.

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

According to OCERS most recent public report dated December 31, 2005, entities paying into the OCERS include the County, Orange County Transportation Authority, Orange County Sanitation District, University of California, Irvine Medical Center, City of San Juan Capistrano, Transportation Corridor Agencies, Orange County Vector Control District, Orange County Department of Education, Orange County Cemetery District, Orange County Public Law Library, Orange County Fire Authority, City of Rancho Santa Margarita, Orange County Children and Families Commission, OCERS, Orange County Local Agency Formation Commission and Orange County Superior Court. The County payments represent approximately 80% of the payments into OCERS.

Under OCERS, each County employee receives a "defined benefit" at retirement, that is, a specific amount per month determined in accordance with the labor contracts negotiated between the County and employees, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement.

Actuarial Valuation and Funding Methodology

Actuarially, based on OCERS' assumptions, OCERS currently has an UAAL. The UAAL for OCERS is an estimate based on a series of assumptions that operate on demographic data of OCERS' membership. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in OCERS are to fund, as of the date of calculation, the accrued costs attributable to currently active, vested terminated and retired employees. This determination of underfunding rests on actuarial assumptions regarding expected return on invested assets, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries, salary increases, contributions to OCERS, inflation, and other factors. The UAAL is paid by all participating agencies, including the County, and amortized, over a period of years (as described below). The County previously funded a portion of the UAAL attributable to the County with the proceeds of taxable pension obligation bonds. See "Actuarial and Funding Status" below and "Outstanding Long Term Debt and Lease Obligations" herein.

When measuring assets for determining the UAAL, many pension plans, including OCERS, "smooth" market value gains and losses to reduce volatility. If in the period for which an actuarial valuation is prepared the actual investment return on OCERS' assets is lower or higher than the actuarial assumed rate of return, then 20% of the shortfall or excess is recognized in each of the succeeding fiscal years, resulting in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

Benefit Formulas

Under current phased collective bargaining agreements with County employees, the County agreed to the following enhanced retirement formulas:

- 3% at age 50 – safety employees

- 2.7% at age 55 – general employees (approx. 13,000) (In collective bargaining agreements with general employees which expire on June 2007, the unions agreed that current employees will pay the costs of the difference between retirement benefits at the prior formulas (1.667% at age 62 and 2.0% at age 57) and the new 2.7% at age 55 formula).

- 1.667% at age 62 and 2.0% at age 57 – general members of the American Federation of State, County and Municipal Employees (approx. 860 employees) who have not agreed to the 2.7% at age 55 retirement formula

In the 1997 *Ventura* decision of the California Supreme Court, the Court stated that for the purpose of calculating pension benefits, "final earnings" can mean not only base salaries, but also other components (such as overtime and extra pay categories). Orange County employee contributions under current contracts are calculated only on base salary, which excludes other additional items of compensation.

December 31, 2004 Actuarial Valuation

OCERS' actuarial valuation, as of December 31, 2003, was completed on July 16, 2004 by OCERS' former actuary who determined the UAAL to be $1.309 billion. In 2004, OCERS retained a different actuary to complete an actuarial valuation of OCERS (the "2004 Valuation") as of December 31, 2004. The revised 2004 Valuation calculated the UAAL as of December 31, 2004 to be $2.16 billion. The 2004 Valuation determined that the ratio of the valuation assets to actuarial accrued liabilities decreased from 78.5% as of December 31, 2003 to 70.85% as of December 31, 2004. (The 2004 Valuation estimated that the UAAL and funding ratio, without the changes in actuarial assumptions, procedures and methodologies used in their valuation, would have been $1.761 billion and 74.9%, respectively.) The average aggregate employer contribution rate for the County in the 2004 Valuation increased from 18.89% of payroll beginning July 1, 2005 to 24.29% beginning July 1, 2006, and employee rates, some of which are contributed by the County under existing bargaining agreements also increased. Employer and employee rates are expressed as a percentage of payroll.

The $850 million increase in UAAL was attributable to a number of factors including the following:

– differences between the 2004 Valuation and the prior actuary's valuation system and procedures;

– changes in assumptions, including salary scale, withdrawal and retirement assumptions, based upon the December 31, 2004 triennial experience study of the County; and

– benefit changes including adoption of a 2.7% at age 55 formula for the County, Orange County Superior Court and Orange County Fire Authority general members; 2.5% at age 55 for the Orange County Sanitation District; and 3% at age 50 for the County's safety officers.

December 31, 2005 Actuarial Valuation

OCERS December 31, 2005 actuarial valuation (the "2005 Valuation") was completed by OCERS' current actuary. The 2005 Valuation calculated UAAL as of December 31, 2005 as $2.30 billion, increased from $2.16 billion as of December 31, 2004. The UAAL increase was mainly due to unfavorable actuarial experience during the 2005 calendar year. The ratio of the valuation value of assets to actuarial accrued liabilities in the 2005 Valuation is 71.53%. The aggregate employer contribution rate is calculated in the 2005 Valuation at 24.30% of payroll beginning July 1, 2007. Employee rates, some of which are contributed by the County under existing bargaining agreements, decreased from that in the 2004 Valuation, primarily due to changes in membership demographics.

Actuarial and Funding Status

Actual investment returns for the past five years for OCERS shown in Table A-14. Average returns for the past ten years have been 6.28% per year.

<u>TABLE A-14</u>

Orange County Employees Retirement System
HISTORICAL INVESTMENT RETURNS
(Fair Value)

2001	2002	2003	2004	2005
-3.22%	-5.46%	19.84%	11.40%	8.83%

Source: Orange County Employees Retirement System Comprehensive Annual Financial Report for the Year Ended December 31, 2005.

OCERS is funded pursuant to the Entry Age Normal funding method. Among the actuarial assumptions currently used in valuing the plan are (i) an investment return assumption of 7.75%, (ii) a policy to amortize OCERS UAAL as of December 31, 2004 over a declining 30-year period, (iii) amortizing any increases or decreases in UAAL that arise in the future years due to actuarial gains or losses over 15 years, (iv) all amortizations conducted on a level percent of pay basis and (v) a 3.5% inflation assumption. Actuarial assumptions are subject to change.

Table A-15 shows the changes in OCERS net plan assets for the past three calendar years.

TABLE A-15

ORANGE COUNTY EMPLOYEES' RETIREMENT SYSTEM
CONTRIBUTIONS
(In Thousands of Dollars)

	Years Ended December 31		
	2003	2004	2005
Contributions Received	$205,824	$276,361	$333,673
Net Investment Gains (Losses)	788,036	568,027	460,431
Net Securities Lending Income and Other Income	1,050	973	1,548
Participant's Benefits	(210,273)	(230,684)	(257,929)
Withdrawals and Refunds	(6,412)	(7,845)	(6,999)
Administrative Expenses	(8,848)	(9,463)	(9,953)
Increases (Decreases) in Plan Net Assets	$769,377	$597,369	$520,773

Source: The Orange County Employees Retirement System Comprehensive Annual Financial Report for the Year Ended December 31, 2005.

The County contributions represent approximately 80% of total employer contributions.

Table A-16 shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and two indicators of funding progress for OCERS, the funding ratio and the ratio of UAAL to annual payroll. As of December 31, 2005, OCERS' actuarial valuation of assets still reflected the deferral of approximately $156 million in net gains due to the recognition of gains and losses on an actuarial basis over a five-year "smoothing" period. Approximately 80% of the OCERS unfunded liability is allocable to the County.

TABLE A-16

ORANGE COUNTY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
(Dollars in Thousands)

Actuarial Valuation as of December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Total Unfunded Actuarial Accrued Liability (UAAL)[1]	Funded Ratio[2]	Covered Payroll[3]	UAAL as a Percentage of Covered Payroll[4]
2001	4,586,844	4,843,899	257,055	94.69%	1,122,763	22.89%
2002	4,695,675	5,673,754	978,079	82.76%	1,242,348	78.73%
2003	4,790,099	6,099,433	1,309,334	78.53%	1,243,964	105.25%
2004[5]	5,245,821	7,403,972	2,158,151	70.9%	1,257,085	171.68%
2005	5,786,617	8,089,627	2,303,010	71.5%	1,276,764	180.38%

(1) Actual value of assets minus actual accrued liability.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.
(5) Effective with the 2004 plan year, the actuarial valuation of plan assets was changed to a 5-year smoothing methodology based on market value rather than a rolling 5-year modified book value.

Note:

1. The 12/31/01, 12/31/02, 12/31/03, 12/31/04 and 12/31/05 actuarial value of assets exclude $221,643,000, $143,675,000, $143,744,000, $155,245,000 and $158,218,736 of the County Investment Account balances respectively.

Source: The Orange County Employees' Retirement System Comprehensive Annual Financial Report for the Year Ended December 31, 2005.

In September 1994, the County issued $320 million of pension obligation bonds, of which $318 million in proceeds were paid to OCERS. See "Outstanding Long Term Debt and Lease Obligations." For accounting purposes 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 gives the County significant discretion in applying the credit. As of December 31, 2005, approximately $158 million of such proceeds remained available as future credits to the County's pension obligations.

Table A-17 below shows the County's required contributions and the percentage contributed for the past five Fiscal Years and the current Fiscal Year.

TABLE A-17

ORANGE COUNTY EMPLOYEES' RETIREMENT SYSTEM
COUNTY CONTRIBUTIONS
(Dollars in Thousands)

Year Ended	County Cash Contribution[1]	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/03	59,801	97,571	157,372	100%
06/30/04	114,851	49,001	163,852	100
06/30/05	181,834	7,158	188,992	100
06/30/06[2]	228,498	11,596	240,094	100
06/30/07[3]	156,360	11,000	167,360	100

[1] Amounts exclude Special Districts (i.e. OC Children & Families Commission, Law Library, Vector Control etc.). Amounts include Superior Courts and OCERS.
[2] Net of $114,947 for pre-payment of County's FY 2006-07 expense.
[3] Projected.
Source: County Cash Contribution data from Orange County Budget Services. OCERS Investment Account Contribution data from Orange County Employee's Retirement System.

Investors are cautioned that, in considering the amount of the UAAL, the funded ratio, and the calculations of normal cost as reported by OCERS and the resulting amounts of required contributions by the County, this is "forward looking" information. Such "forward looking" information reflects the judgment of the board of OCERS and its actuaries as to the amount of assets which OCERS will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees and existing retired employees. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future. That may change with the future experience of OCERS.

For additional information, see Note 18 in the "Notes to the Basic Financial Statements Fiscal Year Ended June 30, 2005," which appears as an Appendix to this Official Statement. Various reports for OCERS are posted from time to time on the OCERS' website, www.ocers.org. Such reports are not incorporated as part of this Official Statement.

Retirement Contribution Prepayment

On January 30, 2006, the County issued its $105,990,520 Taxable Pension Obligation Bonds, Series 2006 (the "2006 POBs"). The County issued the 2006 POBs following OCERS decision to grant a 7.75% discount to the County Fiscal Year 2006-07 contributions pre-paid to OCERS prior to January 31, 2006. The 2006 POBs mature on June 29, 2007.

Post Employment Health Care Benefits

Plan Description. On August 1, 1993, the County Board of Supervisors approved the County of Orange Retiree Medical Plan (the "Medical Plan") to assist career employees in maintaining health insurance coverage following retirement from County service. The Medical Plan is not required by the Retirement Law.

Under the Medical Plan, eligible retired County employees receive a monthly grant (the "Grant"), which helps offset the cost of monthly health plan and/or Medicare premiums. The monthly Grant amount is determined by a formula which multiplies a base number by the number of years of qualifying County employment up to a maximum of 25. The base number for calendar year 2006 is $15.99, and the maximum Grant is $399.75/mo. The base number is adjusted annually based on a formula defined in the Plan document, with a maximum increase/decrease of 5%.

In order to be eligible to receive the Grant upon retirement, the employee must be at least 50 years old, have completed at least 10 years of service (although exceptions for disabled persons exist), be enrolled in a County health plan and/or Medicare and be able to receive a monthly benefit payment from OCERS. The amount of the Grant is netted against the monthly health plan and/or Medicare premium payable 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 to the Medical Plan. Surviving dependents of a deceased employee or retiree eligible for the grant are entitled to receive 50% of the Grant the employee/retiree was eligible to receive.

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

Funding Policy. To date, the County has paid Medical Plan liabilities on a "pay as you go" basis, and has not established a permanent funding (reserve) policy for the Medical Plan. Funds used to pay current Medical Plan benefits are derived from two sources: *first*, County contributions, including a portion of employee contributions described below, and *second*, certain funds set aside in OCERS. The source of the funds within OCERS is certain investment earnings that exceed the assumed actuarial rate of return. Due to several years of realized gains on OCERS' assets of less than the assumed actuarial rate of return, excess reserves have been depleted and a fund set aside for interim funding of the Medical Plan, the Retiree Member Benefit Reserve (RMBR), is being used for that purpose. According to OCERS, excess reserves are not expected to be available for payment of Medical Plan benefits for the immediate future.

In August 2004, the County and OCERS approved an amended and restated Additional Retiree Benefit Account (ARBA) agreement (the "ARBA Agreement") which, among other things, revised the funding of the Medical Plan in cases when excess reserves from OCERS are not available. Under the ARBA Agreement, if the funding level for RMBR is less than the projected two years' funding level and there are no excess reserves in OCERS, the County will increase its OCERS contributions to the lesser of the amount required to bring RMBR to a two year funding level or one percent of General Fund payroll. Since RMBR is not currently funded at the two year level, the County began paying 1% of payroll to OCERS on July 1, 2005. Current projections show that the current funding sources will fall short of meeting long term funding requirements.

As part of County agreements with employees and bargaining units, employees contribute 1% of pay toward payment of current year health care costs. Currently, 0.75% of the 1% employee payment is used to pay Grants.

Actuarial Valuation. In November 2005, the County received a June 30, 2005 actuarial valuation for County of Orange Retiree Healthcare Plan (the "Report") from an outside consultant, Bartel

Associates, LLC. The Report is based upon data as of June 30, 2005 and includes County employees and employees of other governmental entities who use the County's benefits system. The Report is intended to determine retiree healthcare plan benefit obligations as of June 30, 2005 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45). The County is required to report in conformity with GASB 45 beginning with the fiscal year ending June 30, 2008. In addition to liabilities for the Grant and lump sum payments under the Medical Plan, the Report includes liabilities for the value of the implied "subsidy" provided to retirees by extending medical benefits to retirees at the same rate charged to active employees. Among the actuarial methods and assumptions used in the Report are: (i) the Entry Age Normal actuarial cost method, (ii) amortizing the unfunded accrued actuarial liability over 30 years as a level percentage or payroll, (iii) a 4.25% long-term expected rate of return on County funds, (iv) a 4.00% per annum payroll increase assumption, and (v) assumed increases in the monthly Plan Grant of 2.06% in 2006 and 5.00% for 2007 and beyond, the Report estimates the actuarial accrued liability (the liability or obligation for benefits earned or allocated to past service at the valuation date calculated using the selected actuarial methods and assumptions) at approximately $1.418 billion, which due to the current "pay-as-you-go" funding, is virtually all unfunded. The Report also determined that the Annual Required Contribution (ARC – the normal cost (value of benefits expected to be earned or allocated to the fiscal years) plus a 30-year level percent of pay amortization of the unfunded liability) for Fiscal Year 2005-06 would be $125.67 million.

Medical Plan Restructuring

On September 12, 2006, the Board of Supervisors approved agreements with OCEA and SEIU (collectively representing approximately 12,000 County employees) which include restructuring the current Medical Plan. The Restructured Medical Plan will:

- Effective January 2008, pool current employees and retirees separately for the purposes of determining medical insurance premiums
- Once retiree becomes Medicare eligible, reduce Grant by 50%. Retirees who as of September 12, 2006 were aged 65 or older will receive no reduction. Current retirees age 64 or younger will receive a 50% reduction once Medicare eligible, but no sooner than 1 year.
- The Grant for current employees retiring after September 12, 2006 will be reduced 7.5% for each year prior to age 60 and increased by 7.5% for each year of service after age 60 up to age 70
- County will establish a Trust to administer Retiree Medical Plan monies, effective January 1, 2007
- The Lump sum benefit is phased out
- Effective June 23, 2006, the County will fund the entire cost of the Restructured Medical Plan.

The Restructured Medical Plan is estimated to reduce the $1.418 billion unfunded actuarial accrued liability from the Report and lower the ARC. The extent of the UAAL and ARC reductions will depend on a number of factors, including but not limited to the result of ongoing negotiations between the County and other bargaining units. The County presently intends to fund the entire ARC for the Restructured Medical Plan. In addition, effective September 30, 2005, employees represented by the American Federation of State, County and Municipal Employees ceased participation in the Medical Plan and agreed to separate current employees from retirees for health premium purposes, effective January 1, 2007.

County Plans For the Future

The County is presently in negotiations with its remaining bargaining units. The County is unable to represent that any further Medical Plan design changes and/or changes to reduce or eliminate the implied subsidy will be successfully negotiated, and to the extent such changes will result in litigation against the County from current employees or retirees. However, published reports following the Board of Supervisors actions approving the agreements with OCEA and SEIU suggest that retirees may institute litigation against the County in connection with the Restructured Medical Plan and the separate pooling of current employees from retirees for health premium determination. The County is unable to predict the outcome of any litigation resulting from any changes to the Medical Plan or the implied subsidy.

Investors are cautioned that, in considering the amount of the actuarial liabilities and the resulting amounts of required contributions by the County, this is "forward looking" information. Such "forward looking" information reflects the judgment of the board of the County and its actuaries as to the amount of assets which will be required to accumulate to fund future benefits over the lives of the currently active employees and existing retired employees. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, that may change with the future experience of the County.

For additional information, see Note 19 in the "Notes to the Basic Financial Statements Fiscal Year Ended June 30, 2005," which appears as Appendix B to this Official Statement.

COUNTY INVESTMENT POLICY

The County Treasurer has been granted the authority to deposit and invest County and County agency funds under the County Treasurer's control pursuant to California Government Code Section 27000 et seq. and Section 53600 et seq. and certain actions of the County Board of Supervisors. Additionally, school districts located in the County are required to deposit their moneys with the County Treasurer pursuant to the California Education Code. The deposits of funds from other districts and local agencies may be invested with the County Treasurer pursuant to a procedure established by California Government Code Section 53684 and other statutory provisions.

The County Treasurer is to adhere to the strict guidelines for permitted investments established by the County's "Investment Policy Statement" (the "Investment Policy"), which applies solely to funds currently invested by the County Treasurer in the Orange County Investment Pool (the "Commingled Pool"), the Orange County Educational Investment Pool (the "Educational Pool") and the John Wayne Airport Investment Pool (together with the Commingled Pool and the Educational Pool, the "Pools"). Certain other funds, such as narcotics suppression funds, are invested separately and are not subject to the Investment Policy. The Investment Policy requires investment of public funds in a manner which will, in order of priority, maintain safety of principal, meet fund participants' daily cash flow needs and achieve the highest yields, while conforming to all applicable State statutes and Board of Supervisors' actions regarding public funds investment. The Investment Policy establishes a Money Market Fund and Extended Fund as components of the Pools (currently, the John Wayne Airport Pool does not participate in the Extended Fund). The County Treasurer shall determine, on a cash flow basis, the percentage of moneys to be invested in both the Money Market Fund and Extended Fund. The maximum maturity of investments under the Money Market Fund is 13 months, with a maximum weighted average maturity of 90 days. The maximum maturity of the Extended Fund is 3 years, with a maximum weighted average of 18 months. The investments in the Pools are marked to market daily to determine the value of the Pools.

To further maintain safety, the County Treasurer is required to adhere to an investment strategy of diversification in regard to instruments and maturities, as well as maintain internal controls for proper accounting and reporting, compliance, document safekeeping, collateralization and qualified financial broker-dealers.

TABLE A-18

AUTHORIZED INVESTMENTS IN THE POOLS
Effective As of January 1, 2006

Type of Investment	Permitted Concentration
U.S. Treasury instruments backed by the full faith and credit of the United States government	100%
Obligations issued or guaranteed by agencies of the United States government	100%
Commercial paper of "prime" quality with a high rating (A-1/P-1/F-1) provided by two of Moody's, S&P and Fitch, with further restrictions regarding issuer size and maturity	Between 40% and 50% depending upon fund and rating
Negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank and is rated by two of Moody's, S&P and Fitch and such rating is not below P-1, A-1, F-l, the Money Market Funds may invest in U.S. dollar denominated certificates of deposit issued in London, England (Euro CD)	30%
Banker's acceptances, with a maturity not to exceed 180 days and where issuer banks are rated by two of Moody's, S&P and Fitch and such rating is not below P-1, A-1, F-1	40%
Money market mutual funds	20%; no more than 10% may be invested in any one money market fund
State of California or municipal long-term debt rated at least "A" by two of Moody's, S&P or Fitch and short-term debt rated at least MIG 1/VMIG 1, SP-1 or F-1 by two of Moody's, S&P or Fitch with no less than an "A" rating on long-term debt (10%)	10%
"AA" or better receivable-backed securities where the issuer is rated A or better by two of Moody's, S&P and Fitch	10%
Medium-term notes, rated A or better by at least two of Moody's, S&P and Fitch, which note issuer has a short term rating, if any, not less than A-1, P-1 or F-1, for the Extended Fund, medium-term notes with an AAA rating by two of Moody's, S&P and Fitch may have a maturity greater than 397 days (not to exceed 3 years)	30%
The Money Market Funds may invest in funding agreements with a rating of not less than A-1, P-1 or F-1 by two of Moody's, S&P or Fitch	10%

The Money Market Funds may also invest in such other securities that are "eligible securities" under SEC Rule 2A-7 of the Investment Company Act or 1940 and meets other applicable requirements of Government Code section 53601.7	10%
Repurchase agreements are limited to maturities of one year or less and must be collateralized by securities with a value of at least 102% of the repurchase price	50%

In addition, no investment may be purchased from an issuer that has been placed on credit watch – negative by any rating agency, or whose credit rating or investment rating falls below the minimum levels specified above unless the issuer has a short-term rating of A-1+ or F-1+ by S&P or Fitch or at least an AA or Aa2 long-term rating by S&P and Fitch or Moody's.

The Investment Policy expressly prohibits leverage, reverse repurchase agreements, structured notes or any investment commonly considered a derivative instrument. Under the Investment Policy, no more than 5% of the total market value of the funds within the Pools may be invested in securities of any one issuer, with the exception of obligations of the United States Government, U.S. Government agencies or government-sponsored enterprises. At the time of purchase of any security, a fund may invest up to twelve and a half percent (12.5%) of its total market value in the securities of a single issuer for a period of up to three business days. The fund may not invest in the securities of more than one issuer under this provision at any time. In addition, no more than 10% of the total market value of the funds within the Pools may be invested in one money market mutual fund. All investments will be United States dollar denominated and marked to market daily. All permitted investments are required to comply in every respect with applicable California Government Code provisions.

Treasury oversight is conducted by the County Treasury Oversight Committee, established in December 1995, which is comprised of the CEO, the County Auditor-Controller, the County Superintendent of Schools or designee and two public members. In addition, the Investment Pool is rated by both Moody's and Fitch, who have assigned the Investment ratings of "AAA/MR-1" and "AAA/V 1+," respectively.

As of June 30, 2006, the market value of the Commingled Pool (combined money market fund and extended fund) was $2,950,141,081. The diversification of the Commingled Pool's assets, as of such date is shown in the following table.

Type of Investment	% of Commingled Pool
Municipal debt	3.65%
Repurchase agreements	5.76
U.S. Government Agencies	31.49
Commercial paper	25.91
Certificates of deposit	20.23
Medium-term notes	12.34
Money market mutual funds	0.62

As of June 30, 2006, the market value of Commingled Pool moneys invested in the Extended Fund was $1,147,709,796. The weighted average maturity of all Commingled Pool moneys was 164 days. The current yield of the Commingled Pool at June 30, 2006 was 4.9%. In total, on a cost basis on such date, the County Treasurer had $5,537,980,746 under investment in the Pools and various other separately managed investments.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

Growth 1997-2006. The County is the second most populous county in the State and the fifth most populous in the nation. During the period 1997 through 2006, the population of the County increased by approximately 16.1%, compared to 16.2% for the State and 12.8% for the United States.

TABLE A-19

COUNTY OF ORANGE, STATE OF CALIFORNIA AND UNITED STATES POPULATION GROWTH

Date	County	State	United States
1997	2,699,584	32,452,789	267,783,607
1998	2,749,564	32,862,965	270,248,003
1999	2,802,818	33,418,578	272,690,813
2000	2,863,529	34,098,740	282,193,477
2001	2,918,427	34,784,382	285,107,923
2002	2,962,808	35,392,960	287,984,799
2003	3,004,371	35,989,983	290,850,005
2004	3,036,002	36,004,661	293,656,842
2005	3,047,054	36,728,196	296,410,404
2006	3,072,336	37,172,015	299,258,511

Source: Orange County and State Statistics – California State Department of Finance, 2006. United States Statistics – Bureau of Census, 2006.

Projected Growth Through 2050. Table A-20 includes population projections for the County, the State and the United States. The County is expected to have growth rates lower than statewide levels but somewhat comparable to nationwide levels through the year 2050.

TABLE A-20

COUNTY OF ORANGE, STATE OF CALIFORNIA AND UNITED STATES POPULATION PROJECTIONS

Year	County	State	United States
2010	3,260,162	39,246,787	308,936,000
2020	3,526,144	43,851,741	335,805,000
2030	3,665,343	48,110,671	363,584,000
2040	3,704,802	51,538,596	391,946,000
2050	3,702,641	54,777,700	419,854,000

Source: Orange County and State Projections – California State Department of Finance, 2006. United States Projections – Bureau of the Census, 2006.

Public Schools (Elementary and Secondary)

Public instruction in the County is provided by twelve elementary school districts, three high school districts and twelve unified (combined elementary and high school) districts. For the fall of 2005, the largest district, the Santa Ana Unified School District, had 59,310 students enrolled. Public school enrollment for the period 2001-02 through 2005-06 is presented in Table A-21.

TABLE A-21

COUNTY OF ORANGE
PUBLIC SCHOOL ENROLLMENT

Grade Levels	2001-02	2002-03	2003-04	2004-05	2005-06
Total Enrollment K-12	503,351	512,105	515,464	513,744	510,114

Source: Orange County Department of Education, California Basic Educational Data Systems Report.

Colleges and Universities

The County has a number of top-rated, college-level educational institutions, including the University of California at Irvine and California State University at Fullerton, several private colleges, universities and law schools and four community college districts.

Employment

The following table summarizes the historical numbers of workers in the County since 2001.

TABLE A-22

COUNTY OF ORANGE
ESTIMATED WAGE AND SALARY WORKERS BY INDUSTRY*

	2001	2002	2003	2004	2005
Agricultural	7,100	7,300	7,200	6,700	5,300
Mining & Natural Resources	600	600	500	600	700
Construction	80,700	79,200	83,700	92,200	99,300
Manufacturing (Durable & Nondurable)	208,500	190,800	183,900	183,500	182,700
Trade, Transportation and Utilities	264,400	262,500	265,000	264,900	268,900
Information (Telecom, Publishing, etc.)	40,200	36,800	35,200	33,800	32,800
Finance, Insurance & Real Estate	105,900	110,200	122,200	132,300	138,200
Services (Professional, Health, Ed. Etc.)	562,500	568,500	584,200	596,200	612,900
Government	150,900	155,100	154,200	153,400	155,300
Total All Industries	1,420,800	1,411,000	1,436,100	1,463,600	1,496,200

Source: California Employment Development Department

* Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding. March 2005 Benchmark.

Industry Trends and Outlook*

Services Sector. Services are the County's largest industry. Services are expected to continue to lead the County's industries in the creation of new jobs during the forecast period. It is expected that the services industry will reflect an increase of 119,800 jobs (26%) to a total of 573,800 by 2012. The largest growth is expected to be in business services, with a projected increase of 62,800 jobs to a total of 311,600. Business services include professional, scientific and technical services; management of companies and enterprises; and administrative and support and waste services.

Construction Sector. The County's construction sector is composed of three primary industries: special trade contractors (including plumbers, electricians, carpenters and related workers); general building contractors (including residential and commercial builders); and heavy construction (including highway and bridge construction and maintenance). Construction employment in the County is expected to increase by 31,900 jobs (40.3%) during the forecast period and reach 111,100 by 2012.

Manufacturing Sector. The County's manufacturing sector comprises two primary industries: durable goods and nondurable goods. Employment in manufacturing peaked in 1988 when there were 254,300 jobs. Since then, jobs in this sector declined to a level of 190,800 by 2002. The bulk of this decline was in the durable goods field, primarily in the high tech/aerospace related industries. Projections for the end of the forecast period (2012) indicate that manufacturing jobs will increase by 4.6% to a total of 199,600.

Trade, Transportation and Utilities Sector. This employment sector comprises two primary industries: wholesale and retail trade; and transportation, warehousing and utilities. Employment in this sector averaged 262,500 jobs in 2002. It is anticipated that employment in this area will increase by 18.6% and reach 311,200 jobs by 2012. Growth will be spread throughout both segments of this employment sector, with the largest anticipated gains being in trade with an anticipated 46,000 new jobs followed by transportation, warehousing and utilities with an anticipated 2,700 new jobs.

Finance, Insurance and Real Estate Sector. This employment sector is composed of two primary industries: finance and insurance, and real estate and rental/leasing. Employment in this sector is expected to increase by 23,600 new jobs (21.4%) to a total of 133,800 by 2012.

Government Sector. This employment sector comprises two primary areas: state/local government employment and federal government employment. Overall, government sector employment is expected to reflect a 24.7% growth rate, with an increase of 38,300 jobs to a total of 193,400 by 2012.

Mining Sector. Mining is the smallest industry in the County. This industry is expected to remain constant at 600 jobs during the forecast period.

Agriculture

Although representing a small percentage of the jobs in the County, agriculture remains an important sector of the County's economy. The total gross freight on board (f.o.b.) value of County agricultural products increased to $293,562,971 in 2004. The f.o.b. is an indicator of the first point of sale for a farmer and includes cost of production, harvesting and preparation for market. A five-year summary of farm production in the County is provided in Table A-23.

---

* Forecast Period 2001 to 2012.

Source: California Employment Development Department.

TABLE A-23

COUNTY OF ORANGE
GROSS VALUE OF FARM PRODUCTION

Production Type	2000	2001	2002	2003	2004
Animal Industry	$ 595,092	$ 553,164	$ 390,536	$ 235,884	$ 305,570
Apiculture	101,143	85,332	155,600	267,875	95,595
Field Products	1,807,203	2,193,920	969,580	888,680	1,116,608
Nursery	214,877,220	218,833,111	232,095,556	214,232,056	211,438,660
Orchards	97,325,226	64,534,910	64,416,357	81,398,716	62,379,756
Vegetables	51,715,719	32,852,615	46,261,670	14,591,513	18,226,782
	$366,421,603	$319,053,052	$344,289,299	$311,614,724	$293,562,971

Source: Orange County Department of Agriculture, Annual Orange County Crop Reports.

Major Employers

The following table lists the top ten employers in the County.

TABLE A-24

COUNTY OF ORANGE
TOP TEN EMPLOYERS
(2004)

Employer Name	Number of Employees (Full and Part-Time)
Walt Disney Company	21,000
County of Orange	16,489
University of California, Irvine	15,500
Boeing Company	11,160
St. Joseph Health System	8,975
Albertsons, Inc.	8,700
Tenet Healthcare Corp.	8,389
Yum! Brands Inc.	6,500
SBC Communications, Inc.	5,658
Target Corp.	5,436

Source: Orange County Business Council, 2005 for all employers other than the County of Orange; number of County of Orange employees, provided by the County of Orange, includes full-time regular status employees only.

Labor Force, Employment and Unemployment

The following table summarizes the labor force, employment and unemployment figures over the period 1996 through 2005 for the County and the State.

TABLE A-25

**COUNTY OF ORANGE AND STATE OF CALIFORNIA
LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
YEARLY AVERAGE**

Year and Area	Civilian Labor Force	Civilian Employment	Civilian Unemployment	Civilian Unemployment Rate
1996				
Orange County	1,336,400	1,280,400	56,000	4.2
California	15,435,900	14,303,500	1,132,400	7.3
1997				
Orange County	1,373,900	1,328,200	45,700	3.3
California	15,792,500	14,780,800	1,011,700	6.4
1998				
Orange County	1,426,700	1,385,300	41,400	2.9
California	16,166,900	15,203,700	963,200	6.0
1999				
Orange County	1,461,200	1,422,100	39,100	2.7
California	16,430,600	15,566,900	863,700	5.3
2000				
Orange County	1,480,900	1,428,700	52,200	3.5
California	16,857,500	16,024,300	835,200	4.9
2001				
Orange County	1,513,000	1,452,800	60,200	4.0
California	17,150,100	16,220,000	932,100	5.4
2002				
Orange County	1,531,300	1,454,500	76,800	5.0
California	17,330,700	16,168,200	1,162,500	6.7
2003				
Orange County	1,557,400	1,482,400	75,000	4.8
California	17,403,900	16,212,600	1,191,300	6.8
2004				
Orange County	1,580,800	1,512,800	68,000	4.3
California	17,499,600	16,407,900	1,091,700	6.2
2005				
Orange County	1,602,200	1,541,800	60,400	3.8
California	17,695,600	16,746,900	1,948,700	5.4

Source: California Employment Development Department, 2006.

Note: Figures may not add due to rounding.

Taxable Sales

Table A-26 summarizes the annual volume of taxable transactions since 2002.

TABLE A-26

COUNTY OF ORANGE
TAXABLE TRANSACTIONS
(In Thousands)

Type of Business	2002	2003	2004	2005	2006
Apparel Group	$ 1,508.0	$ 1,697.1	$ 1,881.9	$ 2,033.4	$ 2,136.2
General Merchandise	4,618.9	4,855.7	5,205.1	5,530.9	5,848.9
Specialty Stores	4,837.2	5,085.6	5,700.3	6,024.9	6,389.5
Food Stores	1,722.8	1,759.3	1,763.7	1,975.8	2,069.7
Eating and Drinking	3,884.4	4,149.1	4,475.8	4,693.8	4,949.9
Furniture and Appliances	1,787.3	2,053.3	2,205.1	2,357.5	2,484.9
Building Materials	2,276.0	2,480.2	2,950.6	2,940.8	3,035.7
New Motor Vehicles	5,542.7	6,205.5	6,596.8	6,888.9	7,203.0
Other Motor Vehicles	1,311.2	1,399.9	1,612.5	1,717.2	1,814.3
Service Stations	2,158.4	2,602.0	3,050.1	3,419.6	3,794.0
Total Retail Sales	29,646.9	32,287.7	35,442.0	37,582.8	39,726.0
Business & Personal Services	2,615.2	2,699.3	2,819.9	2,940.6	3,049.8
All Other Outlets	12,607.2	12,503.1	13,420.2	14,363.1	15,133.5
Total Taxable Sales	$44,869.3	$47,517.1	$51,682.1	$54,886.6	$57,909.4

Source: The Chapman University Economic & Business Review, December 2006.

Housing Characteristics

The total number of housing units in the County was estimated by the California State Department of Finance to be 1,018,380 as of January 1, 2006. This compares to 966,086 reported in 2000 and 875,105 in 1990. Data Quick Information estimated that as of May, 2006, the median value of an existing single-family home in the County was $646,000 as compared to $469,000 for the State.

Building Permits

The total valuation of residential building permits issued in the County exceeded $2.1 billion in 2005. Table A-27 provides a summary of residential building permit valuations and the number of new dwelling units authorized in the County during the period 2001 through 2005.

TABLE A-27

COUNTY OF ORANGE
RESIDENTIAL BUILDING PERMIT VALUATIONS AND PERMITS ISSUED

	2001	2002	2003	2004	2005
Permit Valuation					
Residential	$ 1,905,321	$ 2,328,123	$ 2,076,976	$ 2,243,642	$ 2,100,436
Nonresidential	1,349,607	1,208,626	1,005,547	1,132,848	1,494,759
Number of Deeds Recorded	145,590	176,753	202,018	167,773	159,455

Source: The Chapman University Economic & Business Review, June 2006.

Water Supply

Maintaining the County's water supply is the responsibility of the Orange County Water District ("OCWD"), manager of the County's groundwater basin, and the Municipal Water District of Orange County ("MWDOC"), the County's largest manager of imported water. More than 60% of the County's water is from local groundwater sources; the rest is imported. The County's natural underground reservoir is sufficient to carry it through temporary shortfall periods, but local supplies alone cannot sustain the present population.

Recreation and Tourism

The County is a tourist center in Southern California because of the broad spectrum of amusement parks and leisure, recreational and entertainment activities that it offers. These tourist attractions are complimented by the year-round mild climate.

Along the County's Pacific Coast shoreline are five state beaches and parks, five municipal beaches and five County beaches. There are two small-craft docking facilities in Newport Harbor, a third located at Sunset Beach and a fourth at Dana Point.

Other major recreational and amusement facilities include Disneyland, Disney's California Adventure, Knott's Berry Farm and the Spanish Mission of San Juan Capistrano. Also located within the County are the Anaheim Convention Center, Edison International Field of Anaheim, Arrowhead Pond of Anaheim, Orange County Performing Arts Center, Verizon Wireless Amphitheater and the Art Colony at Laguna Beach with its annual art festival.

The Anaheim Convention Center is located adjacent to Disneyland. It is situated on 50 acres and is one of the largest convention centers on the West Coast. Table A-28 summarizes the number of conventions held in the County, as well as attendance for the period 1996 through 2005.

TABLE A-28

COUNTY OF ORANGE
CONVENTION ACTIVITY

Year	Conventions	Attendance
1996	406	914,806
1997	449	979,259
1998*	480	750,698
1999*	468	767,689
2000	511	860,055
2001	540	959,000
2002	568	1,008,171
2003	639	1,160,954
2004	669	1,194,090
2005	625	1,113,224

Source: Anaheim/Orange County Visitor and Convention Bureau, 2005.

* A portion of the decrease in 1998 and 1999 from attendance and expenditure levels of prior years is attributable to the effects of the construction of Disney's California Adventure theme park and related infrastructure projects.

Transportation

The County is situated in the most heavily populated area in California and has access to excellent roads, rail, air and sea transportation. The Santa Ana Freeway (Interstate 5) provides direct access to downtown Los Angeles and connects with the San Diego Freeway (Interstate 405) southeast of the City of Santa Ana providing a direct link with San Diego. The Garden Grove Freeway (State 22) and the Riverside Freeway (State 91) provide east-west transportation, linking the San Diego Freeway, Santa Ana Freeway and the Newport Freeway (State 55). The Newport Freeway provides access to certain beach communities.

Drivers in the County have access to three toll roads. The 91 Express Lanes is a 10-mile express lanes toll road in the median of the SR 91 connecting Orange County and Riverside County. The San Joaquin Toll Road (73) runs from Costa Mesa to Mission Viejo connecting to the I-405 and the I-5 freeways. The Foothill Eastern/Eastern Toll Road (241, 261 and 133) connects to the SR 91 near the Riverside County line and I-5 freeway in the City of Irvine, the Laguna Canyon Road, and other cities in South County.

Rail freight service is provided by the Burlington Northern Santa Fe Railway and the Union Pacific Railroad Company. Amtrak provides passenger service to San Diego to the south, Riverside and San Bernardino Counties to the east, and Los Angeles and Santa Barbara to the north. Metro Link provides passenger service to San Bernardino and Riverside counties to the east, Oceanside to the south and Los Angeles County to the north. Bus service is provided by Greyhound Bus Lines. The Orange County Transportation Authority provides bus service between most cities in the County. Most interstate common carrier truck lines operating in California serve the County.

The John Wayne Airport is located in the County's unincorporated area adjacent to Santa Ana, Costa Mesa, Irvine and Newport Beach. Major airlines, including Aloha, American, Alaska, Delta, America West, Continental, Northwest, Frontier, Southwest and United, fly from the airport to major cities throughout the country. In 2005, approximately 9.6 million passengers were served.

Natural Disasters; Seismic Activity/Fires

Natural disasters, including floods, fires and earthquakes, have been experienced in the County. Seismic records spanning the past half century and historic records dating from the 1700s through the early 1900s indicate that the County is a seismically active area. The State Office of Emergency Services indicates that significant tremors are likely to occur in several fault zones during the next 50 to 100 years, including a tremor of 7.0 on the Richter scale within the Newport-Inglewood fault system. The chance of a Richter 7.0 earthquake occurring is estimated to be 1 to 2% in any year. For this reason, local building codes require that structures be designed to withstand the expected accelerations for the area without collapsing or suffering severe structural damage.

Maps published by the State Department of Conservation indicate that portions of the County may be subject to the risk of earthquake-induced landslides or liquefaction.

APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR ENDED JUNE 30, 2005

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The Introductory Section, the Supplemental Information in the Financial Section and the Statistical Section have been intentionally omitted from this Appendix B. Copies of the complete Comprehensive Annual Financial Report are available upon request from the County.

COUNTY OF ORANGE
CALIFORNIA

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Orange, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Orange, California (County), as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and each of the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 15 through 37 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & Company LLP

Certified Public Accountants

Los Angeles, California
December 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the County's annual financial report provides a narrative overview and analysis of the financial activities of the County for the year ended June 30, 2005. We hope that the information presented here, in conjunction with the Letter of Transmittal, provides you with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- Total net assets increased by $286,953, or 8% as compared to last year.
- Long-term debt decreased by $70,100, or 5% during the current fiscal year.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of $1,948,943, an increase of $108,837, or 6% in comparison with the prior year.
- At June 30, 2005, unreserved fund balance in the General Fund was $163,548, or 7% of total FY 2004-05 expenditures and transfers of $2,424,356.
- General Fund revenues and transfers ended the year 1% above budget.
- General Fund expenditures and transfers ended the year 8% below budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

<table>
<tr><th colspan="4">Basic Financial Statements</th></tr>
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<tr><td>Budgetary Comparison Statement</td><td>Statement of Cash Flows</td></tr>
<tr><td colspan="4">Notes to the Basic Financial Statements</td></tr>
</table>

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

	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of Financial Statement	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows	Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets
Scope	Entire entity (except fiduciary funds)	Day-to-day operating activities for basic services	Day-to-day operating activities for business-type services	Resources on behalf of others
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting & economic resources focus; except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliations are prepared for both the governmental funds' Balance Sheet and the governmental funds' Statement of Revenues, Expenditures, and Changes in Fund Balances to facilitate comparisons between governmental funds and governmental activities. The primary differences between the government-wide and fund financial statements relate to noncurrent assets, such as land and structures and improvements, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund financial statements.

In FY 2004-05, an increase of $233,859 in net assets in the government-wide financial statements was reported, while an increase of $108,837 in fund balance was reported in the fund financial statements. Refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" for details on the factors contributing to this difference.

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

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

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

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

Notes to the Basic Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of the County's financial position. At June 30, 2005, the County's combined net assets (governmental and business-type activities) totaled $3,888,301, an increase of 8% from FY 2003-04.

The largest component of the County's net assets (69%) was **invested in capital assets, less any related outstanding debt** used to acquire those assets. Capital assets include land, structures and improvements, equipment, construction in progress, and infrastructure that are used to provide needed services to the citizens of the County. Since the capital assets themselves cannot be used to liquidate the associated debt, the resources needed to repay the debt must be provided from other sources.

COMPONENTS OF NET ASSETS

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

The County's **restricted** net assets are $1,260,554 (32%) of its net assets. This means that these resources are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws/regulations of other governments, or restrictions imposed by law through constitutional provisions or legislation, including those passed by the County itself.

The final component of net assets is **unrestricted net assets.** Unrestricted net assets are resources that the County may use to meet its ongoing obligations to citizens and creditors. As of June 30, 2005, governmental activities showed a negative amount of $44,929 in unrestricted net assets. The deficit balance shown for unrestricted net assets was caused primarily by the County's election to settle bankruptcy-related debt according to the Modified Second Amended Plan of Adjustment, and is not a reflection of the County's lack of resources to meet its ongoing obligation to the citizens and creditors. Please refer to Note 9, Long-Term Obligations, and Note 19, Subsequent Events, for more details of this Plan.

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

NET ASSETS – Primary Government
June 30, 2005

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
ASSETS						
Current and other assets	$ 2,875,262	$ 2,635,324	$ 596,702	$ 555,986	$ 3,471,964	$ 3,191,310
Capital assets	2,410,746	2,320,885	507,408	499,987	2,918,154	2,820,872
Total Assets	**5,286,008**	**4,956,209**	**1,104,110**	**1,055,973**	**6,390,118**	**6,012,182**
LIABILITIES						
Long-term liabilities	1,649,663	1,650,412	356,045	363,678	2,005,708	2,014,090
Other liabilities	431,240	334,551	64,869	62,193	496,109	396,744
Total Liabilities	**2,080,903**	**1,984,963**	**420,914**	**425,871**	**2,501,817**	**2,410,834**
NET ASSETS						
Invested in capital assets, net of related debt	2,336,881	2,259,064	335,795	315,335	2,672,676	2,574,399
Restricted	913,153	992,774	347,401	314,767	1,260,554	1,307,541
Unrestricted	(44,929)	(280,592)	--	--	(44,929)	(280,592)
Total Net Assets	**$ 3,205,105**	**$ 2,971,246**	**$ 683,196**	**$ 630,102**	**$ 3,888,301**	**$ 3,601,348**

As of June 30, 2005, the County's total assets increased by 6%, or $377,936 during the current fiscal year. Of this amount, current and other assets increased by $280,654 (9%), while capital assets increased by $97,282 (3%). Total liabilities for this year increased by 4% or $90,983. Of this amount, long-term liabilities decreased by $8,382 (0.4%), while other liabilities increased by $99,365 (25%) which primarily consisted of deposits from others of $70,074.

(Dollar Amounts in Thousands)

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

CHANGES IN NET ASSETS – Primary Government
For the Year Ended June 30, 2005

	Governmental Activities		**Business-Type Activities**		**Total**	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program Revenues:						
Charges for Services	$ 470,259	$ 436,139	$ 210,103	$ 203,155	$ 680,362	$ 639,294
Operating Grants and Contributions	1,540,938	1,532,106	13,968	7,459	1,554,906	1,539,565
Capital Grants and Contributions	66,889	55,337	10,703	6,183	77,592	61,520
General Revenues:						
Property Taxes	387,204	342,412	--	--	387,204	342,412
Property Taxes in Lieu of Motor Vehicle License Fees	141,319	--	--	--	141,319	--
Other Taxes	48,862	51,104	--	--	48,862	51,104
Grants and Contributions not Restricted to Specific Programs	9,442	11,969	--	--	9,442	11,969
State Allocation of Vehicle Motor License Fees	54,325	189,732	--	--	54,325	189,732
Other General Revenues	79,497	69,776	314	965	79,811	70,741
Total Revenues	**2,798,735**	**2,688,575**	**235,088**	**217,762**	**3,033,823**	**2,906,337**
EXPENSES						
General Government	171,771	170,820	--	--	171,771	170,820
Public Protection	947,698	905,229	--	--	947,698	905,229
Public Ways and Facilities	77,928	78,454	--	--	77,928	78,454
Health and Sanitation	455,059	447,743	--	--	455,059	447,743
Public Assistance	740,987	731,698	--	--	740,987	731,698
Education	30,641	31,978	--	--	30,641	31,978
Recreation and Cultural Services	73,530	76,249	--	--	73,530	76,249
Interest on Long-Term Debt	81,841	78,474	--	--	81,841	78,474
Airport	--	--	79,882	78,235	79,882	78,235
Waste Management	--	--	87,533	70,858	87,533	70,858
Total Expenses	**2,579,455**	**2,520,645**	**167,415**	**149,093**	**2,746,870**	**2,669,738**
Excess (Deficit) before Transfers	219,280	167,930	67,673	68,669	286,953	236,599
Transfers	14,579	12,155	(14,579)	(12,155)	--	--
Increase in Net Assets	**233,859**	**180,085**	**53,094**	**56,514**	**286,953**	**236,599**
Net Assets - Beginning of the Year	2,971,246	2,791,161	630,102	573,588	3,601,348	3,364,749
Net Assets - End of the Year	$ **3,205,105**	$ **2,971,246**	$ **683,196**	$ **630,102**	$ **3,888,301**	$ **3,601,348**

As of June 30, 2005, the County's net assets increased by 8%, or $286,953 during the current fiscal year. Revenues for the year totaled $3,033,823, an increase of $127,486 from the previous year and expenses totaled $2,746,870, an increase of $77,132.

Governmental Activities

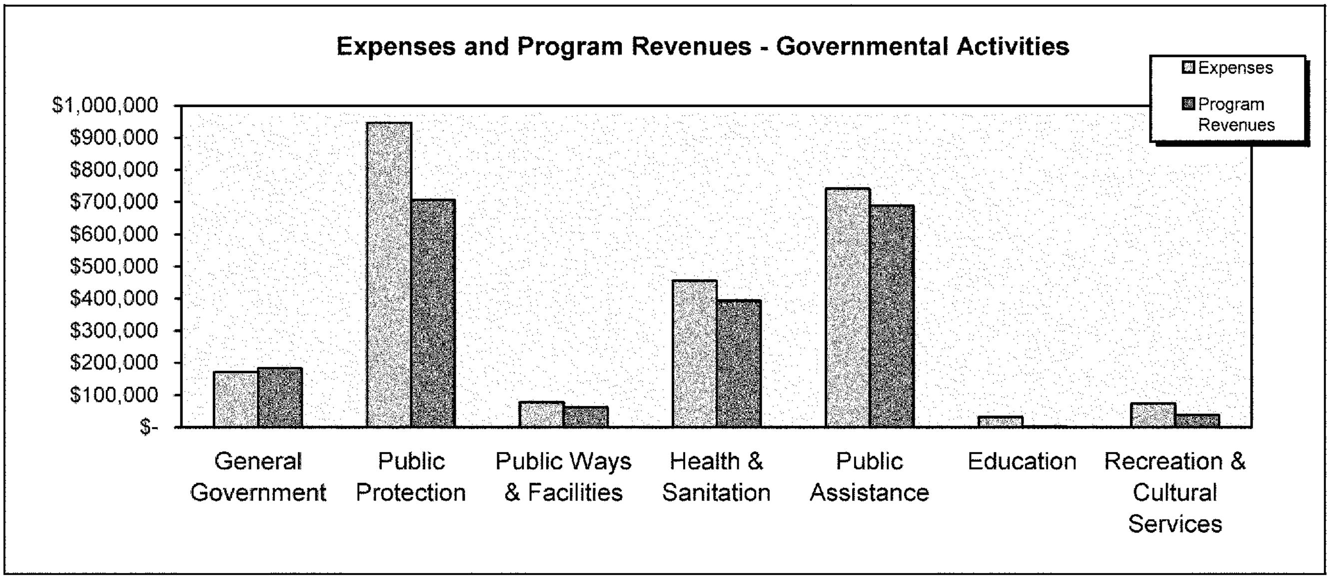
The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating Grants and Contributions comprised the largest revenue source for the County followed by Charges for Services. Operating Grants and Contributions are monies received from parties outside the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

At the end of FY 2004-05 total revenues for the governmental activities, including transfers from the business-type activities were $2,813,314, an increase of $112,584 from the previous year. Expenses totaled $2,579,455, an increase of $58,810 from the prior year. The majority of these expense increases were in the Public Protection and Public Assistance functions. While revenues and expenses increased from the prior year, revenues still exceeded the expenses. Governmental activities increased the County's net assets by $233,859, accounting for 81% of the total growth in the net assets of the County. In addition to the effects of expenditure-driven grants, key elements of the increase are as follows:

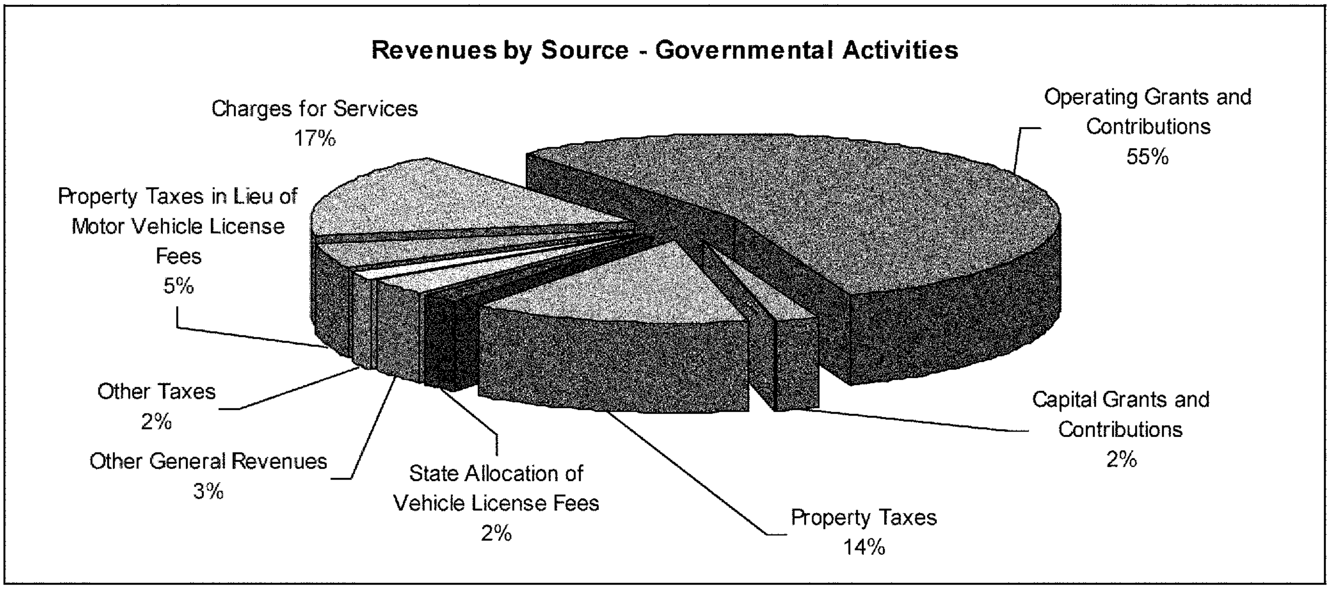
- Property taxes increased by $44,792 due to a large number of home sales and remodels as a result of the continued low housing interest rates.
- The State Allocation of Motor Vehicle License Fees (VLF) decreased by $135,407, while Property Tax in Lieu of VLF revenue increased by $141,319. These variances were a result of the FY 2004-05 State Budget Act that "swapped" Property Tax in Lieu of VLF. The budget legislation permanently lowered the VLF rate from 2% to 0.65% of the assessed value of the vehicle. Prior to this legislation, the State "backfilled" 1.35% of the 2% VLF to the counties. In FY 2004-05, the Property Tax in Lieu of VLF revenue also included a $17,670 increase due to increased VLF receipts. See Note 1.L, Summary of Significant Accounting Policies for more information.
- Capital Grants and Contributions increased by $11,552 due mainly to proceeds from the issuance of long-term debt for the Community Facilities District (CFD) 2004-1 Ladera Construction bond.
- Charges for Services increased by $34,120 primarily due to (1) a $4,107 increase in assessment and tax collection revenues due to record sales prices and market activity during the year, (2) a $4,269 increase in election services due to a higher number of participating jurisdictions, (3) a $14,338 increase due to revenue recognized for the Clerk Recorder automation enhancement, (4) a $8,934 increase in environmental health fees due to a change in billing from annual to anniversary billings and (5) a $3,593 increase in mental health services, which was offset by corresponding expenditures.

In addition to the above, the County received $1,375 of deferred pass-through tax incremental revenue from the City of Yorba Linda Redevelopment Agency. This is the second of three annual installment payments agreed to by the Yorba Linda Redevelopment Agency.

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



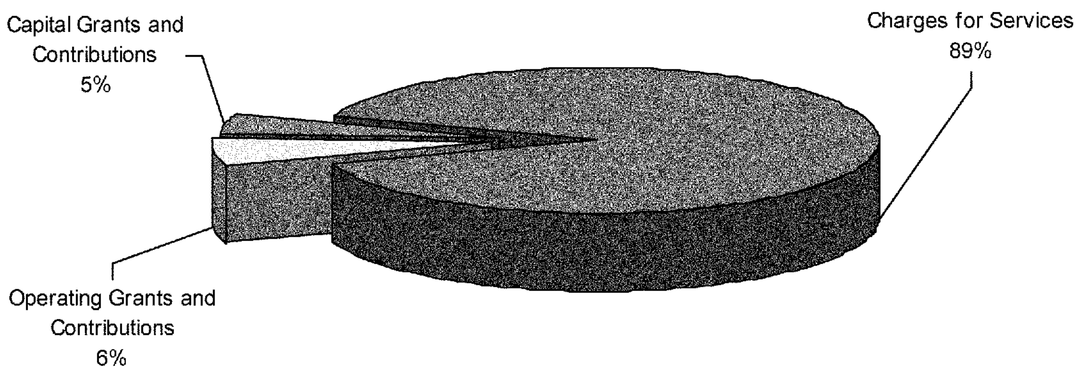
The chart below presents the percentage of total revenues by source for governmental activities:



Business-Type Activities

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

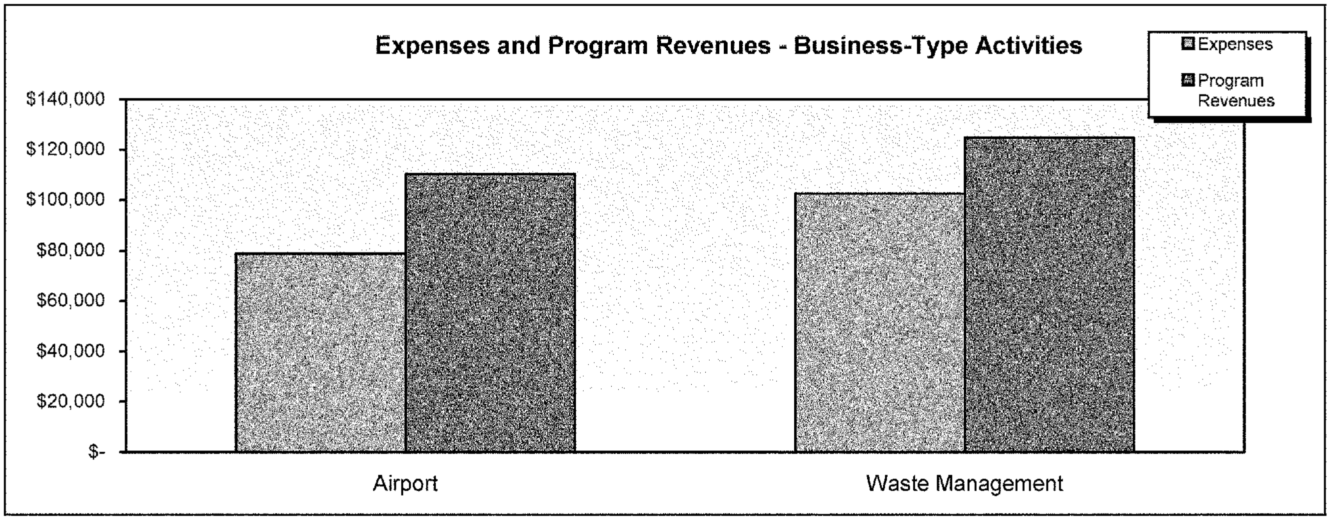
Revenues by Source - Business-Type Activities



At the end of FY 2004-05, business-type activities reported total revenues of $235,088, an increase of $17,326 from the prior year. Expenses, including transfers to the governmental activities, totaled $181,994, resulting in an increase of $20,746 from the previous year. The program revenues (Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions) financed the majority of expenses recorded for the business-type activities. Other factors concerning the finances of the County's two enterprise funds are discussed in the Proprietary Funds section of the "Financial Analysis of the County's Funds." At the end of FY 2004-05, there was an increase of $53,094 in net assets as compared to an increase of $56,514 in FY 2003-04. The increase in net assets was mostly due to increased revenues, however, there was also a large increase in expenses. Key elements for the increase are as follows:

- A $ 10,194 increase in landfill Postclosure liabilities and Postclosure settlement costs.
- A $4,875 increase in rents and concession from airline rent, parking, and car rental due to the increased number of passengers and the level of traveler activities at the airport.
- A $4,519 increase in grant revenues for the construction of new passenger security lanes, acquisition of a new aircraft rescue firefighting vehicle, remodeling of the fire station #33 facility, rehabilitation of taxiway "E", reconstruction of Perimeter Road West, and security modifications at the terminal.
- A $1,675 increase in refuse disposal fees due to an increase in the amount of "in-county" tonnage disposed at the landfills.

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



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental Funds

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

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

At June 30, 2005, the County's governmental funds reported total fund balances of $1,948,943 with an increase of $108,837 in comparison with the prior year. Of the total fund balances for the governmental funds, $830,631 (43%) constitutes *unreserved fund balances*.

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

Funds		Planned Uses of Unreserved Fund Balances
General Fund	-	Deferred maintenance projects at various County facilities, Americans with Disabilities Act (ADA) improvement projects, re-budgeted capital projects, and projects at the County Central Utility Facility, which include refurbishment of the steam and chilled water system and the co-generation project.
Roads	-	Construction and maintenance of roadways, and for specialized engineering services to other governmental units and the public.
Public Library	-	Library services for the unincorporated areas as well as some of the incorporated areas within the County.
Tobacco Settlement	-	Specified health care services and for public safety.
Refunding Bonds and Recovery Certificates of Participation (COPs) and Debt Prepayment	-	Defeasance of the non-callable portions of the bankruptcy debt and refunding the remaining principal.
Flood Control District	-	Planning, construction, operation, and maintenance of regional flood protection and water conservation works, such as dams, control channels, retarding basins and other flood control infrastructure.
Harbors, Beaches and Parks	-	Development and maintenance of County harbors, tidelands and related aquatic recreational facilities, as well as the acquisition, operation and maintenance of County beaches, inland regional park recreation facilities and community park sites in the unincorporated areas.
Other Governmental	-	Various capital projects in Ladera Ranch.

The remaining fund balances are *reserved*. Reserved fund balances primarily represent assets that are not available for spending or assets that are not yet available for expenditure due to restrictions imposed by parties outside the County. Note 12 of this report provides a complete list of the reserved fund balances which are titled "Assets Not Available for Appropriations," as well as Board reserves which are titled "Fund Balances Reserved by Board of Supervisors for a Future Purpose."

(Dollar Amounts in Thousands)

Comparative Analysis of Changes in Fund Balances

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

GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances	
	2005	2004	2005	2004	2005	2004
General Fund	$ 2,442,533	$ 2,291,343	$ 2,424,356	$ 2,308,807	$ 18,177	$ (17,464)
Roads	38,765	47,973	43,881	39,856	(5,116)	8,117
Public Library	32,433	29,156	30,972	32,471	1,461	(3,315)
Tobacco Settlement	31,031	31,375	32,179	41,858	(1,148)	(10,483)
Refunding Bonds and Recovery COPs & Debt Prepayment	119,543	102,998	100,445	98,045	19,098	4,953
Flood Control District	72,629	72,870	125,086	75,936	(52,457)	(3,066)
Harbors, Beaches, and Parks	81,359	71,207	72,429	71,218	8,930	(11)
Other Governmental	443,531	476,960	323,639	429,867	119,892	47,093
Total	**$ 3,261,824**	**$ 3,123,882**	**$ 3,152,987**	**$ 3,098,058**	**$ 108,837**	**$ 25,824**

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

General Fund
The General Fund is the chief operating fund of the County. At the end of FY 2004-05, there was an increase in fund balance of $18,177. Property tax revenues increased by $4,700 as a result of the continued strength in the real estate market. Transfers from various Special Revenue Funds to the General Fund decreased by $53,028.

While revenues for the General Fund increased, pension costs also increased. At the end of FY 2004-05, retirement costs increased by $66,983. For further information, refer to Note 17, Retirement Plans. Capital expenditures increased by $33,330. The increase was primarily attributable to a capital lease the County entered into for Social Services Agency for the Santa Ana Regional Center.

Roads
This fund accounts for the maintenance and construction of roadways, and for specialized engineering services to other governmental units and the public. At the end of FY 2004-05, there was a decrease in fund balance of $5,116. In comparison to last year, revenues from Charges for Services decreased by $8,884. Last year, there was over $8,000 in revenue from the Ladera CFD for the Antonio Parkway. Expenditures increased by $5,017 because capital projects and related professional services that were delayed last year were expended this year.

Public Library
This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. There was a $1,461 increase to fund balance this fiscal year. The Public Library Fund had an increase of $2,254 in property tax revenues from rising home prices and new housing construction in the areas for which it receives property tax revenue. In comparison to the prior year, expenditures decreased by $1,499. Last year, expenditures were higher due to a one-time payment of property taxes to the City of Newport Beach for former unincorporated areas that were annexed and a one-time payment to the Capistrano School District for the library's share of the Ladera Ranch branch library.

Tobacco Settlement

This fund accounts for tobacco settlement monies allocated to the County from the State of California, pursuant to the Master Settlement Agreement between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. At the end of FY 2004-05, fund balance continued to decline by $1,148, primarily due to a decrease in loan repayment for the Theo Lacy Jail capital project from the previous year. Also reducing fund balance was an $817 reduction in revenues for a refund of an unused deposit from the service provider for the 64-bed Theo Lacy in-custody program.

Refunding Recovery Bonds and Recovery Certificates of Participation and Debt Prepayment

This fund accounts for the debt service transactions handled by the trustee bank for the 1995 Refunding Recovery Bonds and the 1996 Recovery Certificates of Participation. This fund also accounts for early debt reduction of the County's outstanding bonds. At the end of FY 2004-05, there was an increase in fund balance of $19,098. The increase is due primarily to an $18,300 transfer from the General Fund. For more information, refer to Note 19, Subsequent Events. An allocation of $1,375 from the Yorba Linda Redevelopment Settlement also contributed to the increase in fund balance.

Flood Control District

This fund accounts for the planning, construction and operation of flood control and water conservation works, such as dams, basins, and trunk channels, and for the retardation, conservation and controlled discharge of storm waters. At the end of FY 2004-05, there was a decrease in fund balance of $52,457. While revenues remained constant from this year to last year, expenditures increased significantly. The following is a brief summary of the primary reasons for the net decrease in fund balance for the Flood Control District in FY 2004-05 as compared to the prior year:

- A $58,518 increase in expenditures for the acquisition of property rights for the Santa Ana River Mainstream/Prado Dam Project for the expansion of the reservoir area.
- A $9,463 decrease in expenditures for the Santa Ana River Mainstream project.

Harbors, Beaches and Parks

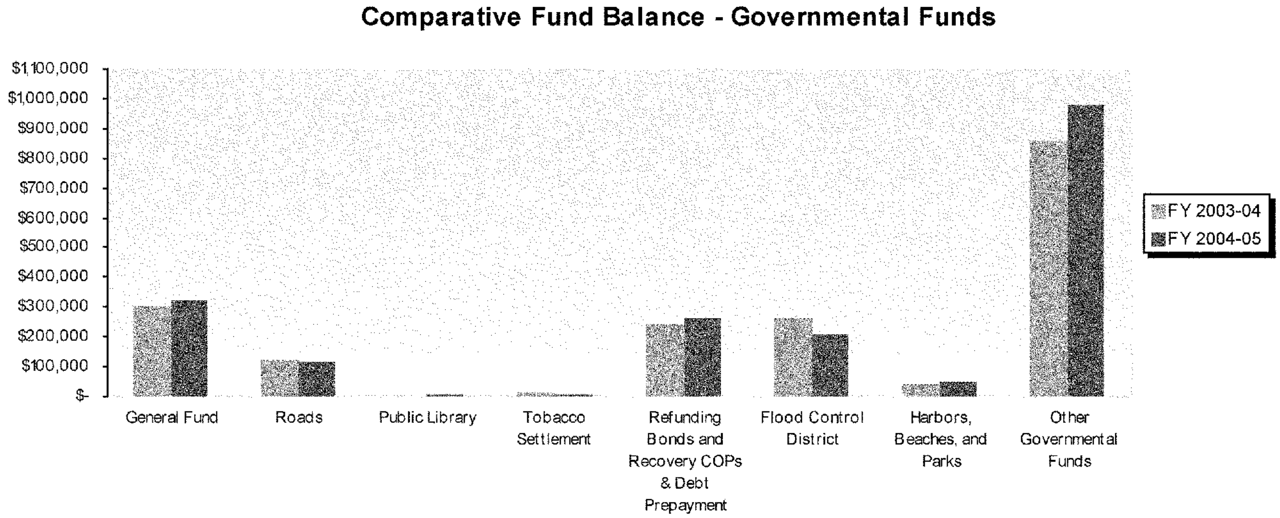
This fund accounts for the development of aquatic recreational facilities and the acquisition, operation and maintenance of County beaches, inland regional park recreational facilities and community park sites in the unincorporated areas. At the end of FY 2004-05, there was an $8,930 increase in fund balance. This increase resulted from a $5,000 Educational Revenue Augmentation Fund (ERAF) rebated by the State due to a property tax ERAF shift and a $1,800 grant for land purchases for the Freemont Nature Canyon and Modjeska Canyon Nature Preserve.

Other Governmental Funds

At the end of FY 2004-05, there was an increase in fund balance of $119,892. In comparison to last year, both revenues and expenditures decreased in FY 2004-05. Other financing sources decreased by $33,429 primarily due to no refunding bond issuances. Expenditures decreased by $106,228 compared to last year. Last year's debt service payments were significantly higher due to a one-time refinancing of the outstanding bond debt for the Santa Ana Heights (SAH) project area. Other factors contributing to the reduction in expenditures were lower capital expenditures for the Theo Lacy Jail Facility and less operating transfers to the General Fund.

(Dollar Amounts in Thousands)

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



Proprietary Funds

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

Comparative Analysis of Changes in Fund Net Assets

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

ENTERPRISE FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2005

	Revenues, Contributions and Transfers		Expenses and Transfers		Change in Fund Net Assets	
	2005	2004	2005	2004	2005	2004
Airport	$ 110,324	$ 99,776	$ 78,835	$ 76,932	$ 31,489	$ 22,844
Waste Management	124,706	118,026	102,510	82,956	22,196	35,070
Total	**$ 235,030**	**$ 217,802**	**$ 181,345**	**$ 159,888**	**$ 53,685**	**$ 57,914**

Airport

This fund accounts for major construction and self-supporting aviation-related activities rendered at John Wayne Airport (JWA), Orange County. Last year's increase in fund net assets was $22,844; this year fund net assets continued to increase by $31,489 primarily because of the following factors:

- A $4,875 increase in rents and concession from airline rent, parking, car rental, and lease concessions due to the increased number of passengers and the level of traveler activities at the airport.
- A $4,519 increase in grant revenues for the construction of new passenger security lanes, acquisition of a new aircraft rescue firefighting vehicle, remodeling of fire station #33 facility, rehabilitation of taxiway "E", reconstruction of Perimeter Road West, and security modifications at the terminal.
- A $1,227 increase in interest revenue due to higher interest rates.

Waste Management

This fund is used to account for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate tipping fees, which users pay based primarily on tonnage. At the end of FY 2004-05, there was an increase in fund net assets of $22,196, compared to the prior year change of $35,070, primarily due to the following factors:

- A $7,000 increase in expenditures for landfill closer and postclosure care costs.
- A $6,200 increase in expenditures for settlement payments for postclosure care costs.
- A $4,299 increase in interest revenues due to the upward trend of interest rates.
- A $2,352 increase in transfers to County General Fund to pay bankruptcy related obligations.
- A $1,675 increase in charges for services due to an increase in the amount of "in-county" tonnage disposed at the landfills.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Original Revenue Budget vs. Final Amended Revenue Budget

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

Taxes

- A $120,000 increase in revenues in the County General Fund due to the State's implementation of the Property Tax-Vehicle License Fee (VLF) Compensation Fund, in which a major portion of VLF revenue would be eliminated and replaced dollar for dollar with property tax (See Note 1.L. for more backfill information). The VLF was originally budgeted in "Intergovernmental Revenues."

Intergovernmental Revenues

- An increased revenue budget in Sheriff-Coroner of $16,382 for additional one-time grants, including Homeland Security Grants, the Urban Areas Security Initiative (UASI) Grant, and the Avoid South County Grant, which is a grant awarded by the Office of Traffic Safety to reduce drunk driving in South Orange County.
- An increase of $9,180 in budgeted revenues in the Social Services agency to reconcile actual allocations for the Medi-Cal Program and to fund the administration of the In Home Supportive Services (IHSS) program.
- A $13,900 increase in revenues in the Probation Department because the State decided to continue funding for the Temporary Assistance for Needy Families (TANF) program and the Targeted Case Management program. The State decided to continue funding these programs after the original budget was adopted.

Transfers In

- An increase of $4,811 in the Watershed Management Program to ensure that the Net County Cost target set by the County Executive Office would be met.
- An increase of $16,725 in the Health Care Agency (HCA) for reimbursement from the Tobacco Settlement Revenue (TSR) Special Revenue Fund for FY 2003-04 eligible expenditures for Emergency Medical Services and an increase in transfers from Purpose Restricted Special Revenue Funds for various public health programs.

Original Expenditure Budget vs. Final Amended Expenditure Budget

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

Miscellaneous

- Budget Appropriations increased by $28,620 due to the County's debt prepayment ($17,454) for debt defeasance strategy (Refer to Note 19, Subsequent Events, for more information), higher retirement rates ($6,165), and to offset the property tax shift to the State ($5,000).

Probation

- A $ 12,544 increase in appropriations due to continued funding of the TANF and Targeted Case Management programs.

Sheriff-Coroner

- A $14,065 increase was appropriated to fund capital projects and purchase equipment funded by the Homeland Security Grant.

Social Services Agency

- An increase of $11,561 to fund increased wages and benefits for IHSS providers, 84 new positions for the Medi-Cal Program, an increase of allocations for the Promoting Safe and Stable Families Program due to a change in funding cycle, and an increase in allocations for the Child Abuse Treatment Program.

Final Amended Revenue Budget vs. Actual Revenue Amounts

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

Taxes

- A $24,131 positive variance in the County General fund due to higher than anticipated growth rate in the value of the secured property taxes, the new legislation for supplemental property tax in lieu of VLF, and higher than estimated housing sales.

Intergovernmental Revenues

- A $9,241 positive variance in Probation because the State decided to continue funding for the TANF program.
- A $7,852 positive variance in Sheriff-Coroner due to increased receipts from Proposition 172, a voter-approved measure passed in 1994 establishing a ½ percent (0.5%) sales tax on an ongoing basis for local public safety programs.
- A $9,998 positive variance in the Social Services Agency due to deferred revenues recognized in FY 2004-05.

Transfers In

The following are a result of not transferring money from Purpose-Restricted Special Revenue Funds:

- A $5,406 variance in the District Attorney Office due to Proposition 172 actual revenues exceeding the budgeted amount.
- A variance of $37,735 in the Sheriff's Department due to savings from maintaining a higher than budgeted vacancy factor, the delay in opening the Theo Lacy Building B, and the implementation of cost saving strategies.
- A variance of $17,046 in HCA because transfers from the TSR Funds and the Animal Shelter Fund were lower than budgeted.

Charges for Services

- A negative variance of $2,101 in HCA due to savings in salaries and employee benefits and human services contracts for Medi-Cal funded services.
- A negative variance of $6,828 in the Sheriff-Coroner and its court operations due to vacancies and a Worker's Compensation credit to the contract cities.
- A positive variance of $5,051 in the Assessor's budget attributable to record real estate prices and market activity during the year.
- A positive variance of $3,354 in the Registrar of Voters due to higher than anticipated revenue from election services and state reimbursement claims.
- A negative variance of $1,993 in the Treasurer-Tax Collector due to a reduction of administrative fees.
- A $6,015 negative variance in the Watershed Management Program due to non-reimbursable project expenses.
- A negative variance of $2,755 in Employee Benefits because the 3% health and dental administrative fees charged to County departments were reclassified from charges for services to intrafund transfers.
- A negative variance of $6,693 in the Resources and Development Management Department due to reduced expenditures from lower reimbursable indirect charges, less direct billable hours and more intra-agency billings, especially in the administrative functions.

Final Amended Expenditure Budget vs. Actual Expenditure Amounts

The following provides a summary of the primary factors causing the significant variance in the General Fund actual expenditures as compared to the final amended budget expenditures:

Miscellaneous

- A positive variance of $10,454 was due to appropriations that were not needed for unanticipated expenditures for County programs. One of the purposes of this agency in the General Fund is to provide for such contingencies and is not anticipated to be spent unless the need arises. Another contributing factor causing the variance was the delay in acquiring new sites for the 800 MHz project.

Watershed Management Program

- A $9,958 positive variance due to expenditures for some projects requiring professional and consulting services that were lower than anticipated and the deferral of various budgeted capital projects.

Capital Projects

- A $32,151 positive variance due to a substantial number of unfinished multi-year complex capital projects which overlap fiscal years. Most of these projects will be completed in FY 2005-06, including the floor-by-floor rehabilitation of the Central Justice Center, the construction of the Youth Leadership Academy at Juvenile Hall, and the 800 MHz project.

Health Care Agency

- A positive variance of $7,326 due to vacancies that reduced salaries and employee benefits, lower group insurance rates, as well as an unemployment insurance rebate.
- A $25,363 positive variance due to lower than budgeted costs in TSR funded projects, contracts and price agreements, including the information technology price agreement, and various human services contracts.

(Dollar Amounts in Thousands)

Probation

- A positive variance of $9,894 due to the deferral of a collection software module project and other information system projects, savings from the closure of Youth and Family Resource Centers, a reduction in the Juvenile Justice Crime Prevention Act Program, deferral of software license agreements and maintenance projects for the Los Pinos Conservation Camp, fewer California Youth Authority commitments, and the department operating with an 11% difference vacancy factor compared to a budgeted vacancy factor of 8%.

Sheriff-Coroner

- A $25,551 positive variance due to deferrals in professional services, equipment, and special department expenditures because reimbursement from the Homeland Security Grant are expected to be paid in FY 2005-06.
- A $9,735 positive variance due to maintaining a higher than budgeted vacancy factor and the defunding and deletion of positions recommended by the Blue Ribbon Committee.

Aid to Families with Dependent Children – Foster Care

- A $14,892 positive variance due to decrease in caseloads for Federal and Non-Federal group homes, federal foster family agencies, and emergency assistance cases by moving children to family based settings that are less costly.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the County's capital assets for both the governmental and business-type activities amounted to $2,918,154 net of accumulated depreciation. The investment in capital assets includes land, structures and improvements, equipment, infrastructure (roads, bridges, flood channels, trails, traffic signals, and harbors), and construction in progress. The total increase in the County's investment in capital assets for the current year was 3% (a 4% increase for governmental activities and a 1% increase for business-type activities).

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

CAPITAL ASSETS
(Net of Depreciation)
June 30, 2005

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2005	2004	2005	2004	2005	2004	% Change
Land	$ 567,243	$ 481,048	$ 34,108	$ 34,108	$ 601,351	$ 515,156	17%
Structures and Improvements	510,827	501,778	184,739	196,110	695,566	697,888	0%
Equipment	103,739	102,418	23,357	24,422	127,096	126,840	0%
Infrastructure	801,263	817,294	196,237	182,510	997,500	999,804	0%
Construction in Progress	427,674	418,347	68,967	62,837	496,641	481,184	3%
Total	**$ 2,410,746**	**$ 2,320,885**	**$ 507,408**	**$ 499,987**	**$ 2,918,154**	**$ 2,820,872**	**3%**

The following lists the significant expenditures for capital assets in FY 2004-05:

General Fund

- $38,609 for a capital lease for a Social Services building.
- $8,275 for the construction of three new housing units for the Youth Leadership Academy at Juvenile Hall, which will increase the capacity to 120 beds.
- $2,030 for the purchase of a helicopter for the Sheriff Department.
- $2,017 for the purchase of hazardous materials vehicles for the Sheriff Department.
- $1,259 for the renovation of various County facilities to comply with the ADA requirements.
- $1,204 for construction projects at the Theo Lacy Jail Facility.
- $1,095 for planning and designing a new courthouse in South County, which includes master planning for Superior Court, and a possible civic center for the City of Laguna Niguel.
- $1,040 for the purchase of a mainframe computer for the Sheriff Department.

Flood Control District

- $70,841 for the acquisition of property rights for the Santa Ana River Mainstream/Prado Dam project.

800 MHz Countywide Coordinated Communications System

- $1,786 for equipment and service enhancements for the Orange County Mutual Aid project funded by the Community Oriented Policing Services Interoperable Communications.
- $1,607 for equipment and services to enhance countywide emergency preparedness funded by the UASI and Homeland Security grants.

Airport

- $4,008 to remodel Fire Station #33.
- $3,428 for construction of new passenger security lanes.
- $2,798 to rehabilitate taxiway "E."
- $2,410 to design an electric generation plant.
- $1,241 to reconstruct the Perimeter Road West.
- $1,183 construction of new flush mount fire hydrants.
- $1,104 to design the new South Remain Over Night airplane parking.
- $1,078 to install a temporary passenger waiting facility at the south end.
- $1,025 for a new aircraft rescue firefighting vehicle.

Waste Management

- $10,684 to expand the Frank R. Bowerman (FRB) Landfill.
- $1,301 for the construction of the Lower East Perimeter Storm Drain and Access Project at Olinda Alpha Landfill.
- $1,217 for construction management, quality assurance and quality control at FRB and Central Region landfills.

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

(Dollar Amounts in Thousands)

Commitments for Capital Expenditures At the end of FY 2004-05, significant commitments for capital expenditures included the following:

- $413,000 for the Santa Ana River Mainstream Project.
- $18,721 to expand Laguna Canyon Road from State Route 73 to Interstate 405.
- $8,184 for heating, ventilation, and air-conditioning improvements to comply with ADA at the Central Justice Center.
- $7,134 for construction of the Youth Leadership Academy.
- $6,256 for the Prima Deshecha Desilting Basin Improvement Project.
- $6,173 for various flood control channel projects.

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

Long-Term Debt

At June 30, 2005, the County had a total debt obligation outstanding of $1,345,761, excluding capital lease obligations, compensated absences and other liabilities. During the year, $72,137 of the bonds were retired, which resulted in a net decrease of 5% on the County's outstanding bond obligation. The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized property tax roll. However, this does not affect the financing of any of the County's planned facilities or services because as of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation, and other forms of debt not covered by the general obligation debt limitation law.

The following table summarizes the County's outstanding bonds at June 30, 2005:

LONG-TERM DEBT BOND OBLIGATIONS
June 30, 2005

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2005	2004	2005	2004	2005	2004	% Change
Revenue Bonds	$ 261,180	$ 268,607	$ 181,240	$ 196,300	$ 442,420	$ 464,907	(5)%
Certificates of Participation	589,909	619,394	--	--	589,909	619,394	(5)%
Pension Obligation Bonds	111,772	116,772	--	--	111,772	116,772	(4)%
Recovery Bonds	210,705	225,870	--	--	210,705	225,870	(7)%
Add: Premium on Bonds Payable	5,009	5,045	4,210	5,082	9,219	10,127	(9)%
Less: Deferred Amount on Refunding	(5,744)	(6,110)	(12,520)	(15,099)	(18,264)	(21,209)	(14)%
Total	**$ 1,172,831**	**$ 1,229,578**	**$ 172,930**	**$ 186,283**	**$ 1,345,761**	**$ 1,415,861**	**(5)%**

Additional information on the County's long-term debt activity can be found in Note 9 of this report.

Bond Ratings

The County continues to maintain the issuer ratings of Aa2 from Moody's Investors Service and A+ from Standard & Poor's. The 1995 Teeter Plan Revenue Bonds and the Orange County Development Agency (OCDA) 2003 Santa Ana Heights (SAH) Bonds are AAA insured with a municipal bond insurance policy, but are not currently rated (NR indicates Not Rated). The rating report cited the County's continued prudent fiscal management, evidenced by a strong fiscal position and disciplined adherence to its strategic plan, focusing on debt reduction, as well as the diversified and healthy local economy, as the basis for the rating. There were no changes in the County's underlying debt ratings as compared to the previous year.

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

LONG-TERM DEBT RATINGS
June 30, 2005

	Moody's	Fitch	Standard and Poor's
1995 Recovery Bonds	Aa3	NR	NR
1996 Recovery COPs	A1	AA-	NR
1991 Parking COPs	A1	NR	NR
OCDA Neighborhood Development and Preservation Project	A2	NR	A
2002 Lease Revenue Bonds	A1	AA-	A
OCDA 2003 SAH Bonds	NR	NR	NR
1996 Pension Obligation Bonds	Aa2	NR	NR
1997 Pension Obligation Bonds	Aa2	AA-	NR
1995 Teeter Plan Revenue Bonds	NR	NR	NR
2001 Lease Revenue Bonds	A2	NR	NR
Airport 1997 Revenue Refunding Bonds	Aa3	A+	A+
Airport 2003 Revenue Refunding Bonds	Aa3	NR	A+
IWMD 1997 Revenue Refunding Bonds	A2	A+	NR

OTHER POTENTIALLY SIGNIFICANT MATTERS

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

Governmental Activities

State Budget

On July 11, 2005, Governor Schwarzenegger signed the FY 2005-06 Budget Act. The FY 2005-06 Budget Act projects General Fund revenues of $84,200,000, expenditures of $90,000,000 and an ending reserve balance of $1,300,000 (including an allowance for $900,000 of tax refunds which the State may be obligated to make).

The Governor's original budget identified a budget shortfall of $8,600,000 without implementation of the policy changes identified in the Governor's budget proposal. However, the upward revision in FY 2004-05 and 2005-06 projected tax revenues, among other factors, have permitted the Governor to address a smaller budget shortfall of $6,000,000 and to maintain a $500,000 reserve through $6,500,000 of expenditure and savings "solutions" and without tax increases. The FY 2005-06 Budget Act also eliminates the proposed issuance of additional "Economic Recovery Bonds," which were to provide $1,700,000 to the General Fund in the original budget proposal.

The revenue increase forecasted by the FY 2005-06 Budget Act forecasts gains in the personal income tax, sales and use tax and corporation tax. Personal income tax revenues are forecasted to be $41,900,000 in FY 2004-05 and $43,200,000 in FY 2005-06. This forecast assumes a percent change increase in personal income tax revenue of 15.1% for FY 2004-05 and 3.2% for FY 2005-06. Sales and use tax revenue is forecasted to be $25,100,000 in FY 2004-05 and $27,000,000 in FY 2005-06, a 7.6% increase. Corporation tax revenues are expected to total $7,600,000 in FY 2004-05 and $8,800,000 in FY 2005-06, a 15.8% increase.

The FY 2005-06 Budget Act assumes local government revenues will increase during the next few years due in part to increases in property taxes and sales and use tax to local governments. Property taxes and sales and use tax are major sources of discretionary revenue for local governments, including the County. The FY 2005-06 Budget Act projects property taxes to local governments to be approximately $22,980,000, an increase of 14% above the amount expected to be received in the FY 2004-05, as a result of the strong housing market and increased sales of non-residential real estate. The sales and use tax in FY 2005-06 is also expected to increase by approximately 4.5% above the amount expected to be received in FY 2004-05. The sales and use tax is expected to provide local governments with over $4,000,000 for discretionary purposes, in addition to $2,700,000 for public safety, $2,700,000 for health programs and $1,300,000 for county transportation purposes. In addition, the FY 2005-06 Budget Act projects VLF revenues, which provide funding for local health programs, to increase by 4% during the next two years.

Certain features of the FY 2005-06 Budget Act affecting counties include the following:

- The FY 2005-06 Budget Act includes funding in various budgets that support activities by local government agencies where the local agencies have significant discretion over the use of the funds. Such programs include law enforcement, realigned health and mental health services, public health, property tax administration, Williamson Act open space preservation contracts, libraries, recreational facilities, flood control, and housing. Funding for these programs will be approximately $5,600,000 in FY 2005-06, which represents a reduction of approximately $368,000 from the amount expected to be received in FY 2004-05 (based upon May Revision estimates).

- The FY 2005-06 Budget Act includes funding for local governments to make up the difference between the 0.65% rate of the VLF and the previous 2% rate through a reallocation of property tax from schools and community colleges to cities and counties. The Budget Act also includes the accelerated repayment of all of the VLF revenue that the local governments did not receive in FY 2003-04 due to the suspension of the VLF backfill, which was not required to be paid until FY 2006-07. The County received repayment of the VLF gap loan from the State on July 26, 2005, resulting in an additional $26,506 of additional resources to the County.

- The FY 2005-06 Budget Act fully funds Proposition 42 (transportation) funding, at approximately $1,300,000. Proposition 42 funds have been diverted to State General Fund use in prior years.

Long-Term Financial Planning

Funding of Orange County Employees Retirement System

In 2004, the Orange County Employees Retirement System (OCERS) retained the Segal Company to complete an actuarial valuation of OCERS as of December 31, 2004. The recommendations of the Segal valuation were adopted by the OCERS Board on October 24, 2005. The Segal valuation determined that the ratio of the valuation assets to actuarial accrued liabilities decreased from 78.5% as of December 31, 2003 to 69.1% as of December 31, 2004. The County is working with the departments to develop a Budget Reduction Plan for anticipated increases in FY 2006-07 retirement costs. Detailed information on OCERS and the actuarial assumptions are available in Note 17, Retirement Plans.

Funding of County of Orange Retiree Medical Plan
The County is currently developing a strategy to address the funding and structure of the Retiree Medical Plan as well as wellness, consumer education and other programs designed to control medical premium costs. Current Memoranda of Understanding with bargaining units run through FY 2007-08 and do not include re-openers for Retiree Medical Plan negotiations. More information on the Retiree Medical Plan is available in Note 18, Post Employment Health Care Benefits.

County Accounting and Personnel System (CAPS) Upgrade
CAPS is a vital part of the County's infrastructure that is needed for business processes such as financial planning and budget development, maintaining the County's financial records, collecting costs for federal and state claiming, procuring goods and services, paying vendors, processing the County's payroll, and administering enterprise-wide human resource functions. CAPS maintains financial records for the County's budget of approximately $4,800,000 and maintains human resource records and processes payroll for a work force of over 18,000 employees.

CAPS is based on 1980s technology and is becoming costly to maintain and operate. In addition, the vendor has informed the County that it will discontinue support of its Advantage products, within the next three to five years. If the County does not take some action with the Advantage products after the vendor discontinues support system operations, maintenance costs will grow, the risk of the systems not functioning properly will increase, and ultimately the system will become technologically obsolete and unsupportable.

The County is in the process of conducting a strategic assessment to identify the County's business processes, develop a strategic-level needs assessment for these business processes, identify the problems with the current system in meeting the County's business needs, develop a business case for taking action, and identify and analyze viable alternatives.

The results of the assessment have been presented to the CAPS Steering Committee and a more detailed assessment of two possible alternatives is under way. This assessment is expected to be completed by the end of December 2005. Based on the alternatives selected, requests for proposals will be issued to source the solution. Costs are expected to vary greatly and are expected to range from as little as $5,000 to over $50,000 depending on the selected alternative. Implementation of a solution could take from four to five years.

Assessment Tax System Upgrade
The County's property tax assessment, collection and allocation system processes approximately $3,600,000 annually in property taxes for the cities, school districts and special districts within the County. The system was developed in the late 1980s and early 1990s in what is now an obsolete programming language that is becoming increasingly difficult to support. Given the critical nature of the application, its replacement is considered a strategic priority. A request for proposal to conduct a needs assessment of the property tax system was issued and contract negotiations are under way with the recommended vendor. The contract is expected to be finalized by January 2006, at which time work will commence.

The needs assessment is expected to last one year and will result in a requirements document that will be used for sourcing services to develop the replacement application. The development and deployment of the application is expected to take from three to four years at a cost of approximately $18,000 to $21,000.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and Cash Equivalents (Notes 1 and 3)	$ 1,719,238	$ 318,751	$ 2,037,989	$ 148,272
Restricted Cash and Cash Equivalents (Notes 1 and 3)	526,102	218,658	744,760	--
Investments (Notes 1 and 3)	5,655	18,653	24,308	--
Deposits In-Lieu of Cash	654	38,957	39,611	--
Internal Balances	21,051	(21,051)	--	--
Due from Component Unit (Note 6)	466	--	466	--
Prepaid Costs (Notes 1 and 17)	155,769	3,085	158,854	--
Inventory of Materials and Supplies (Note 1)	1,186	--	1,186	--
Land and Improvements Held for Resale (Note 1)	1,255	--	1,255	--
Receivables, Net of Allowances (Note 5)				
Accounts	14,987	15,067	30,054	24
Taxes	42,135	--	42,135	7,116
Interest/Dividends	4,024	2,785	6,809	774
Deposits	79,110	--	79,110	--
Loans	1,598	--	1,598	--
Due from Other Governmental Agencies (Note 5)	278,230	1,797	280,027	7,435
Notes Receivable (Note 5)	23,802	--	23,802	--
Capital Assets (Notes 1 and 4)				
Not Depreciated	994,917	103,075	1,097,992	--
Depreciable (Net)	1,415,829	404,333	1,820,162	16
Total Capital Assets	2,410,746	507,408	2,918,154	16
Total Assets	5,286,008	1,104,110	6,390,118	163,637

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
LIABILITIES				
Accounts Payable	$ 72,903	$ 16,964	$ 89,867	$ 11,474
Salaries and Employee Benefits Payable	75,248	1,753	77,001	130
Interest Payable	22,851	234	23,085	--
Deposits from Others	141,198	41,618	182,816	--
Due to Primary Government (Note 6)	--	--	--	466
Due to Other Governmental Agencies	41,217	2,172	43,389	5,227
Unearned Revenue	74,443	2,128	76,571	--
Estimated Liability - Litigation and Claims (Note 16)	3,380	--	3,380	--
Long-Term Liabilities				
Due Within One Year				
Insurance Claims Payable (Notes 1 and 15)	50,702	--	50,702	--
Compensated Employee Absences Payable (Notes 1 and 9)	81,068	2,452	83,520	140
Pool Participant Claims (Note 9)	800	--	800	--
Capital Lease Obligations Payable (Notes 9 and 11)	4,645	--	4,645	--
Bonds Payable (Note 9)	64,520	14,502	79,022	--
Net Pension Obligation (Notes 9 and 17)	270	--	270	--
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	370	370	--
Due in More than One Year				
Accrued Interest on Capital Accretion Bonds	85,873	--	85,873	--
Insurance Claims Payable (Notes 1 and 15)	83,809	--	83,809	--
Compensated Employee Absences Payable (Notes 1 and 9)	67,493	2,218	69,711	--
Arbitrage Rebate Payable (Note 9)	138	148	286	--
Capital Lease Obligations Payable (Notes 9 and 11)	101,544	--	101,544	--
Bonds Payable (Note 9)	1,108,311	158,428	1,266,739	--
Net Pension Obligation (Notes 9 and 17)	490	--	490	--
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	177,927	177,927	--
Total Liabilities	2,080,903	420,914	2,501,817	17,437
NET ASSETS				
Invested in Capital Assets, Net of Related Debt (Note 1)	2,336,881	335,795	2,672,676	16
Restricted for:				
Expendable				
Capital Projects	240,768	--	240,768	--
Debt Service	24,196	--	24,196	--
Legally Segregated Special Revenue Funds Restricted for Grants and Other Purposes	648,092	--	648,092	--
Children and Families Commission of Orange County	--	--	--	146,184
Airport	--	113,402	113,402	--
Waste Management	--	233,999	233,999	--
Nonexpendable				
Regional Park Endowment	97	--	97	--
Unrestricted (Deficit) (Note 1)	(44,929)	--	(44,929)	--
Total Net Assets	$ 3,205,105	$ 683,196	$ 3,888,301	$ 146,200

Functions/Programs	Net Expenses	Indirect Expenses Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government					
Governmental Activities					
General Government	$ 215,416	$ (43,645)	$ 38,977	$ 78,524	$ 65,955
Public Protection	918,097	29,601	279,241	427,436	912
Public Ways and Facilities	80,468	(2,540)	34,884	27,603	--
Health and Sanitation	448,804	6,255	78,686	316,154	--
Public Assistance	733,952	7,035	3,794	683,975	--
Education	30,030	611	1,795	1,183	--
Recreation and Cultural Services	72,067	1,463	32,882	6,063	22
Interest on Long-Term Debt	81,841	--	--	--	--
Total Governmental Activities	2,580,675	(1,220)	470,259	1,540,938	66,889
Business-Type Activities					
Airport	79,307	575	95,562	3,817	10,703
Waste Management	86,888	645	114,541	10,151	--
Total Business-Type Activities	166,195	1,220	210,103	13,968	10,703
Total Primary Government	$ 2,746,870	$ --	$ 680,362	$ 1,554,906	$ 77,592
Component Unit					
Children and Families					
Commission of Orange County	$ 52,878	$ --	$ 138	$ 53,171	$ --

General Revenues
- Taxes
  - Property Taxes, Levied for General Fund
  - Property Taxes, Levied for Flood Control District
  - Property Taxes, Levied for Harbors, Beaches and Parks
  - Property Taxes, Levied for Public Library
  - Property Tax Increments
  - Property Taxes in Lieu of Motor Vehicle License Fees
  - Other Taxes
- Grants and Contributions Not Restricted to Specific Programs
- State Allocation of Motor Vehicle License Fees
- Unrestricted Investment Earnings
- Miscellaneous

Transfers (Note 1)
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning of Year
Net Assets - End of Year

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Unit	Functions/Programs
				Primary Government
				Governmental Activities
$ 11,685	$ --	$ 11,685		General Government
(240,109)	--	(240,109)		Public Protection
(15,441)	--	(15,441)		Public Ways and Facilities
(60,219)	--	(60,219)		Health and Sanitation
(53,218)	--	(53,218)		Public Assistance
(27,663)	--	(27,663)		Education
(34,563)	--	(34,563)		Recreation and Cultural Services
(81,841)	--	(81,841)		Interest on Long-Term Debt
(501,369)	--	(501,369)		Total Governmental Activities
				Business-Type Activities
--	30,200	30,200		Airport
--	37,159	37,159		Waste Management
--	67,359	67,359		Total Business-Type Activities
(501,369)	67,359	(434,010)		Total Primary Government
				Component Unit
				Children and Families
			$ 431	Commission of Orange County
				General Revenues
				Taxes
247,390	--	247,390	--	Property Taxes, Levied for General Fund
49,295	--	49,295	--	Property Taxes, Levied for Flood Control District
37,504	--	37,504	--	Property Taxes, Levied for Harbors, Beaches and Parks
28,893	--	28,893	--	Property Taxes, Levied for Public Library
24,122	--	24,122	--	Property Tax Increments
141,319	--	141,319	--	Property Taxes in Lieu of Motor Vehicle License Fees
48,862	--	48,862	--	Other Taxes
9,442	--	9,442	--	Grants and Contributions Not Restricted to Specific Programs
54,325	--	54,325	--	State Allocation of Motor Vehicle License Fees
30,674	--	30,674	--	Unrestricted Investment Earnings
48,823	314	49,137	224	Miscellaneous
14,579	(14,579)	--	--	Transfers (Note 1)
735,228	(14,265)	720,963	224	Total General Revenues and Transfers
233,859	53,094	286,953	655	Change in Net Assets
2,971,246	630,102	3,601,348	145,545	Net Assets - Beginning of Year
$ 3,205,105	$ 683,196	$ 3,888,301	$ 146,200	Net Assets - End of Year

	General Fund	Roads	Public Library	Tobacco Settlement	Refunding Bonds & Recovery COPs & Debt Prepayment
ASSETS					
Pooled Cash/Investments (Notes 1 and 3)	$ 384,667	$ 152,742	$ 9,367	$ 16,411	$ 116,178
Imprest Cash Funds (Notes 3 and 12)	1,237	--	53	--	--
Restricted Cash and Investments with Trustee (Note 3)	2,721	--	--	--	147,219
Investments (Notes 1 and 3)	--	--	--	--	--
Deposits In-Lieu of Cash	--	--	--	--	--
Receivables					
Accounts	10,265	102	351	--	--
Taxes (Note 1)	23,871	--	623	--	--
Interest/Dividends	1,015	323	14	4	--
Deposits	762	6,597	--	--	--
Loans	87	--	--	--	--
Allowance for Uncollectible Receivables	(347)	(11)	--	--	--
Due from Other Funds (Note 6)	42,825	863	--	--	--
Due from Component Unit (Note 6)	463	--	--	--	--
Due from Other Governmental Agencies	264,963	2,806	1	--	--
Inventory of Materials and Supplies (Notes 1 and 12)	319	68	--	--	--
Prepaid Costs (Notes 1 and 12)	4	--	--	--	--
Land and Improvements Held for Resale (Notes 1 and 12)	--	--	--	--	--
Notes Receivables	--	--	--	--	--
Total Assets	$ 732,852	$ 163,490	$ 10,409	$ 16,415	$ 263,397
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	$ 56,119	$ 1,108	$ 509	$ --	$ --
Salaries and Employee Benefits Payable	67,883	941	1,296	--	--
Deposits from Others	4,449	44,014	3,065	--	--
Due to Other Funds (Note 6)	37,254	1,497	53	6,750	--
Due to Other Governmental Agencies	25,509	--	213	--	--
Estimated Litigation and Claims	2,000	--	--	--	--
Deferred Revenue (Note 1)	218,296	3,082	734	--	--
Total Liabilities	411,510	50,642	5,870	6,750	--
Fund Balances					
Reserved (Note 12)					
Operations	644	--	--	839	--
Operations (Strategic Plan)	71,587	--	--	--	--
Capital Projects	--	--	--	--	--
Debt Service	--	--	--	--	147,219
Contingencies	18,000	--	2,017	--	--
Loans	100	--	--	--	--
Administration Fees	--	--	--	--	--
Prepaid Costs	4	--	--	--	--
Inventory of Materials and Supplies	319	68	--	--	--
Equipment Purchase	--	--	--	--	--
Equipment Replacement	--	--	--	--	--
Land Purchase	--	--	--	--	--
Land and Improvements Held for Resale	--	--	--	--	--
Revitalization Projects	--	--	--	--	--
Future Road Projects	--	63,169	--	--	--
Cash Difference Funds	9	--	--	--	--
Imprest Cash Funds	1,237	--	53	--	--
Long Term Receivables	--	--	--	--	--
General Reserve	--	--	--	--	--
Encumbrances	65,894	39,771	1,228	--	--
Unreserved, Reported in:					
General Fund	163,548	--	--	--	--
Special Revenue Funds	--	9,840	1,241	8,826	--
Debt Service Funds	--	--	--	--	116,178
Capital Projects Funds	--	--	--	--	--
Permanent Fund	--	--	--	--	--
Total Fund Balances	321,342	112,848	4,539	9,665	263,397
Total Liabilities and Fund Balances	$ 732,852	$ 163,490	$ 10,409	$ 16,415	$ 263,397

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Flood Control District	Harbors, Beaches, and Parks	Other Governmental Funds	Total Governmental Funds	
				ASSETS
$ 218,389	$ 59,224	$ 578,505	$ 1,535,483	Pooled Cash/Investments (Notes 1 and 3)
--	--	13	1,303	Imprest Cash Funds (Notes 3 and 12)
--	--	376,162	526,102	Restricted Cash and Investments with Trustee (Note 3)
--	--	5,655	5,655	Investments (Notes 1 and 3)
--	654	--	654	Deposits In-Lieu of Cash
				Receivables
1,188	1,649	1,629	15,184	Accounts
1,173	869	15,599	42,135	Taxes (Note 1)
336	84	1,252	3,028	Interest/Dividends
71,751	--	--	79,110	Deposits
50	1,453	8	1,598	Loans
(9)	(6)	(7)	(380)	Allowance for Uncollectible Receivables
1,090	358	40,936	86,072	Due from Other Funds (Note 6)
--	1	--	464	Due from Component Unit (Note 6)
649	1,117	8,587	278,123	Due from Other Governmental Agencies
182	96	400	1,065	Inventory of Materials and Supplies (Notes 1 and 12)
--	--	911	915	Prepaid Costs (Notes 1 and 12)
--	--	1,255	1,255	Land and Improvements Held for Resale (Notes 1 and 12)
--	--	23,802	23,802	Notes Receivables
$ 294,799	$ 65,499	$ 1,054,707	$ 2,601,568	Total Assets
				LIABILITIES AND FUND BALANCES
				Liabilities
$ 1,516	$ 2,307	$ 6,947	$ 68,506	Accounts Payable
1,093	1,097	2,129	74,439	Salaries and Employee Benefits Payable
74,708	6,005	8,957	141,198	Deposits from Others
6,800	3,018	25,304	80,676	Due to Other Funds (Note 6)
1,694	55	13,743	41,214	Due to Other Governmental Agencies
--	--	--	2,000	Estimated Litigation and Claims
2,827	3,043	16,610	244,592	Deferred Revenue (Note 1)
88,638	15,525	73,690	652,625	Total Liabilities
				Fund Balances
				Reserved (Note 12)
--	--	35,451	36,934	Operations
--	--	--	71,587	Operations (Strategic Plan)
95,962	12,328	--	108,290	Capital Projects
--	--	385,632	532,851	Debt Service
--	--	10,650	30,667	Contingencies
50	1,453	8	1,611	Loans
--	--	5,770	5,770	Administration Fees
--	--	911	915	Prepaid Costs
182	96	400	1,065	Inventory of Materials and Supplies
--	--	1,609	1,609	Equipment Purchase
484	1,757	--	2,241	Equipment Replacement
35,768	70	--	35,838	Land Purchase
--	--	1,255	1,255	Land and Improvements Held for Resale
--	203	3,294	3,497	Revitalization Projects
--	--	--	63,169	Future Road Projects
--	--	--	9	Cash Difference Funds
--	--	13	1,303	Imprest Cash Funds
--	--	32,660	32,660	Long Term Receivables
12,609	7,004	14,320	33,933	General Reserve
18,078	13,003	15,134	153,108	Encumbrances
				Unreserved, Reported in:
--	--	--	163,548	General Fund
43,028	14,060	242,172	319,167	Special Revenue Funds
--	--	6,695	122,873	Debt Service Funds
--	--	225,030	225,030	Capital Projects Funds
--	--	13	13	Permanent Fund
206,161	49,974	981,017	1,948,943	Total Fund Balances
$ 294,799	$ 65,499	$ 1,054,707	$ 2,601,568	Total Liabilities and Fund Balances

The governmental funds balance sheet includes a reconciliation between fund balances – total governmental funds and net assets – governmental activities as reported in the government-wide Statement of Net Assets. The difference in fund balances of $1,256,162 is due to the long-term economic focus of the Statement of Net Assets versus the short-term economic focus of the governmental funds. The components of the difference are described below.

Total fund balances-governmental funds		$ 1,948,943
Capital assets used in the operations of the County are not reported in the governmental funds financial statements because governmental funds focus on current financial resources. Such assets must be included in the Statement of Net Assets for purposes of government-wide reporting. These capital assets consist of:		
Land	$ 567,243	
Structures and improvements	859,891	
Equipment	233,506	
Infrastructure	1,104,098	
Construction in progress	426,904	
Accumulated depreciation	(806,101)	2,385,541
Other assets used in governmental activities do not consume current financial resources and therefore, are not reported in the governmental funds:		
Prepaid pension asset	152,475	
Unamortized bond issuance cost	2,379	154,854
Internal Service Funds primarily serve governmental funds and consequently the assets and liabilities of Internal Service Funds are incorporated as part of governmental activities for purposes of government-wide financial reporting. In addition, the cumulative internal balance resulting from current year's and last year's allocation of Internal Service Funds to Business-type Activities are also reported in the Statement of Net Assets.		77,841
Under the modified accrual basis of accounting, revenue cannot be recognized until it is available to liquidate liabilities of the current period; under accrual accounting, revenue must be recognized as soon as it is earned, regardless of its availability. Any liability of earned but unavailable deferred revenue must be eliminated in the government-wide financial statements.		164,161

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Uncollected property taxes related to prior years are recorded as deferred revenue in governmental funds. Likewise property taxes levied in prior years are recorded as revenues in the current fiscal year as they are collected. These deferred revenues should not be included in the government-wide Statement of Net Assets as they relate to prior periods and were recognized as revenues in prior years.		5,988
Governmental funds report only those liabilities that are expected to be liquidated with current available financial resources. Thus, governmental funds typically do not report any liability for the unmatured portion of long-term debt or any liability that does not consume current available financial resources. However, all liabilities must be reported in the government-wide financial statements. The adjustment to reduce net assets for the unmatured long-term liabilities on the Statement of Net Assets is $1,532,223 which consisted of the following:		
Bonds and COPs payable, net	(1,172,831)	
Compensated employee absences payable	(146,645)	
Pool participants claims	(800)	
Capital lease obligations payable	(100,945)	
Arbitrage rebate payable	(138)	
Interest payable on bonds and capital lease obligations payable	(22,851)	
Interest accretion on capital appreciation bonds payable	(85,873)	
Estimated liability - litigation and claims	(1,380)	
Due to fiduciary fund for the County's net pension obligation for the Extra-Help Employees' Defined Benefit Retirement Plan	(760)	(1,532,223)
Net assets of governmental activities		$ 3,205,105

	General Fund	Roads	Public Library	Tobacco Settlement	Refunding Bonds & Recovery COPs & Debt Prepayment
Revenues					
Taxes	$ 393,078	$ --	$ 28,559	$ --	$ --
Licenses, Permits, and Franchises	7,698	390	551	--	--
Fines, Forfeitures and Penalties	41,451	17	6	--	--
Use of Money and Property	13,277	3,407	154	239	10,215
Intergovernmental	1,310,949	21,430	1,541	--	28,344
Charges for Services	327,191	12,542	1,184	--	--
Contributions from Property Owners	--	--	--	--	--
Other	219,841	979	363	30,787	--
Total Revenues	2,313,485	38,765	32,358	31,026	38,559
Expenditures					
Current					
General Government	326,782	--	--	7	103
Public Protection	797,812	--	--	--	--
Public Ways and Facilities	27,168	38,471	--	--	--
Health and Sanitation	443,965	--	--	--	--
Public Assistance	609,016	--	--	--	--
Education	--	--	29,745	--	--
Recreation and Cultural Services	--	--	--	--	--
Capital Outlay	73,011	5,410	330	--	--
Debt Service					
Principal Retirement	3,533	--	402	--	42,130
Interest	6,201	--	483	--	48,008
Total Expenditures	2,287,488	43,881	30,960	7	90,241
Excess (Deficit) of Revenues Over Expenditures	25,997	(5,116)	1,398	31,019	(51,682)
Other Financing Sources (Uses)					
Transfers In (Note 8)	90,206	--	--	5	80,984
Transfers Out (Note 8)	(136,868)	--	(12)	(32,172)	(10,204)
Capital Leases (Notes 9 and 11)	38,842	--	75	--	--
Net Change in Fund Balances	18,177	(5,116)	1,461	(1,148)	19,098
Fund Balances - Beginning of Year	303,165	117,964	3,078	10,813	244,299
Fund Balances - End of Year	$ 321,342	$ 112,848	$ 4,539	$ 9,665	$ 263,397

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Flood Control District	Harbors, Beaches, and Parks	Other Governmental Funds	Total Governmental Funds	
				Revenues
$ 48,662	$ 36,164	$ 24,133	$ 530,596	Taxes
145	260	10,723	19,767	Licenses, Permits, and Franchises
12	113	29,087	70,686	Fines, Forfeitures and Penalties
7,355	25,747	52,198	112,592	Use of Money and Property
4,884	4,452	159,770	1,531,370	Intergovernmental
9,413	8,093	20,793	379,216	Charges for Services
--	--	65,955	65,955	Contributions from Property Owners
2,158	1,216	12,830	268,174	Other
72,629	76,045	375,489	2,978,356	Total Revenues
				Expenditures
				Current
--	--	29,991	356,883	General Government
46,494	--	30,483	874,789	Public Protection
--	--	5,436	71,075	Public Ways and Facilities
--	--	2,922	446,887	Health and Sanitation
--	--	122,084	731,100	Public Assistance
--	--	--	29,745	Education
--	67,229	182	67,411	Recreation and Cultural Services
75,417	5,200	47,778	207,146	Capital Outlay
				Debt Service
--	--	15,438	61,503	Principal Retirement
--	--	12,442	67,134	Interest
121,911	72,429	266,756	2,913,673	Total Expenditures
(49,282)	3,616	108,733	64,683	Excess (Deficit) of Revenues Over Expenditures
				Other Financing Sources (Uses)
--	5,314	68,042	244,551	Transfers In (Note 8)
(3,175)	--	(56,883)	(239,314)	Transfers Out (Note 8)
--	--	--	38,917	Capital Leases (Notes 9 and 11)
(52,457)	8,930	119,892	108,837	Net Change in Fund Balances
258,618	41,044	861,125	1,840,106	Fund Balances - Beginning of Year
$ 206,161	$ 49,974	$ 981,017	$ 1,948,943	Fund Balances - End of Year

The Net Change in Fund Balances for governmental funds of $108,837 in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances differs from the Change in Net Assets for governmental activities of $233,859 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		$ 108,837
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 expense. In addition, donations, transfers, sales and other disposals/acquisitions of capital assets are not reported in governmental funds. These assets, and their associated depreciation expense, must be reported or removed in the government-wide financial statements.		51,225
The payment 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 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 $62,213 principal and other long-term liability payments and other financing source are as follows:		
Principal and other long-term liability payments:		
Bonds payable	$ 57,077	
Option B pool participant claims	800	
Capital lease obligations	4,440	
Arbitrage rebate payable	(104)	62,213
Revenues related to prior years that are available in the current fiscal year (i.e. property taxes) are reported as revenues 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 purposes, the changes in the deferred revenue accounts are analyzed to determine the revenues on a full accrual basis. The details of this $10,517 difference are as follows:		
Government mandated and voluntary nonexchange revenues earned in FY 2004-05	10,876	
Property tax revenues levied in FY 2004-05 but not available	(359)	10,517

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

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. The details of this $24,011 difference are as follows:		
Accrued interest expense on bonds payable	(1,481)	
Amortization of deferred charges	(475)	
Compensated employee absences expense	(2,391)	
Pension costs and amortization of the County's investment account with OCERS	(5,733)	
Accrued litigation and claims expense	(1,380)	
Accrued interest expense on capital lease	(233)	
Interest accretion on capital appreciation bonds	(12,318)	(24,011)
Internal service funds are used by management to charge the costs of certain activities, such as insurance 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.		25,078
Change in net assets of governmental activities		$ 233,859

	Open Encumbrances July 1, 2004	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 242,914	$ 121,335	$ 364,249
Licenses, Permits, and Franchises		8,158	(790)	7,368
Fines, Forfeitures and Penalties		37,869	(4,776)	33,093
Use of Money and Property		9,527	15	9,542
Intergovernmental Revenues		1,344,080	(74,644)	1,269,436
Charges for Services		354,052	1,146	355,198
Other Revenues		212,853	2,825	215,678
Transfers In		130,828	26,071	156,899
Capital Leases		--	--	--
Total Revenues and Other Financing Sources		2,340,281	71,182	2,411,463
Expenditures/Encumbrances and Other Financing Uses				
General Government:				
Assessor	$ 615	30,764	(226)	31,153
Auditor-Controller	820	14,996	(194)	15,622
Board of Supervisors - 1st District	--	761	--	761
Board of Supervisors - 2nd District	3	752	--	755
Board of Supervisors - 3rd District	--	728	--	728
Board of Supervisors - 4th District	--	735	--	735
Board of Supervisors - 5th District	2	765	--	767
Capital Acquisition Financing	--	8,856	--	8,856
Capital Projects	28,715	28,146	735	57,596
Clerk of the Board	11	2,526	219	2,756
County Counsel	463	8,409	(82)	8,790
County Executive Office	1,591	17,996	(24)	19,563
Data Systems Development Project	1,704	14,999	213	16,916
Employee Benefits	16	8,398	(10)	8,404
Human Resources	--	2,224	(12)	2,212
Internal Audit	8	2,375	(13)	2,370
Miscellaneous	--	189,884	35,263	225,147
Office of Protocol and International Business Development	--	40	--	40
Provisions For Contingencies	--	5,000	--	5,000
Recovery Certificates of Participation Lease Financing	--	65,980	5,819	71,799
Registrar of Voters	125	13,254	1,475	14,854
Treasurer-Tax Collector	29	13,565	(65)	13,529
Utilities	2,793	22,231	--	25,024
Public Protection:				
Alternate Defense	--	10,439	101	10,540
Child Support Services	50	59,632	(4,640)	55,042
Clerk-Recorder	1,220	10,058	(57)	11,221
Detention Release	--	1,476	(12)	1,464
District Attorney	1,290	80,719	560	82,569
Emergency Management Division	43	1,300	21	1,364
Grand Jury	--	533	(1)	532
Juvenile Justice Commission	2	184	(10)	176
Planning and Development Services Department	99	7,956	673	8,728
Probation	2,858	117,870	12,544	133,272
Public Defender	282	47,758	(198)	47,842
Sheriff-Coroner	9,297	399,741	14,627	423,665
Sheriff-Coroner Communications	174	9,802	588	10,564
Sheriff Court Operations	42	42,851	97	42,990
Trial Courts	292	67,407	4,982	72,681
Public Ways and Facilities:				
Resources and Development Management Department	1,990	43,852	990	46,832
Health and Sanitation:				
Health Care Agency	2,483	464,977	6,336	473,796
Watershed Management Program	2,813	19,389	34	22,236
Public Assistance:				
Aid to Families with Dependent Children - Foster Care	314	123,625	(1,476)	122,463
Aid to Refugees	--	317	--	317
California Works Opportunities and Responsibility to Kids - Family Group/Unemployed Parent Program	--	108,823	2,605	111,428
Community Services Agency	651	15,213	1,206	17,070
General Relief	--	1,277	--	1,277
Social Services Agency (Note 1)	6,753	392,518	11,987	411,258
Total Expenditures/Encumbrances and Other Financing Uses	67,548	2,481,101	94,055	2,642,704
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(67,548)	(140,820)	(22,873)	(231,241)
Fund Balances - Beginning of Year	--	107,100	--	107,100
Cancellation of Reserves/Designations	--	33,720	--	33,720
Fund Balance Reserved for Encumbrances	67,548	--	--	67,548
Provisions for Reserves and/or Designations	--	--	22,873	22,873
Fund Balances - End of Year	$ --	$ --	$ --	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Actual Revenues & Expenditures on Budgetary Basis	Variance Positive (Negative)	Variance: Open Encumbrances June 30, 2005	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 393,078	$ 28,829			Taxes
7,698	330			Licenses, Permits, and Franchises
41,451	8,358			Fines, Forfeitures and Penalties
13,277	3,735			Use of Money and Property
1,310,949	41,513			Intergovernmental Revenues
327,191	(28,007)			Charges for Services
219,841	4,163			Other Revenues
90,206	(66,693)			Transfers In
38,842	38,842			Capital Leases
2,442,533	31,070			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances and Other Financing Uses
				General Government:
29,009	2,144	$ 402	$ 1,742	Assessor
14,443	1,179	882	297	Auditor-Controller
742	19	--	19	Board of Supervisors - 1st District
726	29	--	29	Board of Supervisors - 2nd District
671	57	--	57	Board of Supervisors - 3rd District
621	114	--	114	Board of Supervisors - 4th District
730	37	--	37	Board of Supervisors - 5th District
6,800	2,056	--	2,056	Capital Acquisition Financing
25,240	32,356	22,064	10,292	Capital Projects
2,697	59	56	3	Clerk of the Board
7,149	1,641	218	1,423	County Counsel
14,857	4,706	1,184	3,522	County Executive Office
13,858	3,058	1,339	1,719	Data Systems Development Project
3,767	4,637	14	4,623	Employee Benefits
2,062	150	23	127	Human Resources
2,080	290	83	207	Internal Audit
215,525	9,622	--	9,622	Miscellaneous
40	--	--	--	Office of Protocol and International Business Development
--	5,000	--	5,000	Provisions For Contingencies
71,799	--	--	--	Recovery Certificates of Participation Lease Financing
14,333	521	230	291	Registrar of Voters
12,334	1,195	23	1,172	Treasurer-Tax Collector
20,459	4,565	2,331	2,234	Utilities
				Public Protection:
10,540	--	--	--	Alternate Defense
53,144	1,898	104	1,794	Child Support Services
8,752	2,469	359	2,110	Clerk-Recorder
1,321	143	3	140	Detention Release
81,491	1,078	1,126	(48)	District Attorney
1,197	167	14	153	Emergency Management Division
476	56	3	53	Grand Jury
154	22	--	22	Juvenile Justice Commission
7,818	910	94	816	Planning and Development Services Department
122,123	11,149	3,354	7,795	Probation
47,129	713	139	574	Public Defender
381,192	42,473	10,218	32,255	Sheriff-Coroner
9,222	1,342	140	1,202	Sheriff-Coroner Communications
39,465	3,525	44	3,481	Sheriff Court Operations
72,295	386	433	(47)	Trial Courts
				Public Ways and Facilities:
27,549	19,283	2,133	17,150	Resources and Development Management Department
				Health and Sanitation:
438,635	35,161	5,008	30,153	Health Care Agency
10,659	11,577	2,627	8,950	Watershed Management Program
				Public Assistance:
105,044	17,419	217	17,202	Aid to Families with Dependent Children - Foster Care
174	143	--	143	Aid to Refugees
110,180	1,248	--	1,248	California Works Opportunities and Responsibility to Kids - Family Group/Unemployed Parent Program
15,324	1,746	392	1,354	Community Services Agency
827	450	--	450	General Relief
419,703	(8,445)	10,637	(19,082)	Social Services Agency (Note 1)
2,424,356	218,348	$ 65,894	$ 152,454	Total Expenditures/Encumbrances and Other Financing Uses
18,177	$ 249,418			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
303,165				Fund Balances - Beginning of Year
(157,794)				Cancellation of Reserves/Designations
65,894				Fund Balance Reserved for Encumbrances
91,900				Provisions for Reserves and/or Designations
$ 321,342				Fund Balances - End of Year

	Open Encumbrances July 1, 2004	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues				
Licenses, Permits, and Franchises		$ 459	$ --	$ 459
Fines, Forfeitures and Penalties		17	--	17
Use of Money and Property		1,600	--	1,600
Intergovernmental Revenues		31,674	--	31,674
Charges for Services		13,901	(92)	13,809
Other Revenues		16,688	--	16,688
Total Revenues		64,339	(92)	64,247
Expenditures/Encumbrances				
Public Ways and Facilities:				
Roads	$ 30,728	69,118	(93)	99,753
Foothill Circulation Phasing Plan	5,363	5,918	(638)	10,643
Total Expenditures/Encumbrances	36,091	75,036	(731)	110,396
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(36,091)	(10,697)	639	(46,149)
Fund Balances - Beginning of Year	--	(1,003)	--	(1,003)
Cancellation of Reserves/Designations	--	11,700	--	11,700
Fund Balance Reserved for Encumbrances	36,091	--	--	36,091
Provisions for Reserves and/or Designations	--	--	(639)	(639)
Fund Balances - End of Year	$ --	$ --	$ --	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Actual Revenues & Expenditures on Budgetary Basis	Variance Positive (Negative)	Variance: Open Encumbrances June 30, 2005	Variance: Unspent Appropriations	
				Revenues
$ 390	$ (69)			Licenses, Permits, and Franchises
17	--			Fines, Forfeitures and Penalties
3,407	1,807			Use of Money and Property
21,430	(10,244)			Intergovernmental Revenues
12,542	(1,267)			Charges for Services
979	(15,709)			Other Revenues
38,765	(25,482)			Total Revenues
				Expenditures/Encumbrances
				Public Ways and Facilities:
43,530	56,223	$ 34,374	$ 21,849	Roads
351	10,292	5,397	4,895	Foothill Circulation Phasing Plan
43,881	66,515	$ 39,771	$ 26,744	Total Expenditures/Encumbrances
(5,116)	$ 41,033			Excess (Deficit) of Revenues Over Expenditures/Encumbrances
117,964				Fund Balances - Beginning of Year
(103,007)				Cancellation of Reserves/Designations
39,771				Fund Balance Reserved for Encumbrances
63,236				Provisions for Reserves and/or Designations
$ 112,848				Fund Balances - End of Year

	Open Encumbrances July 1, 2004	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 27,123	$ 649	$ 27,772
Licenses, Permits, and Franchises		2,803	708	3,511
Fines, Forfeitures and Penalties		8	--	8
Use of Money and Property		122	--	122
Intergovernmental Revenues		1,456	154	1,610
Charges for Services		1,173	16	1,189
Other Revenues		252	53	305
Transfers In		--	150	150
Capital Leases		--	--	--
Total Revenues and Other Financing Sources		32,937	1,730	34,667
Expenditures/Encumbrances and Other Financing Uses				
Education:				
Public Library - Capital	$ 280	3,144	677	4,101
Public Library	410	30,512	480	31,402
Total Expenditures/Encumbrances and Other Financing Uses	690	33,656	1,157	35,503
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(690)	(719)	573	(836)
Fund Balances - Beginning of Year	--	719	--	719
Cancellation of Reserves/Designations	--	--	--	--
Fund Balance Reserved for Encumbrances	690	--	--	690
Provisions for Reserves and/or Designations	--	--	(573)	(573)
Fund Balances - End of Year	$ --	$ --	$ --	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Actual Revenues & Expenditures on Budgetary Basis	Variance Positive (Negative)	Variance: Open Encumbrances June 30, 2005	Variance: Unspent Appropriations
Revenues and Other Financing Sources				
Taxes	$ 28,559	$ 787		
Licenses, Permits, and Franchises	551	(2,960)		
Fines, Forfeitures and Penalties	6	(2)		
Use of Money and Property	154	32		
Intergovernmental Revenues	1,541	(69)		
Charges for Services	1,184	(5)		
Other Revenues	363	58		
Transfers In	--	(150)		
Capital Leases	75	75		
Total Revenues and Other Financing Sources	32,433	(2,234)		
Expenditures/Encumbrances and Other Financing Uses				
Education:				
Public Library - Capital	276	3,825	$ 723	$ 3,102
Public Library	30,696	706	505	201
Total Expenditures/Encumbrances and Other Financing Uses	30,972	4,531	$ 1,228	$ 3,303
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	1,461	$ 2,297		
Fund Balances - Beginning of Year	3,078			
Cancellation of Reserves/Designations	(3,298)			
Fund Balance Reserved for Encumbrances	1,228			
Provisions for Reserves and/or Designations	2,070			
Fund Balances - End of Year	$ 4,539			

	Open Encumbrances July 1, 2004	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Use of Money and Property		$ 10	$ --	$ 10
Intergovernmental Revenues		30,459	(30,459)	--
Other Revenues		--	30,459	30,459
Transfers In		--	--	--
Total Revenues and Other Financing Sources		30,469	--	30,469
Expenditures/Encumbrances and Other Financing Uses				
General Government:				
Orange County Tobacco Settlement Fund	$ --	36,111	3,047	39,158
Tobacco Settlement Funds	--	1,281	8	1,289
Total Expenditures/Encumbrances and Other Financing Uses	--	37,392	3,055	40,447
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	--	(6,923)	(3,055)	(9,978)
Fund Balances - Beginning of Year	--	6,923	--	6,923
Cancellation of Reserves/Designations	--	--	3,055	3,055
Provisions for Reserves and/or Designations	--	--	--	--
Fund Balances - End of Year	$ --	$ --	$ --	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Actual Revenues & Expenditures on Budgetary Basis	Variance Positive (Negative)	Variance: Open Encumbrances June 30, 2005	Variance: Unspent Appropriations
Revenues and Other Financing Sources				
Use of Money and Property	$ 239	$ 229		
Intergovernmental Revenues	--	--		
Other Revenues	30,787	328		
Transfers In	5	5		
Total Revenues and Other Financing Sources	31,031	562		
Expenditures/Encumbrances and Other Financing Uses				
General Government:				
Orange County Tobacco Settlement Fund	32,177	6,981	$ --	$ 6,981
Tobacco Settlement Funds	2	1,287	--	1,287
Total Expenditures/Encumbrances and Other Financing Uses	32,179	8,268	$ --	$ 8,268
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(1,148)	$ 8,830		
Fund Balances - Beginning of Year	10,813			
Cancellation of Reserves/Designations	(839)			
Provisions for Reserves and/or Designations	839			
Fund Balances - End of Year	$ 9,665			

	Open Encumbrances July 1, 2004	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues				
Taxes		$ 44,880	$ (4,069)	$ 40,811
Licenses, Permits, and Franchises		250	--	250
Fines, Forfeitures and Penalties		--	--	--
Use of Money and Property		3,642	--	3,642
Intergovernmental Revenues		10,220	--	10,220
Charges for Services		7,333	--	7,333
Other Revenues		1,406	--	1,406
Total Revenues		67,731	(4,069)	63,662
Expenditures/Encumbrances and Other Financing Uses				
Public Protection:				
Flood Control District	$ 14,122	79,753	(4,069)	89,806
Santa Ana River Environmental Enhancement	2	234	(1)	235
Flood Control District - Capital	3,664	84,616	--	88,280
Total Expenditures/Encumbrances and Other Financing Uses	17,788	164,603	(4,070)	178,321
Excess (Deficit) of Revenues Over Expenditures/Encumbrances and Other Financing Uses	(17,788)	(96,872)	1	(114,659)
Fund Balances - Beginning of Year	--	78,615	--	78,615
Cancellation of Reserves/Designations	--	29,066	--	29,066
Fund Balance Reserved for Encumbrances	17,788	--	--	17,788
Provisions for Reserves and/or Designations	--	(10,809)	(1)	(10,810)
Fund Balances - End of Year	$ --	$ --	$ --	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Actual Revenues & Expenditures on Budgetary Basis	Variance Positive (Negative)	Variance: Open Encumbrances June 30, 2005	Variance: Unspent Appropriations
Revenues				
Taxes	$ 48,662	$ 7,851		
Licenses, Permits, and Franchises	145	(105)		
Fines, Forfeitures and Penalties	12	12		
Use of Money and Property	7,355	3,713		
Intergovernmental Revenues	4,884	(5,336)		
Charges for Services	9,413	2,080		
Other Revenues	2,158	752		
Total Revenues	72,629	8,967		
Expenditures/Encumbrances and Other Financing Uses				
Public Protection:				
Flood Control District	47,051	42,755	$ 15,203	$ 27,552
Santa Ana River Environmental Enhancement	2	233	2	231
Flood Control District - Capital	78,033	10,247	2,873	7,374
Total Expenditures/Encumbrances and Other Financing Uses	125,086	53,235	$ 18,078	$ 35,157
Excess (Deficit) of Revenues Over Expenditures/Encumbrances and Other Financing Uses	(52,457)	$ 62,202		
Fund Balances - Beginning of Year	258,618			
Cancellation of Reserves/Designations	(163,133)			
Fund Balance Reserved for Encumbrances	18,078			
Provisions for Reserves and/or Designations	145,055			
Fund Balances - End of Year	$ 206,161			

	Open Encumbrances July 1, 2004	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 36,267	$ (3,028)	$ 33,239
Licenses, Permits, and Franchises		245	--	245
Fines, Forfeitures and Penalties		139	--	139
Use of Money and Property		24,517	371	24,888
Intergovernmental Revenues		18,000	(68)	17,932
Charges for Services		7,762	(7)	7,755
Other Revenues		18,455	100	18,555
Transfers In		404	4,910	5,314
Total Revenues and Other Financing Sources		105,789	2,278	108,067
Expenditures/Encumbrances				
Recreation and Cultural Services:				
County Tidelands - Newport Bay	$ 297	3,339	(157)	3,479
County Tidelands - Dana Point	2,520	34,928	1,213	38,661
Harbors, Beaches, and Parks	7,933	77,456	(1,586)	83,803
Total Expenditures/Encumbrances	10,750	115,723	(530)	125,943
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/Encumbrances	(10,750)	(9,934)	2,808	(17,876)
Fund Balances - Beginning of Year	--	7,536	--	7,536
Cancellation of Reserves/Designations	--	3,541	--	3,541
Fund Balance Reserved for Encumbrances	10,750	--	--	10,750
Provisions for Reserves and/or Designations	--	(1,143)	(2,808)	(3,951)
Fund Balances - End of Year	$ --	$ --	$ --	$ --

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

Actual Revenues & Expenditures on Budgetary Basis	Variance Positive (Negative)	Variance: Open Encumbrances June 30, 2005	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 36,164	$ 2,925			Taxes
260	15			Licenses, Permits, and Franchises
113	(26)			Fines, Forfeitures and Penalties
25,747	859			Use of Money and Property
4,452	(13,480)			Intergovernmental Revenues
8,093	338			Charges for Services
1,216	(17,339)			Other Revenues
5,314	--			Transfers In
81,359	(26,708)			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances
				Recreation and Cultural Services:
1,768	1,711	$ 517	$ 1,194	County Tidelands - Newport Bay
17,138	21,523	2,315	19,208	County Tidelands - Dana Point
53,523	30,280	10,171	20,109	Harbors, Beaches, and Parks
72,429	53,514	$ 13,003	$ 40,511	Total Expenditures/Encumbrances
8,930	$ 26,806			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/Encumbrances
41,044				Fund Balances - Beginning of Year
(35,916)				Cancellation of Reserves/Designations
13,003				Fund Balance Reserved for Encumbrances
22,913				Provisions for Reserves and/or Designations
$ 49,974				Fund Balances - End of Year

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Airport	Waste Management	Total	
ASSETS				
Current Assets				
Pooled Cash/Investments (Notes 1 and 3)	$ 47,165	$ 219,247	$ 266,412	$ 182,319
Cash Equivalents/Specific Investments (Notes 1 and 3)	50,098	--	50,098	--
Cash/Cash Equivalents (Notes 1 and 3)	2,192	--	2,192	--
Imprest Cash Funds (Note 3)	14	35	49	133
Restricted Cash and Investments with Trustee (Note 3)	11,500	10,403	21,903	--
Restricted Pooled Cash/Investments (Note 3)	2,051	21,579	23,630	--
Deposits In-Lieu of Cash	21,424	17,533	38,957	--
Receivables				
Accounts	3,331	11,737	15,068	184
Interest/Dividends	233	2,552	2,785	997
Allowance for Uncollectible Receivables	--	(1)	(1)	(2)
Due from Other Funds (Note 6)	--	14	14	8,661
Due from Component Unit (Note 6)	--	--	--	2
Due from Other Governmental Agencies	1,180	617	1,797	107
Inventory of Materials and Supplies (Note 1)	--	--	--	121
Prepaid Costs (Note 1)	1,767	1	1,768	--
Total Current Assets	140,955	283,717	424,672	192,522
Noncurrent Assets				
Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs (Notes 1, 3, and 13)	--	173,125	173,125	--
Investments (Notes 1 and 3)	18,653	--	18,653	--
Capital Assets: (Note 4)				
Land	15,678	18,430	34,108	--
Construction in Progress	42,357	26,610	68,967	770
Structures and Improvements	327,276	6,750	334,026	4,509
Accumulated Depreciation	(146,290)	(2,997)	(149,287)	(3,647)
Equipment	9,891	40,349	50,240	87,059
Accumulated Depreciation	(6,317)	(20,566)	(26,883)	(63,486)
Infrastructure	117,528	217,893	335,421	--
Accumulated Depreciation	(74,799)	(64,385)	(139,184)	--
Total Capital Assets	285,324	222,084	507,408	25,205
Bond Issuance Costs	845	472	1,317	--
Total Noncurrent Assets	304,822	395,681	700,503	25,205
Total Assets	445,777	679,398	1,125,175	217,727

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Airport	Waste Management	Total	
LIABILITIES				
Current Liabilities				
Accounts Payable	$ 6,684	$ 10,280	$ 16,964	$ 4,397
Salaries and Employee Benefits Payable	647	1,106	1,753	809
Unearned Revenue	2,128	--	2,128	--
Due to Other Funds (Note 6)	4,522	9,024	13,546	525
Due to Other Governmental Agencies	--	2,172	2,172	3
Insurance Claims Payable (Notes 1 and 15)	--	--	--	50,702
Compensated Employee Absences Payable (Notes 1 and 9)	863	1,589	2,452	1,081
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	370	370	--
Bonds Payable (Notes 1 and 9)	10,388	4,114	14,502	--
Capital Lease Obligations Payable (Note 9)	--	--	--	1,234
Interest Payable	--	234	234	--
Deposits from Others	23,483	18,135	41,618	--
Total Current Liabilities	48,715	47,024	95,739	58,751
Noncurrent Liabilities				
Insurance Claims Payable (Notes 1 and 15)	--	--	--	83,809
Compensated Employee Absences Payable (Notes 1 and 9)	731	1,487	2,218	835
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	177,927	177,927	--
Bonds Payable (Notes 1 and 9)	113,156	45,272	158,428	--
Capital Lease Obligations Payable (Note 9)	--	--	--	4,010
Arbitrage Rebate Payable (Note 9)	--	148	148	--
Total Noncurrent Liabilities	113,887	224,834	338,721	88,654
Total Liabilities	162,602	271,858	434,460	147,405
NET ASSETS				
Invested in Capital Assets, Net of Related Debt (Note 1)	162,625	173,170	335,795	19,961
Restricted (Note 1)	30,153	57,853	88,006	--
Unrestricted (Note 1)	90,397	176,517	266,914	50,361
Total Net Assets	$ 283,175	$ 407,540	690,715	$ 70,322
Adjustment to reflect the consolidation of internal service funds' activities related to enterprise funds.			(591)	
Cumulative effect of prior year's internal service funds' allocation.			(6,928)	
Net assets of business-type activities			$ 683,196	

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Airport	Waste Management	Total	
Operating Revenues				
Use of Property	$ 82,164	$ 634	$ 82,798	$ 2,000
Licenses, Permits, and Franchises	--	40	40	--
Charges for Services	13,398	113,615	127,013	62,831
Insurance Premiums	--	--	--	152,557
Other	--	252	252	--
Total Operating Revenues	95,562	114,541	210,103	217,388
Operating Expenses				
Salaries and Employee Benefits	11,412	20,032	31,444	14,464
Services and Supplies	13,527	22,509	36,036	26,842
Professional Services	26,512	13,133	39,645	30,955
Operating Leases	246	666	912	4,193
Insurance Claims (Note 15)	--	--	--	102,014
Other Charges	--	--	--	22,707
Taxes and Other Fees	--	8,529	8,529	--
Landfill Site Closure/Postclosure Costs (Note 13)	--	8,138	8,138	--
Depreciation (Note 4)	18,762	11,273	30,035	5,782
Total Operating Expenses	70,459	84,280	154,739	206,957
Operating Income	25,103	30,261	55,364	10,431
Nonoperating Revenues (Expenses)				
Fines, Forfeitures and Penalties	--	14	14	--
Intergovernmental Revenues	638	62	700	30
Interest Revenue	3,179	10,089	13,268	3,725
Interest Expense	(8,376)	(3,335)	(11,711)	(448)
Gain (Loss) on Disposition of Capital Assets	--	(201)	(201)	29
Other Revenue (Expense) - Net	242	(115)	127	1,111
Total Nonoperating Revenues (Expenses)	(4,317)	6,514	2,197	4,447
Income Before Contributions and Transfers	20,786	36,775	57,561	14,878
Capital Contributions	10,703	--	10,703	26
Transfers In (Note 8)	--	--	--	9,342
Transfers Out (Note 8)	--	(14,579)	(14,579)	--
Increase in Net Assets	31,489	22,196	53,685	24,246
Net Assets - Beginning of Year	251,686	385,344		46,076
Net Assets - End of Year	$ 283,175	$ 407,540		$ 70,322
Adjustment to reflect the consolidation of internal service funds' activities related to enterprise funds.			(591)	
Increase in Net Assets of Business-Type Activities			$ 53,094	

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF ORANGE
CALIFORNIA

	Business-Type Activities - Enterprise Funds			Governmental Activities -
	Airport	Waste Management	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$ 93,270	$ 114,058	$ 207,328	$ 64,851
Cash Received for Premiums Within the County's Entity	--	--	--	147,562
Payments to Suppliers for Goods and Services	(41,467)	(29,939)	(71,406)	(157,214)
Payments to Employees for Services	(11,301)	(19,879)	(31,180)	(14,512)
Payments for Interfund Services Provided	--	--	--	(2,457)
Cash Receipts for Interfund Services Provided	2,779	--	2,779	246
Retiree Healthcare Contributions	--	--	--	--
Landfill Site Closure/Postclosure Care Costs	--	(2,498)	(2,498)	--
Taxes and Other Fees	--	(8,529)	(8,529)	--
Other Operating Receipts	242	--	242	3,181
Other Operating Payments	--	(707)	(707)	(23,261)
Net Cash Provided by Operating Activities	43,523	52,506	96,029	18,396
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	--	--	--	8,942
Transfers Out	--	(14,579)	(14,579)	--
Intergovernmental Revenues	638	62	700	30
Net Cash Provided (Used) by Noncapital Financing Activities	638	(14,517)	(13,879)	8,972
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(20,122)	(17,616)	(37,738)	(4,301)
Principal Paid on Bonds	(10,780)	(4,280)	(15,060)	--
Interest Paid on Long-Term Debt	(6,903)	(2,805)	(9,708)	(221)
Capital Contributions	10,703	--	10,703	--
Transfers In	--	--	--	400
Principal Paid on Capital Lease Obligations	--	--	--	(1,415)
Proceeds from Sale of Capital Assets	7	74	81	289
Net Cash Used by Capital and Related Financing Activities	(27,095)	(24,627)	(51,722)	(5,248)
CASH FLOW FROM INVESTING ACTIVITIES				
Interest on Investments	3,328	8,285	11,613	2,726
Sales (purchases) of Investments, net	7,711	-	7,711	--
Increase in Restricted Investments with Trustee	--	(72)	(72)	--
Net Cash Provided by Investing Activities	11,039	8,213	19,252	2,726
Net Increase in Cash and Cash Equivalents	28,105	21,575	49,680	24,846
Cash and Cash Equivalents - Beginning of Year	73,581	392,411	465,992	157,606
Cash and Cash Equivalents - End of Year	$ 101,686	$ 413,986	$ 515,672	$ 182,452

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

	Business-Type Activities - Enterprise Funds Airport	Waste Management	Total	Governmental Activities - Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating Income	$ 25,103	$ 30,261	$ 55,364	$ 10,431
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	18,762	11,273	30,035	5,782
Provision for Landfill Site Closure/Postclosure Costs	--	8,138	8,138	--
Fines, Forfeitures and Penalties	--	14	14	--
Other Revenue (Expense)	242	(115)	127	1,111
Landfill Site Closure Disbursements	--	(2,498)	(2,498)	--
(Increases) Decreases In:				
Deposits In-Lieu of Cash	(6,360)	(326)	(6,686)	--
Accounts Receivable	(548)	(559)	(1,107)	(7)
Due from Other Funds	113	--	113	(6,983)
Due from Component Unit	--	--	--	(2)
Due from Other Governmental Agencies	1,521	70	1,591	--
Inventory of Materials and Supplies	--	--	--	165
Prepaid Costs	238	--	238	--
Increases (Decreases) In:				
Accounts Payable	(1,163)	394	(769)	1,491
Salaries and Employee Benefits Payable	91	153	244	(112)
Unearned Revenue	(651)	--	(651)	--
Due to Other Funds	2,666	5,257	7,923	(221)
Due to Other Governmental Agencies	(256)	52	(204)	(2)
Insurance Claims Payable	--	--	--	6,677
Compensated Employee Absences Payable	20	--	20	66
Deposits from Others	3,745	332	4,077	--
Arbitrage Rebate Payable	--	60	60	--
Total Adjustments	18,420	22,245	40,665	7,965
Net Cash Provided by Operating Activities	$ 43,523	$ 52,506	$ 96,029	$ 18,396
Reconciliation of Cash and Cash Equivalents to Statement of Fund Net Assets Accounts				
Pooled Cash/Investments	$ 47,165	$ 219,247	$ 266,412	$ 182,319
Cash Equivalents/Specific Investments	50,098	--	50,098	--
Cash/Cash Equivalents	2,192	--	2,192	--
Imprest Cash Funds	14	35	49	133
Restricted Pooled Cash/Investments	2,051	21,579	23,630	--
Restricted Cash and Investments with Trustee	166 (1)	-- (2)	166	--
Restricted Pooled Cash/Investments - Closure & Postclosure Care Costs	--	173,125	173,125	--
Total Cash and Cash Equivalents	$ 101,686	$ 413,986	$ 515,672	$ 182,452

Schedule of Noncash Investing, Capital, and Financing Activities:
-During the year, the Transportation Internal Service Fund received $26 of capital contributions from the General Fund.

(1) Does not include $29,987 from Airport's nonliquid Restricted Cash and Investments.
(2) Does not include $10,403 from Waste Management's nonliquid Restricted Cash and Investments with Trustee.

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

	Private-Purpose Trust	Investment Trust Funds	Pension Trust and Other Employee Benefits	Agency Funds
ASSETS				
Pooled Cash/Investments (Notes 1 and 3)	$ 48,314	$ 2,830,697	$ 4,361	$ 178,537
Imprest Cash Funds (Notes 1 and 3)	--	--	--	110
Restricted Cash and Investments				
with Trustees (Notes 1 and 3)	217	--	6,158	1,300
Investments (Notes 1 and 3)	--	--	--	1,141
Deposits In-Lieu of Cash	--	--	--	13,769
Receivables				
Accounts	--	--	--	8,289
Taxes (Note 1)	--	--	--	152,729
Interest/Dividends	326	4,457	27	1,618
Allowance for Uncollectible Receivables	--	--	--	(2)
Due from Other Governmental Agencies (Note 17)	--	79	760	2,862
Notes Receivable	--	--	--	8,600
Total Assets	48,857	2,835,233	11,306	$ 368,953
LIABILITIES				
Accounts Payable	1,320	--	--	--
Interest Payable	5	113	--	8,442
Deposits from Others	--	--	--	448
Monies Held for Others	--	--	--	64,796
Due to Other Governmental Agencies	--	--	--	30,299
Unapportioned Taxes	--	--	--	264,968
Total Liabilities	1,325	113	--	$ 368,953
NET ASSETS				
Held in Trust (Note 12)	47,532	2,835,120	11,306	
Total Net Assets	$ 47,532	$ 2,835,120	$ 11,306	

The notes to the basic financial statements are an integral part of this statement.

(Dollar Amounts in Thousands)

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Private-Purpose Trust	Investment Trust Funds	Pension Trust and Other Employee Benefits
Additions:			
Contributions to Pension Trust:			
Employer (Note 17)	$ --	$ --	$ 342
Employee (Note 17)	--	--	2,311
Contributions to Pooled Investments	--	6,774,934	--
Contributions to Private-Purpose Trust	326,324	--	--
Interest and Investment Income (Note 17)	621	63,208	361
Less: Investment Expense (Note 17)	(94)	(1,479)	(4)
Total Additions	326,851	6,836,663	3,010
Deductions:			
Benefits Paid to Participants (Note 17)	--	--	387
Refunds of Prior Contributions (Note 17)	--	--	970
Distributions from Pooled Investments	--	6,504,380	--
Distributions from Private-Purpose Trust	326,723	--	--
Total Deductions	326,723	6,504,380	1,357
Change in Net Assets Held in Trust For:			
Private-Purpose Trust	128	--	--
External Investment Pool	--	332,283	--
Employees' Retirement (Note 17)	--	--	1,653
Net Assets Held in Trust, Beginning of Year	47,404	2,502,837	9,653
Net Assets Held in Trust, End of Year	$ 47,532	$ 2,835,120	$ 11,306

COUNTY OF ORANGE
CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Blended Component Units

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

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

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

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

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

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 and accumulated depreciation are displayed on the government-wide financial statements. The capital assets and related depreciation include the costs and depreciation of infrastructure assets.

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"* 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 certain legally separate component units for which the primary government is financially accountable.

The government-wide Statement of Net Assets displays the financial position of the primary government, in this case the County, and it's 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. Examples of restricted net assets include federal and state grants that are restricted by grant agreements for specific purposes and restricted cash set aside for debt service for governmental activities payments. At June 30, 2005, the County's governmental activities reported restricted net assets of $913,153 restricted for the purposes of capital projects, debt service, legally segregated special revenue funds restricted for grants and other purpose, and regional park endowment.

  Restricted Net Assets for business-type activities amounted to $347,401 and are restricted for the use of Airport and Waste Management activities, including debt service.

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, capital outlay, and debt service.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

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

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

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

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

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

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

The County reports the following major proprietary enterprise funds:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

Additionally, the County reports the following fund types:

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

Fiduciary Fund Types The County of Orange has a total of 233 trust and agency funds for FY 2004-05. These trust and agency funds are used to account for assets held on behalf of outside parties or employees, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust, pension trust, investment trust or educational investment trust fund is used. Agency funds are used to account for assets that the County holds on behalf of others as their agent.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

For purposes of not overstating the true costs and program revenues reported for the various functions, interfund activities (e.g. interfund transfers and interfund reimbursements) have been eliminated from the government-wide Statement of Activities. Exceptions to the general rule are interfund services provided and used between functions, such as charges for auditing and accounting fees between the general government function and various other functions of the primary government. Elimination of these interfund activities would distort the direct costs and program revenues reported for the various functions concerned.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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:

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

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

Revenues that are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues that are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met, provided that the revenues are also available. If intergovernmental revenues are received later than 60 days, then a receivable is recorded, along with deferred revenue. Once the grant reimbursement is received, revenue and cash are recorded, while the receivable and deferred revenue are eliminated. As of June 30, 2005, the County reported deferred revenue of $244,592 in the governmental funds' Balance Sheet, of which $164,216 represents the amount of intergovernmental revenues unavailable for revenue recognition.

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. Reservations of fund balance are created for encumbrances outstanding at year-end.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Fund Financial Statements (Continued)

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

Proprietary Fund Financial Statements

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

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

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

The County has two enterprise funds: John Wayne Airport Enterprise Fund and Integrated Waste Management Enterprise Fund. The principal operating revenues of the John Wayne Airport and Waste Management enterprise funds are charges to customers for (1) landing fees, terminal space rental, auto parking, concessions, and aircraft tie-down fees and (2) disposal fees charged to users of the waste disposal sites, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision

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

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 increased appropriations for new reimbursement contracts. Department heads are authorized to approve appropriation transfers within a fund-agency unit. However, appropriation transfers between fund-agency units require approval of the Board of Supervisors. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund-agency unit level.

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

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

- *Roads*
- *Public Library*
- *Tobacco Settlement*
- *Flood Control District*
- *Harbors, Beaches, and Parks*

Budgetary comparison information for the Refunding Bonds & Recovery COPs and Debt Prepayment major debt service fund and the nonmajor governmental funds are presented in the “Budgetary Comparison Schedules” in the Supplemental Information section.

E. Excess of Expenditures over Appropriations

For FY 2004-05, expenditures exceeded appropriations in the Social Services Agency (SSA) (the legal level of budgetary control) of the General Fund by $8,445 caused by the County entering into a capital lease for a building with a net present value of $38,609. The Board of Supervisors approved the execution of this capital lease on February 23, 2005, without increasing appropriations. This excess expenditure was funded by other financing source of $38,609. The County will annually budget the required lease payments, but does not budget for the GAAP requirement to report both other financing source and expenditure equal to the net present value of the minimum lease payments at the inception of the lease. GAAP requires reporting the initial other financing source and expenditure for the net present value, as well as reporting the annual lease payment expenditure.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 stated at fair value.

G. Inventory of Materials and Supplies

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

H. Prepaid Costs

The County pays for certain types of services in advance such as insurance premiums and rents and recognizes these costs in the period during which services are provided. Applicable fund balances are reserved for amounts equal to the prepaid cost at the end of the fiscal year in the governmental funds. At June 30, 2005, the County has prepaid costs of $158,854 in the Statement of Net Assets, which primarily consist of the County's Investment Account with the Orange County Employees Retirement System (OCERS) for future pension costs of $152,475. See Note 17 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, and infrastructure. Infrastructure assets are grouped by networks consisting of flood channels, roads, bridges, trails, traffic signals, and harbors.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

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
Infrastructure	$ 0

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

Structures and Improvements	10 to 50 years
Equipment	2 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, and for claims arising under the group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits program. Liabilities are accrued based upon case reserves, development of known and incurred but not reported claims, including allocated loss adjustment expenses (See Note 15).

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 public utility unitary and operating non-unitary property. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

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

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

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

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due 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, 2005 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 unearned revenue. 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, 2005, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 0.82 percent of the combined beginning secured and unsecured property tax roll charge.

Beginning in FY 2004-05, a sales tax-property tax swap known as the "triple flip" was instituted. The triple flip local government package was part of Proposition 57, a State ballot measure approved by the voters in March 2004. Proposition 57 suspended the one-quarter cent portion of the sales tax dedicated to local government and replaced it with property taxes (the "Countywide Adjustment Amount") equal to the lost sales tax revenue. Since the County's portion of sales tax is pledged to the repayment of the Recovery COPs, legislation was enacted that amended the applicable Government Code provisions, adding the Countywide Adjustment Amount as security for the Recovery COPs. For more information on the Recovery COPs, refer to Note 9, Long-Term Obligations and Note 19, Subsequent Events.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

In addition, legislation adopted as part of the State's 2004-05 budget process and Proposition 1A, approved by voters on November 2, 2004, permanently reduced the VLF from 2.00% to 0.65%, swapped county and city VLF revenues for property taxes, equal to the difference between the VLF rate of 2.00% and 0.65% with a revenue-neutral impact, provided for an allowance of $54,000 for continuing Orange County's share of intercepted VLF dedicated to the debt service on the Recovery COPs and Recovery Bonds, provided for a two-year shift of property taxes from counties, cities, redevelopment agencies, and special districts to school districts to partially reduce the State's General Fund deficit, in the total Statewide amount of $1,300,000 for each of fiscal years 2004-05 and 2005-06 and established new Constitutional restrictions on the State's ability to impose unfunded mandates and limits the State's ability to reduce County revenues in the future.

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2004-05 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Federal Office of Management and Budget Circular A-87. The County has elected to allocate indirect costs to agencies within the General Fund that 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 summarizes recent GASB pronouncements and their impact, if any, on the financial statements:

In November 2003, GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*" This statement establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal periods beginning after December 15, 2004. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The County intends to implement the new reporting requirements for the FY 2005-06 financial statements.

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and is effective for fiscal periods beginning after December 15, 2005. The approach followed in this statement reflects differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, stand-alone financial reports of OPEB plans, the public employee retirement systems, or third parties that administer them. This statement also provides requirements for reporting OPEB funds by administrators of multiple-employer OPEB plans that are not a trust fund. The County is currently studying the impact to the financial statements that GASB Statement No. 43 will impose. The County intends to implement the new reporting requirements for the FY 2006-07 financial statements.

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1.*" This statement amends the portions of NCGA (National Council on Governmental Accounting) Statement 1, *Governmental Accounting and Financial Reporting Principles*, which guide the preparation of the statistical section and is effective for fiscal periods beginning after June 15, 2005. This amendment adds new information that financial statement users have identified as important and eliminates certain previous requirements. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, to assess the economic condition of a government. The County intends to implement the new reporting requirements for the FY 2005-06 financial statements.

In June 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits and is effective for fiscal periods beginning after December 15, 2006. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The County is currently studying the

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements (Continued)

impact to the financial statements that implementing GASB Statement No. 45 will impose. The County intends to implement the new reporting requirements as required for the FY 2007-08 financial statements.

In May 2004, GASB issued Technical Bulletin No. 2004-1, "*Tobacco Settlement Recognition and Financial Reporting Entity Issues.*" This technical bulletin addresses accounting by state and local governments in connection with settlements made by U.S. tobacco companies. The technical bulletin clarifies accounting guidance on whether a Tobacco Settlement Authority (TSA) that is created to obtain the rights to all or a portion of future tobacco settlement resources is a component unit of the government that created it. In addition, the technical bulletin clarifies recognition guidance for these transactions and for payments made to settling governments pursuant to the Master Settlement Agreement. The County currently does not have a Tobacco Settlement Authority.

In December 2004, GASB issued Statement No. 46, "*Net Assets Restricted by Enabling Legislation – an amendment of GASB No. 34.*" This statement imposes limitations on the use of restricted net assets. GASB Statement No. 46 clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as its citizens, public interest groups, or the judiciary, can compel a government to honor. This statement requires governments to disclose the portions of total net assets that are restricted by enabling legislation. Disclosing the amount of net assets restricted by enabling legislation will allow users of the financial statements to distinguish qualifying restrictions on resource use imposed through a government's own action from other types of net asset restrictions. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2005. The County intends to implement this statement for the FY 2005-06 financial statements.

In June 2005, GASB issued Statement No. 47, "*Accounting for Termination Benefits.*" This statement provides guidance on accounting and financial reporting for termination benefits. These benefits include incentives for voluntary terminations such as early retirement window programs and involuntary termination benefits, such as severance payments. The statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. The requirements of this statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of GASB Statement No. 45. As noted in the GASB Statement No. 45 discussion detailed above, the County intends to implement this statement in FY 2007-08. For all other termination benefits, this statement is effective for fiscal periods beginning after June 15, 2005, which requires the County to implement GASB Statement No. 47 for the FY 2005-06 financial statements.

In December 2004, GASB issued Technical Bulletin No. 2004-2, "*Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.*" This technical bulletin clarifies the requirements of GASB Statements No. 27 and No. 45 for recognition of pension and other postemployment (OPEB) expenditures/expenses and liabilities by cost-sharing employers. The County is already in compliance with respect to OCERS and will implement OPEB accrual requirements (if applicable) with the implementation of GASB Statement No. 45 in the FY 2007-08 financial statements.

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

Statement of Net Assets Line Item	***Corresponding Governmental and Proprietary Funds' 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/Investments – Closure and Postclosure Costs
Prepaid Costs	Prepaid Costs and Bond Issuance Costs
Capital Assets – Not Depreciated	Land and Construction in Progress
Capital Assets – Depreciable, Net of Accumulated Depreciation	Structures and Improvements and Accumulated Depreciation; Equipment and Accumulated Depreciation; and Infrastructure and Accumulated Depreciation

2. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following fund has deficit net assets:

Internal Service Fund	Deficit
Workers' Compensation	$ 39,291

The deficit in the Workers' Compensation Fund results from accrual of known losses and actuarially-projected Incurred But Not Reported claims (IBNR). Charges to County departments have not provided a sufficient cash flow to entirely fund the IBNR. The deficit has increased from the previous fiscal year due to mandated indemnity benefits, the impact of legislative and regulatory changes, and a trend in rising medical costs.and other governmental agencies authorized by the Board of Supervisors to participate in the program have not provided a sufficient cash flow to entirely fund the IBNR. The deficit has decreased by $20,623 from the previous fiscal year due to the impact of legislative changes passed in April 2004 and increased charges to participants in the program. The County will continue to review charges to departments participants in relationship to the IBNR and adjust them as deemed appropriate.

3. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled $6,026,164 as of June 30, 2005. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Restricted Pooled Cash/Investments – Closure & Postclosure Costs, Restricted Pooled Cash/Investments, Cash/Cash Equivalents, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."

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

The primary investment objectives of the Treasurer's investment activities are in priority order: protecting the safety of the principal invested, meeting participants' liquidity needs, attaining a money market rate of return, and attempting to stabilize at a $1 net asset value for the County Money Market Fund and the Educational Money Market Fund. These external investment pools contain deposits, repurchase agreements, and investments. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. Interest assigned to another fund due to management decision is recognized in the fund that reports the investments and reported as a transfer to the recipient fund.

A. Deposits

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

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

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

Total County deposits and investments at fair value as of June 30, 2005 are reported as follows:

Deposits:		
Imprest Cash	$	1,610
Deposit Overdraft		(104,455)
Total Cash Overdrafts		(102,845)
Investments:		
With Treasurer		5,567,614
With Trustee		561,395
Total Investments		6,129,009
Total Deposits and Investments	$	6,026,164

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

Governmental Funds	$	2,068,543
Component Unit		148,272
Fiduciary Funds		3,070,835
Proprietary Funds		738,514
Total Deposits and Investments	$	6,026,164

B. Investments

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

External Investment Pools

The County Treasurer sponsors two external investment pools: the County Pool, and the Educational Pool. Both pools consist of a Money Market Fund and an Extended Fund. The County Treasurer has a written IPS specifically for the separately managed County and Educational Investment Pools. The IPS is more restrictive than required by California Government Code. The IPS requires the assets in the Pools to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/P1/F1) as provided by at least two of the following nationally recognized rating agencies: Standard & Poor's Corporation ("S & P"), Moody's Investors Service, Inc. ("Moody's"), or Fitch Ratings ("Fitch"), with further restrictions regarding issuer size and maturity (40%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank, or the Money Market Fund may invest in U.S. dollar denominated certificates of deposit issued in London, England (Euro CD) (30%); bankers' acceptances (40%); money market funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); repurchase agreements collateralized by securities at 102% of the market value no less frequently than weekly (50%) ; the Money Market Fund may invest in funding agreements (10%); the Money Market Funds may also invest in securities lending agreements

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

and other "eligible securities" as defined under Securities and Exchange Commission (SEC) Rule 2a-7 of the Investment Company Act of 1940 (10%). In addition, no investment may be purchased from an issuer that has been placed on credit watch-negative by any of the three nationally recognized rating agencies, or whose credit rating by any of the three nationally recognized rating agencies is less than the minimum rating required by the IPS for that class of security. All permitted investments are required to comply in every respect with California Government Code Sections 53601, 53601.7 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

Repurchase agreements are limited to a one year maturity and can only be entered into with entities prescribed in California Government Code Section 53601.7. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers, and also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

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

The County Treasury Oversight Committee established in December 1995, which consists of the County Executive Officer, the elected County Auditor-Controller, the elected County Superintendent of Schools and two public members, conducts treasury oversight. On January 31, 2005, Fitch reaffirmed the Pools' ratings of "AAA/V1+." In November 2004, Moody's reaffirmed credit ratings of Aaa and MR1 market risk ratings for the County and Educational Investment Pools. The Pools are not registered with the Securities and Exchange Commission.

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100 percent involuntary participants. At June 30, 2005, the County Pool includes approximately 9.47 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures

As of June 30, 2005, the major classes of the County's deposits and investments consisted of the following:

With Treasurer:	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
County Pool					
U.S. Government Agencies	$ 909,335	$ 916,654	Discount, 1.66-4.38%	09/09/05-06/28/07	0.97
Bankers' Acceptances	127,495	128,645	Discount	07/05/05-12/20/05	0.26
Commercial Paper	766,801	769,202	Discount	07/01/05-12/23/05	0.09
Negotiable Certificates of Deposit	555,916	556,000	2.93-3.35%	07/13/05-10/14/05	0.10
Medium-Term Corporate Notes	366,236	365,590	2.84-3.71%	08/17/05-06/22/07	0.28
Repurchase Agreements	160,000	160,000	3.45%	07/01/05	0.00
Money Market Mutual Funds	43,596	43,596	Variable	07/01/05	0.00
	$ 2,929,379	**$ 2,939,687**			**0.39** *
Educational Pool					
U.S. Government Agencies	$ 629,369	$ 633,635	Discount, 1.66-4.38%	09/09/05-06/28/07	0.86
Bankers' Acceptances	94,268	95,000	Discount	08/01/05-11/10/05	0.23
Commercial Paper	936,328	939,156	Discount	07/01/05-12/23/05	0.09
Negotiable Certificates of Deposit	441,965	442,000	2.93-3.28%	07/06/05-09/30/05	0.09
Medium-Term Corporate Notes	313,012	312,913	2.84-3.50%	08/09/05-06/22/07	0.21
Repurchase Agreements	90,000	90,000	3.45%	07/01/05	0.00
Money Market Mutual Funds	66,373	66,373	Variable	07/01/05	0.00
	$ 2,571,315	**$ 2,579,077**			**0.29** *
Specific Investments					
U.S. Government Agencies	$ 15,129	$ 15,184	Discount	07/01/05-02/06/06	0.17
Commercial Paper	22,113	22,155	Discount	07/05/05-08/22/05	0.06
Negotiable Certificates of Deposit	9,399	9,400	2.93-3.24%	07/06/05-08/11/05	0.09
Repurchase Agreements	1,082	1,081	6.18%	08/15/19	14.13
Money Market Mutual Funds	19,197	19,197	Variable	07/01/05	0.00
	$ 66,920	**$ 67,017**			**0.30** *
With Trustees:					
Restricted Investments with Trustees					
U.S. Government Agencies	$ 226,096	$ 149,853	Discount	09/01/16-09/01/21	5.03
U.S. Treasury Bonds	10,668	9,764	5.75-9.00%	11/30/05-11/15/18	4.19
U.S. Treasury Strips	7,482	7,285	Discount	10/06/05-11/15/18	0.68
Guaranteed Investment Contracts	296,717	296,717	2.71-6.77%	10/25/05-7/2/26	8.97
Repurchase Agreements	222	222	0.95%	07/01/05	0.00
Money Market Mutual Funds	20,210	20,208	Variable	07/01/05	0.00
	$ 561,395	**$ 484,049**			**9.86** *

* Portfolio weighted average maturity

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

Interest Rate Risk

The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity of its Money Market Funds to less than 90 days and the Extended Fund to less than 18 months in accordance with the IPS. The weighted average maturity of the County Pool was 0.39 years and the Educational Pool was 0.29 years. Of the County's $2,929,379 and Educational Pool's $2,571,315 portfolio at June 30, 2005, over 70.89% and 81.88%, respectively of the investments have a maturity of six months or less. Of the remainder, only 12.60% and 8.16% have a maturity of more than 1 year.

As of June 30, 2005, variable-rate notes comprised 10.75% and 11.17% of the County Pool and Educational Pool, respectively. The notes are tied to the one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable-rate securities is generally less susceptible to changes in value because the variable-rate coupon resets back to the market rate on a periodic basis. Effectively, at each reset date, a variable-rate investment reprices back to par value, eliminating interest rate risk at each periodic reset. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the length of time until the next reset date rather than the stated maturity.

At June 30, 2005, the Net Asset Value (NAV) of Money Market Funds for both pools was $1.00 (in absolute dollar amounts). The average daily investment balance of the County Pool and the Educational Pool amounted to $2,910,000 and $2,450,000 with an average effective yield of 2.24% and 2.26%, respectively, for the year ended June 30, 2005.

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. At year-end, 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

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch) while an issuer of long-term debt shall be rated no less than an "A." As of June 30, 2005, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's and F-1 by Fitch.

Concentration of Credit Risk

At June 30, 2005, the County did not exceed the IPS limitations that states that 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.

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2005 (NR means Not Rated):

Investments	S & P	Moody's	Fitch	% of Portfolio
County Pool				
U.S. Government Agencies				
Federal Farm Credit Discount Notes	AAA	Aaa	AAA	1.67%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.82%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	9.92%
Federal Farm Credit Bonds	AAA	Aaa	AAA	3.42%
Freddie Mac Bonds	AAA	Aaa	AAA	8.22%
Bankers' Acceptances	A-1	P-1	F1	4.35%
Commercial Paper	A-1	P-1	F1	26.17%
Negotiable Certificates of Deposit	A-1	P-1	F1	18.98%
Medium-Term Corporate Notes				
Corporate Notes	A	A2	A	4.87%
Corporate Notes	A	Aa3	AA	1.04%
Corporate Notes	AAA	Aaa	NR	1.09%
Corporate Notes	AAA	Aaa	AAA	5.50%
Repurchase Agreements	NR	NR	NR	5.46%
Money Market Mutual Funds	AAA	Aaa	AAA	1.49%
Total County Pool				**100.00%**
Educational Pool				
U.S. Government Agencies				
FHLB Discount Notes	AAA	Aaa	AAA	1.73%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.00%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	7.06%
Federal Farm Credit Bonds	AAA	Aaa	AAA	1.43%
Freddie Mac Bonds	AAA	Aaa	AAA	7.26%
Bankers' Acceptances	A-1	P-1	F1	3.67%
Commercial Paper	A-1	P-1	F1	36.41%
Negotiable Certificates of Deposit	A-1	P-1	F1	17.19%
Medium-Term Corporate Notes				
Corporate Notes	A	A2	A	4.05%
Corporate Notes	A	Aa3	AA	0.73%

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

Investments	S & P	Moody's	Fitch	% of Portfolio
Educational Pool (Continued)				
Corporate Notes	AAA	Aaa	NR	1.22%
Corporate Notes	AAA	Aaa	AAA	6.17%
Repurchase Agreements	NR	NR	NR	3.50%
Money Market Mutual Funds	AAA	Aaa	AAA	2.58%
Total Educational Pool				**100.00%**
Specific Investments				
U.S. Government Agencies				
FHLB Discount Notes	AAA	Aaa	AAA	12.96%
Freddie Discount Notes	AAA	Aaa	AAA	6.67%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	2.98%
Commercial Paper	A-1	P-1	F1	33.04%
Negotiable Certificates of Deposit	A-1	P-1	F1	14.04%
Repurchase Agreements	AAA	Aaa	AAA	1.62%
Money Market Mutual Funds	AAA	Aaa	AAA	28.69%
Total Specific Investments				**100.00%**
Restricted Investments with Trustees				
U.S. Government Agencies				
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	40.27%
U.S. Treasury Bonds	A1	NR	F1	1.90%
U.S. Treasury Strips	A1	NR	F1	1.34%
Guaranteed Investment Contracts				
Investment Contracts	NR	NR	NR	52.85%
Repurchase Agreement	AAA	Aaa	AAA	0.04%
Money Market Mutual Funds	AAA	Aaa	NR	3.60%
Total Restricted Investments with Trustees				**100.00%**

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Condensed Financial Statements

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 2005:

	County Pool	Educational Pool	Total
Statement of Net Assets			
Net assets held for pool participants	$ 3,519,081	$ 2,507,175	$ 6,026,256
Equity of internal pool participants	3,191,136	--	3,191,136
Equity of external pool participants	327,945	2,507,175	2,835,120
Total Net Assets	$ 3,519,081	$ 2,507,175	$ 6,026,256
Statement of Changes in Net Assets			
Net assets as of July 1, 2004	$ 3,236,689	$ 2,258,978	$ 5,495,667
Net change in investments by pool participants	282,392	248,197	530,589
Net Assets at June 30, 2005	$ 3,519,081	$ 2,507,175	$ 6,026,256

4. CHANGES IN CAPITAL ASSETS

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

	Primary Government				
	Balance July 1, 2004	Increases	Decreases	Adjustment	Balance June 30, 2005
Governmental activities:					
Capital assets not depreciated:					
Land	$ 481,048	$ 86,797	$ (602)	$ --	$ 567,243
Construction in progress	418,347	32,734	(5,517)	(17,890)	427,674
Total capital assets not being depreciated	899,395	119,531	(6,119)	(17,890)	994,917
Capital assets, depreciable:					
Structures and Improvements	831,374	33,694	(593)	(75)	864,400
Equipment	303,493	25,373	(8,611)	310	320,565
Infrastructure:					
Flood Channels	877,440	--	--	--	877,440
Roads	87,313	--	--	--	87,313
Bridges	62,464	--	--	--	62,464
Trails	32,428	--	--	--	32,428
Traffic signals	9,933	--	--	--	9,933
Harbors and Beaches	34,520	--	--	--	34,520
Capital assets, depreciable	2,238,965	59,067	(9,204)	235	2,289,063
Less accumulated depreciation for:					
Structures and Improvements	(329,596)	(24,232)	180	75	(353,573)
Equipment	(201,075)	(23,956)	8,482	(277)	(216,826)
Infrastructure:					
Flood Channels	(173,473)	(8,911)	--	--	(182,384)
Roads	(51,879)	(3,525)	--	--	(55,404)
Bridges	(16,771)	(1,248)	--	--	(18,019)
Trails	(19,366)	(905)	--	--	(20,271)
Traffic signals	(6,266)	(604)	--	--	(6,870)
Harbors and Beaches	(19,049)	(838)	--	--	(19,887)
Total accumulated depreciation	(817,475)	(64,219)	8,662	(202)	(873,234)
Capital assets, depreciable (net)	1,421,490	(5,152)	(542)	33	1,415,829
Governmental activities total capital assets, net	$ 2,320,885	$ 114,379	$ (6,661)	$ (17,857)	$ 2,410,746

(Dollar Amounts in Thousands)

4. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government				
	Balance July 1, 2004	Increases	Decreases	Adjustments	Balance June 30, 2005
Business-type activities:					
Capital assets not depreciated:					
Land	$ 34,108	$ --	$ --	$ --	$ 34,108
Construction in progress	62,837	34,311	(28,181)	--	68,967
Total capital assets not being depreciated	96,945	34,311	(28,181)	--	103,075
Capital assets, depreciable:					
Structures and Improvements	332,760	1,266	--	--	334,026
Equipment	49,700	3,428	(2,888)	--	50,240
Infrastructure	308,508	26,913	--	--	335,421
Capital assets, depreciable	690,968	31,607	(2,888)	--	719,687
Less accumulated depreciation for:					
Structures and Improvements	(136,650)	(12,637)	--	--	(149,287)
Equipment	(25,278)	(4,212)	2,607	--	(26,883)
Infrastructure	(125,998)	(13,186)	--	--	(139,184)
Total accumulated depreciation	(287,926)	(30,035)	2,607	--	(315,354)
Capital assets, depreciable (net)	403,042	1,572	(281)	--	404,333
Business-type activities total capital assets, net	$ 499,987	$ 35,883	$ (28,462)	$ --	$ 507,408

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

Governmental activities:	
General Government	$ 4,391
Public Protection	29,980
Public Ways and Facilities	8,657
Health and Sanitation	2,786
Public Assistance	5,197
Education	852
Recreation and Cultural Services	6,574
Internal Service Funds' depreciation expense allocated to various functions	5,782
Total governmental activities depreciation expense	64,219
Business-type activities:	
Airport	18,762
Waste Management	11,273
Total business-type activities depreciation expense	30,035
Total depreciation expense	$ 94,254

5. RECEIVABLES

GASB Statement No. 38 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

$1,003 of accounts receivable for governmental activities is not expected to be received within the next fiscal year, which consists of $55 for pending litigation, as well as $480 for accrued revenue related to Community Redevelopment Agency (CRA). In addition, there is $204 for false alarm billings for the Sheriff's Department. The remaining $264 is for various invoices and non-sufficient funds checks that remain in the accounts due to statute of limitation constraints.

Deposits Receivable

$78,827 of deposits receivable for governmental activities is not expected to be received within the next fiscal year, which consists of $67,933 in the condemnation deposits with the State for the eminent domain litigation, and $6,597 deposits related to the Laguna Canyon Bridge construction. In addition, there is a $3,676 deposit related to the US Army Corps of Engineers for the Santa Ana River Project. The remaining $621 represents various cash advances, service contracts, and deposits.

Notes Receivable

$20,893 of notes receivable for governmental activities is not expected to be received within the next fiscal year. $20,063 consists of loans to build affordable, low to moderate income, and senior housing. The remaining $830 is for other various sales and loans.

Loans Receivable

$1,503 of loans receivable for governmental activities is not expected to be received within the next fiscal year. Of this amount, $1,453 represents advances to the Dana Point Harbor operators. The remaining $50 provides operating cash for Santa Ana River Prado Dam Property Management.

Due From Other Governmental Agencies

Of the $278,230 due from other governmental agencies for governmental activities, $68,245 is not expected to be received within the next fiscal year. This consists primarily of $64,388 that the State of California owes to the County for various Senate Bill (SB) 90 mandated cost reimbursements for programs and services the State requires the County to provide. The State has deferred reimbursement to future fiscal years. The State Constitution requires reimbursement for these program costs, and interest will accrue on the reimbursement claims until they are paid. The other $3,857 is comprised of various invoices to the State for a variety of County-related activities.

Of the $1,797 due from other governmental agencies for business-type activities, $25 relates to the SB 90 mandated cost reimbursements, and is not expected to be received within the next fiscal year.

(Dollar Amounts in Thousands)

6. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2005 is as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund		
General Fund	Roads	$ 912	
	Public Library	9	
	Tobacco Settlement	6,750	
	Flood Control District	6,012	
	Harbors, Beaches, and Parks	2,564	
	Other Governmental Funds	20,272	
	Internal Service Funds	324	
	Airport	1,980	
	Waste Management	4,002	$ 42,825
Roads	General Fund	55	
	Flood Control District	598	
	Harbors, Beaches, and Parks	147	
	Other Governmental Funds	37	
	Airport	26	863
Flood Control District	General Fund	143	
	Roads	431	
	Harbors, Beaches, and Parks	280	
	Other Governmental Funds	232	
	Airport	4	1,090
Harbors, Beaches, and Parks	General Fund	100	
	Roads	59	
	Flood Control District	182	
	Other Governmental Funds	9	
	Airport	8	358

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

Receivable Fund	Payable Fund		
Other Governmental Funds	General Fund	$ 33,633	
	Roads	86	
	Harbors, Beaches, and Parks	4	
	Other Governmental Funds	4,726	
	Internal Service Funds	5	
	Airport	2,481	
	Waste Management	1	$ 40,936
Waste Management	General Fund	5	
	Roads	3	
	Flood Control District	4	
	Harbors, Beaches, and Parks	2	14
Internal Service Funds	General Fund	3,318	
	Roads	6	
	Public Library	44	
	Flood Control District	4	
	Harbors, Beaches, and Parks	21	
	Other Governmental Funds	28	
	Internal Service Funds	196	
	Airport	23	
	Waste Management	5,021	8,661
	Total		$ 94,747

Due From/To Primary Government and Component Unit:

Receivable Entity	Payable Entity	Amount
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	$ 463
Primary Government – Internal Service Funds	Component Unit – Children & Families Commission of Orange County	$ 2
Primary Government – Harbors, Beaches, and Parks Funds	Component Unit – Children & Families Commission of Orange County	$ 1

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

(Dollar Amounts in Thousands)

7. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from noncancelable operating leases with synthetic fuel corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2005, approximates $54,999.

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, 2005 are as follows:

Fiscal Years	Governmental Activities	Business-type Activities
FY 2006	$ 10,160	$ 18,433
FY 2007	9,894	2,792
FY 2008	9,467	2,696
FY 2009	9,403	1,385
FY 2010	9,382	1,385
	48,306	26,691
FY 2011-2015	31,747	5,437
FY 2016-2020	25,239	920
FY 2021-2025	24,216	175
FY 2026-2030	21,856	--
FY 2031-2035	20,577	--
FY 2036-2040	14,886	--
	138,521	6,532
Total future minimum rentals	$ 186,827	$ 33,223

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $39 (Flood Control District), $359 (Harbors, Beaches, and Parks), $23,122 (Airport) and $52 (Waste Management) for the year ended June 30, 2005.

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2005 were as follows:

Transfer from	Transfer to		
Governmental Funds			
General Fund	Tobacco Settlement	$ 5	
	Refunding Bonds and Recovery COPS and Debt Prepayment	80,984	
	Harbors, Beaches, and Parks	5,000	
	Other Governmental Funds	43,516	
	Internal Service Funds	7,363	$ 136,868
Public Library	Other Governmental Funds	12	12
Tobacco Settlement	General Fund	27,305	
	Other Governmental Funds	4,867	32,172
Refunding Bonds and Recovery COPs and Debt Prepayment	General Fund	2,435	
	Other Governmental Funds	7,769	10,204
Flood Control District	General Fund	3,175	3,175
Other Governmental Funds	Internal Service Funds	1,979	
	General Fund	42,712	
	Harbors, Beaches, and Parks	314	
	Other Governmental Funds	11,878	56,883
Total Governmental Funds			$ 239,314
Enterprise Fund			
Waste Management	General Fund		$ 14,579

8. INTERFUND TRANSFERS (Continued)

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

Routine Transfers

- A total of $104,526 was transferred out from the General Fund ($89,583), the Refunding Bonds and Recovery COPs and Debt Prepayment Fund ($7,769), and Other Governmental Funds ($7,174) to the debt service funds in connection with debt service payments for the various County debt issues.
- $27,305 was transferred from the Tobacco Settlement Fund to the General Fund to finance various health care programs. $4,596 transferred to Other Governmental Funds was for the Theo Lacy Jail construction.
- $3,175 was transferred to the Watershed Management program from the Flood Control District to cover the net county cost overrun during FY 2003-04.
- $14,579 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.
- As part of the Bankruptcy Recovery Plan, $8,397 was transferred from the General Fund to the Plan of Adjustment Available Cash Fund in order to make the annual payments to the Option B Pool participants and to distribute available cash.
- $22,082 was transferred from the General Fund to the Other Public Protection group of funds for the annual transfer of Public Safety Sales Tax Excess Revenue.
- $2,435 interest earnings were transferred from the designated Special Revenue Fund to the General Fund per GASB 31 requirement.
- $6,642 was transferred from the Emergency Medical Services Fund (EMS) to reimburse the General Fund for EMS services.

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

- $1,100 was transferred from the General Fund to the County Indemnity Health Plans Fund for Public Employees Retirement System (PERS) premium reimbursements and individual judges claim reimbursements.
- $2,400 was transferred from the General Fund to the Information and Technology Internal Service Fund (ISF) for an IBM Mainframe lease.
- $3,463 was transferred from the General Fund to the Workers' Compensation ISF for the fire workers and courts workers' compensation payment.
- $1,621 was transferred from the Capital Project Fund to the Criminal Justice Facilities Special Revenue Fund for Sheriff-Coroner facility construction and development.
- $5,000 was transferred from the General Fund to the Harbors, Beaches, and Parks District Special Revenue Fund as directed by the Board of Supervisors.
- $5,000 was transferred from the Deferred Compensation Reimbursement fund to the County General Fund per FY2004-05 adopted budget.

9. LONG-TERM OBLIGATIONS

General Obligation Bonds Payable

The amount of general obligation bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 2005, the County had no net general obligation bonded debt. The County's legal debt limit for the year was $3,897,530.

Bankruptcy Recovery

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

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which included State legislation ("Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund.

These monies, together with certain other County revenues will be used to satisfy the principal and interest payments on the Recovery Certificates of Participation ("Recovery COPs"). The Recovery COPs and Refunding Recovery Bonds ("Recovery Bonds") represent obligations of the County, payable from the General Fund. The enacted Recovery Statutes provide the Recovery COPs holders with statutory liens on part of the County's motor vehicle license fees (VLF) and certain sales tax revenues, and further permitted the County to elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the Recovery COPs. Refer to Note 19, Subsequent Events for additional information.

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Recovery COPs and to pay the annual amount of $800 plus interest due on Option B Pool Participant warrants. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was $1,600; that amount has been reduced by the required annual amount of $800, so that the remaining balance at the end of this fiscal year is $800.

Bankruptcy Obligations

Refunding Recovery Bonds, Series 1995A

In June 1995, the County issued $278,790 of 1995 Refunding Recovery Bonds ("1995 Recovery Bonds"). The 1995 Recovery Bonds are a General Fund obligation of the County and are being paid from vehicle license fees (VLF) intercepted from the State Controller, to the extent that there are sufficient fees available for debt service. The outstanding principal balance of these bonds as of June 30, 2005 was $210,705. On August 18, 2005, the Refunding Bonds were redeemed and refunded in their entirety. Refer to Note 19, Subsequent Events for additional information regarding the Bankruptcy Debt refinancing.

9. LONG-TERM OBLIGATIONS (Continued)

Bankruptcy Obligations (Continued)

Recovery Certificates of Participation, Series 1996A

In June 1996, the County issued $760,800 in the aggregate principal amount of its 1996 Recovery Certificates of Participation, Series A ("1996 Recovery COPs"). The 1996 Recovery COPs are general fund obligations of the County, secured by certain statutory liens and payable from an intercept of VLF, certain sales taxes and the County's portion of the Countywide Adjustment Amount, to the extent there are sufficient license fees, sales tax and Countywide Adjustment Amount funds available for debt service. These VLF and sales tax revenues from unincorporated areas of the County and the Countywide Adjustment Amount, if not used to pay debt service, would otherwise be received by the County General Fund. As of June 30, 2005, the outstanding principal balance of the 1996 Recovery COPs was $580,825. On August 16, 2005, the Recovery COPs were defeased in their entirety. Refer to Note 19, Subsequent Events for additional information.

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

Refunding Certificates of Participation (Civic Center Parking Facilities Project)

In December 1987, COPs representing the proportionate interests of the owners thereof in lease payments made by the County under lease agreements between the County and the Orange County Public Facilities Corporation were delivered. The proceeds were used to finance the acquisition, construction, and installation of two parking structures located in the City of Santa Ana. These certificates were refunded in August 1991 with the $33,579 Refunding COPs (Civic Center Parking Facilities Project). The Refunding COPs are secured by lease payments made by the County through a facilities lease with the Orange County Public Facilities Corporation. At June 30, 2005, the outstanding principal amount of the Refunding COPs was $9,084.

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

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

In July 2001, OCDA issued its $26,160 Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 ("NDAPP Refunding Bonds"). A substantial portion of the NDAPP Refunding Bonds proceeds and certain other monies were used to defease $26,140 of the $27,072 outstanding NDAPP Bonds. As of June 30, 2005, the outstanding principal amount of the current interest NDAPP Bonds was $600, the accreted interest on the capital appreciation NDAPP Bonds was $94 for the year then ended, and the outstanding principal amount of the NDAPP Refunding Bonds was $24,440.

9. LONG-TERM OBLIGATIONS (Continued)

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

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

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

The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to a lease, dated as of April 1, 2002, between the OCPFA and the County, and other amounts held by the Trustee in the funds and accounts established under the Indenture (other than the rebate fund), except as otherwise provided in the Indenture. As of June 30, 2005, the outstanding principal amount of the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002 was $72,712.

Tax Allocation Revenue 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 are secured by a pledge of tax revenues allocated and paid to OCDA attributable to the Santa Ana Heights Project Area. As of June 30, 2005, the outstanding principal amount of the SAHP Bonds was $38,467.

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

In September 1994, the County issued its Taxable Pension Obligation Bonds, Series 1994A in the aggregate principal amount of $209,840 and Series 1994B in the aggregate principal amount of $110,200 ("Series 1994 Pension Bonds"). The Series 1994 Pension Bonds were issued to refund the County's obligation under a debenture issued in favor of the Orange County Employees' Retirement System (OCERS) to fund the County's unfunded actuarial accrued liability to OCERS. The Series 1994 Pension Bonds were partially refunded with proceeds of the County's Taxable Refunding Pension Obligation Bonds Series 1996A and Series 1997A (together with the Series 1994 Pension Bonds, the "Pension Obligation Bonds"). As of June 30, 2005, the outstanding principal amount of the Series 1994A, 1996A and 1997A Pension Bonds were $0, $64,652 and $47,120, respectively.

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.

9. LONG-TERM OBLIGATIONS (Continued)

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

Teeter Plan Revenue Bonds, Series 1995A through E

In June 1995, the Orange County Special Financing Authority ("the Authority") issued in the principal amount of $155,000 in taxable (1995 Series A - $32,400) and tax-exempt (1995 Series B through E - $122,600) Teeter Plan Revenue Bonds ("Teeter Bonds"). The Teeter Bonds are limited obligations of the Authority payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program, to be received by the Authority, the County and a trustee. The outstanding principal balance of the Teeter Bonds as of June 30, 2005 was $123,725.

Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project)

In April 2001, the OCPFA issued in the principal amount of $10,330 Lease Revenue Bonds, Series 2001 (Telecommunications Equipment Project), to (1) finance the acquisition and installation of certain telecommunications equipment for general governmental purposes, (2) fund a debt service reserve fund, (3) pay capitalized interest on bonds, and (4) pay costs related to the issuance of bonds. The bonds are limited obligations of the OCPFA payable solely from base rental payments to be made by the County pursuant to an Equipment Lease, and other amounts held by the Trustee in the funds established under the Indenture. As of June 30, 2005, the outstanding principal amount of the Lease Revenue Bonds was $6,245.

Airport Revenue Refunding Bonds, Series 1997 and 2003

In July 1987, the County issued in the principal amount of $242,440 of 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 of Revenue Bonds to partially refund the 1987 Bonds. In April 1997, the County completed a forward refunding of the majority of outstanding 1987 Bonds. The principal amount of the refunding was $135,050. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of $28,410. On May 29, 2003, the County issued in the principal amount of $48,680 of Revenue Bonds ("2003 Bonds"), the proceeds of which, together with certain monies deposited with the Trustee, refunded and defeased the 1993 Bonds. The outstanding principal amount of 1997 and 2003 Bonds as of June 30, 2005 was $133,519. All Airport Bonds are secured on a parity basis by a pledge of net revenues of the Airport Enterprise Fund.

Waste Management System Refunding Revenue Bonds, Series 1997

In November 1997, the OCPFA issued in the principal amount of $77,300 Waste Management System Refunding Revenue Bonds, Series 1997, in order to refund the County of Orange, California, 1988 COPs. The Waste Management System Bonds are secured by a pledge of (1) the net operating revenues; (2) all money, securities and funds in the Waste Management Enterprise Fund that are required to be held or set aside therein for any purpose other than the payment of operating expenses pursuant to the terms of the sublease, but excluding any such money, securities and funds in the (i) closure account or any other fund or account required pursuant to state or federal law to be held in trust, (ii) environmental account in an amount not exceeding $50,000, (iii) post-closure reserve account, or (iv) that were borrowed or received to pay capital costs and excluding any deposits or net incremental solid waste system revenues or any deposits that are required to be made in the rebate account; and (3) to the extent permitted by and in accordance with the procedures established under any applicable law, any rights of the County under any approvals, licenses and permits relating to the System. The outstanding principal balance of these bonds as of June 30, 2005 was $51,931.

9. LONG-TERM OBLIGATIONS (Continued)

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

Advance Refunding

In prior years, various bonds, COPs and other obligations have been advance refunded. These obligations are considered defeased and the long-term debt liability has been removed from the related governmental funds and enterprise funds. As of June 30, 2005, $20,550 of legally defeased debt remains outstanding.

Schedule of Long-Term Debt Obligations, Fiscal Year 2004-05

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2005 were as follows:

Description	Balance July 1, 2004	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2005	Amounts Due within One Year
Governmental Funds:					
County of Orange Refunding Recovery Bonds - Series 1995 A:					
Date Issued: June 1, 1995					
Interest Rate: 5.0% to 6.50%					
Original Amount: $278,790					
Maturing in installments through June 1, 2015.	$ 225,870	$ --	$ (15,165)	$ 210,705	$ 16,155
Orange County Public Facilities Corporation, 1996 Recovery Certificates of Participation - Series 1996 A:					
Date Issued: June 12, 1996					
Interest Rate: 4.20% to 6.00%					
Original Amount: $760,800					
Maturing in installments through July 1, 2026.	607,790	--	(26,965)	580,825	28,370
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 prior December 22, 1987 bond issue					
Interest Rate: CIB - 4.40% to 6.75%					
Interest Rate: CAB - 6.85% to 7.05%					
Original Amount: CIB - $24,495					
Original Amount: CAB - $9,084					
Maturing in installments through December 1, 2018.	11,604	--	(2,520)	9,084	992

(Dollar Amounts in Thousands)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2004-05 (Continued)

Description	Balance July 1, 2004	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2005	Amounts Due within One Year
Orange County Financing Authority Tax Allocation Revenue Bonds - Series 1992 A (Neighborhood Development and Preservation Project): Date Issued: June 1, 1992 - Current Interest Rate Bonds (CIB) and Capital Appreciation Bonds (CAB) To refund prior June 1, 1989 Orange County Development Agency bond issue Interest Rate: CIB - 4.50% to 6.50% Interest Rate: CAB - 6.50% to 6.55% Original Amount: CIB - $27,150 Original Amount: CAB - $932 Maturing in installments through September 1, 2022.	$ 932	$ --	$ (332)	$ 600	$ 309
Orange County Development Agency Tax Allocation Refunding Bonds - Series 2001 (Neighborhood Development and Preservation Project): Date Issued: July 11, 2001 - Current Interest Rate Bonds (CIB) To refund prior June 1, 1992 Orange County Development Agency bond issue Interest Rate: CIB - 4.00% to 5.50% Original Amount: $26,160 Maturing in installments through September 1, 2022.	24,727	(7)	(280)	24,440	297
Deferred Amount on Refunding	(1,042)	55	--	(987)	(55)
Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds - Series 2002: Date issued: May 1, 2002, and delivered April 24, 2002, to refund the outstanding Refunding Certificates of Participation. Interest Rate: 3.00% to 5.50% Original Amount: $80,285 Maturing in installments through June 1, 2019.	76,483	(16)	(3,755)	72,712	3,866
Deferred Amount on Refunding	(3,281)	219	--	(3,062)	(219)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2004-05 (Continued)

Description	Balance July 1, 2004	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2005	Amounts Due within One Year
Orange County Development Agency Santa Ana Heights Project Area 2003 Tax Allocation Refunding Bonds: Date Issued: November 13, 2003 to refund prior August 1, 1993 bond issue Interest Rate: 2.00% to 5.25% Original Amount: $38,465 Maturing in installments through September 1, 2023.	$ 40,125	$ (13)	$ (1,645)	$ 38,467	$ 1,371
Deferred Amount on Refunding	(1,787)	92	--	(1,695)	(92)
County of Orange Taxable Pension Obligation Bonds – Series 1994 A: Date Issued: September 1, 1994 Interest Rate: 6.15% to 8.21% Original Amount: $209,840 Maturing in installments through September 1, 2004.	5,000	--	(5,000)	--	--
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 prior September 1, 1994 bond issue. Interest Rate: CIB – 7.47% to 7.72% Interest Rate: CAB – 8.09% to 8.26% Original Amount: CIB - $81,680 Original Amount: CAB - $40,000 Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB).	64,652	--	--	64,652	8,995

(Dollar Amounts in Thousands)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2004-05 (Continued)

Description	Balance July 1, 2004	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2005	Amounts Due within One Year
County of Orange Taxable Refunding Pension Obligation Bonds – Series 1997 A: Date Issued: January 1, 1997 – Current Interest Rate Bonds (CIB) Date Issued: January 14, 1997 – Capital Appreciation Bonds (CAB) To refund a substantial portion of the September 1, 1994 bond issue. Interest Rate: CIB – 5.71% to 7.36% Interest Rate: CAB – 7.33% to 7.96% Original Amount: CIB - $71,605 Original Amount: CAB - $65,318 Maturing in installments through September 1, 2010 (CIB) and September 1, 2021 (CAB).	$ 47,120	$ --	$ --	$ 47,120	$ 3,061
Orange County Special Financing Authority Teeter Plan Revenue Bonds - Series A through E: Date Issued: June 1, 1995 Interest Rate: Variable (Series A,B,C,D and E) Original Amount: $155,000 Maturing in installments through November 1, 2014.	123,725	--	--	123,725	--
Orange County Public Financing Authority, Telecommunications Equipment Project Lease Revenue Bonds - Series 2001: Date Issued: April 1, 2001 Interest Rate: 4.00% Original Amount: $10,330 Maturing in installments through Dec 15, 2008.	7,660	--	(1,415)	6,245	1,470
Subtotal - Governmental Funds	1,229,578	330	(57,077)	1,172,831	64,520

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2004-05 (Continued)

Description	Balance July 1, 2004	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2005	Amounts Due within One Year
Enterprise Funds:					
Airport Revenue Refunding Bonds - Series 1997: Date Issued: April 2, 1997 to refund $131,490 of the 1987 Airport Revenue bond issue Interest Rate: 5.00% to 6.00% Original Amount: $135,050 Maturing in installments through July 1, 2012.	$ 92,398	$ (178)	$ (8,555)	$ 83,665	$ 9,150
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(1,879)	654	--	(1,225)	(476)
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 Maturing in installments through July 1, 2018	52,586	(507)	(2,225)	49,854	2,966
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	(10,054)	1,304	--	(8,750)	(1,252)
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 Maturing in installments through December 1, 2013.	56,398	(187)	(4,280)	51,931	4,688
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(3,166)	621	--	(2,545)	(574)
Subtotal - Enterprise Funds	186,283	1,707	(15,060)	172,930	14,502
Total	$ 1,415,861	$ 2,037	$ (72,137)	$ 1,345,761	$ 79,022

(Dollar Amounts in Thousands)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Service Requirements to Maturity

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

	Governmental Funds		Enterprise Funds		
Fiscal Year(s) Ending June 30	Principal	Interest	Principal	Interest	Total
2006	$ 64,852	$ 74,107	$ 16,015	$ 9,282	$ 164,256
2007	65,141	71,206	16,880	8,403	161,630
2008	75,692	67,089	17,795	7,456	168,032
2009	64,766	63,432	18,790	6,458	153,446
2010	73,839	60,090	19,810	5,417	159,156
2011-2015	410,378	305,946	75,425	11,627	803,376
2016-2020	169,849	201,194	16,525	1,703	389,271
2021-2025	173,574	64,412	--	--	237,986
2026-2030	75,475	4,594	--	--	80,069
Total	1,173,566	912,070	181,240	50,346	2,317,222
Add: Premium	5,009	--	4,210	--	9,219
Less: Deferred amount on refunding	(5,744)	--	(12,520)	--	(18,264)
Principal payable, net	$ 1,172,831	$ 912,070	$ 172,930	$ 50,346	$ 2,308,177

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2005 were as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Governmental Activities:					
Bonds and COPs payable:					
Revenue bonds	$ 268,607	$ --	$ (7,427)	$ 261,180	$ 7,279
Certificates of participation	619,394	--	(29,485)	589,909	29,362
Pension obligation bonds	116,772	--	(5,000)	111,772	12,056
Recovery bonds	225,870	--	(15,165)	210,705	16,155
Add: Premium on bonds payable	5,045	--	(36)	5,009	34
Less: Deferred amount on refunding	(6,110)	--	366	(5,744)	(366)
Total bonds & COPs payable, net	1,229,578	--	(56,747)	1,172,831	64,520
Interest on capital appreciation bonds	73,555	12,318	--	85,873	--

9. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities (Continued):

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Other long-term liabilities:					
Compensated employee absences payable	$ 146,099	$ 111,198	$ (108,736)	$ 148,561	$ 81,068
Arbitrage rebate payable	34	104	--	138	--
Pool participant claims	1,600	--	(800)	800	800
Capital lease obligations payable	71,712	38,917	(4,440)	106,189	4,645
Insurance claims payable	127,834	102,014	(95,337)	134,511	50,702
Net pension obligation	771	331	(342)	760	270
Total other long-term liabilities	348,050	252,564	(209,655)	390,959	137,485
Total Governmental Activities Long-term Liabilities	$ 1,651,183	$ 264,882	$ (266,402)	$ 1,649,663	$ 202,005
Business-type Activities:					
Bonds Payable:					
Revenue bonds	$ 196,300	$ --	$ (15,060)	$ 181,240	$ 16,015
Add: Premium on bonds payable	5,082	--	(872)	4,210	789
Less: Deferred amount on refunding	(15,099)	--	2,579	(12,520)	(2,302)
Total revenue bonds payable, net	186,283	--	(13,353)	172,930	14,502
Other long-term liabilities:					
Compensated employee absences payable	4,650	3,438	(3,418)	4,670	2,452
Arbitrage rebate payable	88	60	--	148	--
Landfill site closure/postclosure liabilities	172,657	8,138	(2,498)	178,297	370
Total other long-term liabilities	177,395	11,636	(5,916)	183,115	2,822
Total Business-type Activities Long-term Liabilities	$ 363,678	$ 11,636	$ (19,269)	$ 356,045	$ 17,324

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2005 is $148,561 compared with $146,099 at June 30, 2004. Employees are entitled to paid annual leave, comp 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.

9. LONG-TERM OBLIGATIONS (Continued)

Special Assessment District Bonds

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

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

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

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

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

Special assessment district and community facilities district bonds outstanding as of June 30, 2005, amounted to $790,325.

10. CONDUIT DEBT OBLIGATIONS

From 1980 through 2005 the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds is to finance the purchase of single-family homes and the construction of multi-family units to benefit low and moderate-income families.

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

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

As of June 30, 2005, there were 88 series of bonds outstanding, with an aggregate principal amount payable of $1,036,967.

11. LEASES

Commitments Under Operating Leases

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

Fiscal Year Ending June 30	Equipment	Real Property	Total
2006	$ 18,707	$ 24,285	$ 42,992
2007	14,013	20,365	34,378
2008	12,825	19,346	32,171
2009	4,604	17,041	21,645
2010	923	14,055	14,978
2011-2015	--	29,120	29,120
2016-2020	--	1,885	1,885
Total	$ 51,072	$ 126,097	$ 177,169

Total rent expenditures for operating leases incurred for FY 2004-05 was $47,036.

Capital Leases

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

Land	$ 24,047
Equipment	4,437
Less: Accumulated Depreciation	(2,986)
Structures and Improvements	101,738
Less: Accumulated Depreciation	(13,460)
Total	$ 113,776

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, 2005:

Fiscal Year Ending June 30	
2006	$ 13,418
2007	13,210
2008	13,428
2009	13,696
2010	12,241
2011-2015	50,211
2016-2020	46,155
2021-2025	34,975
2026-2027	980
Total minimum lease payments	198,314
Less: amount representing interest	(92,125)
Present value of net minimum lease payments	$ 106,189

(Dollar Amounts in Thousands)

12. RESERVED FUND BALANCES/NET ASSETS

In the fund financial statements, governmental funds and certain fiduciary funds report reservations of fund balance/net assets for amounts that are not available for appropriation or are legally restricted for use for a specific purpose. In addition, the Board of Supervisors has established certain fund balance reserves for future purposes that are essentially designations of fund balances that represent tentative management plans that are subject to change. Fund balances at June 30, 2005 are reserved for the following purposes:

	General Fund	Roads	Public Library	Tobacco Settlement	Refunding & Recovery COPs and Debt Prepayment	Flood Control District	Harbors, Beaches, and Parks	Other Govern-mental Funds	Fiduciary Funds
Assets Not Available for Appropriations:									
Encumbrances	$ 65,894	$ 39,771	$ 1,228	$ --	$ --	$ 18,078	$ 13,003	$ 15,134	$ --
Long-term Receivables	--	--	--	--	--	--	--	32,660	--
Imprest Cash Funds	1,237	--	53	--	--	--	--	13	--
Employee's Retirement	--	--	--	--	--	--	--	--	11,306
Inventory of Materials and Supplies	319	68	--	--	--	182	96	400	--
Loans	100	--	--	--	--	50	1,453	8	--
Prepaid Costs	4	--	--	--	--	--	--	911	--
Land and Improvements Held for Resale	--	--	--	--	--	--	--	1,255	--
Debt Service	--	--	--	--	147,219	--	--	385,632	--
Private Purpose Trust	--	--	--	--	--	--	--	--	47,532
External Investment Pools	--	--	--	--	--	--	--	--	2,835,120
Fund Balances Reserved by Board of Supervisors for a Future Purpose:									
Equipment Replacement	--	--	--	--	--	484	1,757	--	--
Equipment Purchase (New)	--	--	--	--	--	--	--	1,609	--
Administration Fees	--	--	--	--	--	--	--	5,770	--
Land Purchase	--	--	--	--	--	35,768	70	--	--
Operations	644	--	--	839	--	--	--	35,451	--
Future Road Projects	--	63,169	--	--	--	--	--	--	--
Capital Projects	--	--	--	--	--	95,962	12,328	--	--
General Reserves	--	--	--	--	--	12,609	7,004	14,320	--
Cash Difference Funds	9	--	--	--	--	--	--	--	--
Contingencies	18,000	--	2,017	--	--	--	--	10,650	--
Revitalization Projects	--	--	--	--	--	--	203	3,294	--
Operations - Strategic Priorities	71,587	--	--	--	--	--	--	--	--
Reserved Fund Balances/ Net Assets	$ 157,794	$ 103,008	$ 3,298	$ 839	$147,219	$ 163,133	$ 35,914	$ 507,107	$ 2,893,958

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

13. LANDFILL SITE AND POSTCLOSURE CARE COSTS

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

IWMD owns or operates the following waste disposal sites:

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

All active waste disposal sites, (FRB, Olinda Alpha and Prima Deshecha), are owned by IWMD. Santiago Canyon's lease with the Irvine Company was terminated in November 2002 and the Irvine Company donated the landfill, valued at $1,400, to the County. Coyote Canyon is owned by the Irvine Company and is under lease.

The total landfill closure and postclosure care liability at June 30, 2005 was $178,297, of which $9,923 is for remediation. The total liability represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date (38.55%), less actual costs disbursed related to both closure and postclosure of Santiago Canyon and Coyote Canyon landfills. IWMD will recognize the remaining estimated cost of closure and postclosure care of $155,274 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in FY 2004-05 dollars. Actual costs may be higher due to inflation, changes in technology or changes in regulations. IWMD has landfill capacity permits to operate until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board's regulations, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD, on an annual basis, sets aside cash for the FRB, Olinda Alpha, Prima Deshecha, and Santiago Canyon landfills into escrow funds held by the County. As of June 30, 2005, $173,125 has been set aside for these costs and is included in the accompanying Proprietary Funds' Statement of Net Assets as Restricted Pooled Cash/Investments – Closure and Postclosure Care Costs. The State mandated formula under which these contributions are computed would provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional closure and postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

(Dollar Amounts in Thousands)

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

Regulations governing solid waste management are promulgated by government agencies on the federal, state and local levels. These regulations address the design, construction, operation, maintenance, closure and postclosure maintenance of various types of facilities, acceptable and prohibited waste types, and inspection, permitting, environmental monitoring and solid waste recycling requirements. Regulations at both the state and federal levels could impose retroactive liability, particularly with respect to cleanup activities relating to any landfill site ever operated by the County, whether or not owned by the County. Thus, the County has potential liability with respect to every landfill ever operated by the County. Compliance with these regulations may be costly, and, as more stringent standards are developed to protect the environment, these costs could increase. IWMD has completed preliminary environmental site assessments for the former refuse disposal stations. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 2005, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund within governmental or business-type activities:

Project Title		Remaining Commitments
Governmental Activities:		
General Fund		
Youth Leadership Academy		$ 7,134
Central Justice Center – Phase II – HVAC/ADA		8,184
	Subtotal	15,318
Roads		
Foothill Circulation Phasing Plan		
-Alton-Irvine Boulevard to Foothill Transportation Corridor		1,750
Laguna Canyon Road		
-State Route 73 to Interstate 405		18,721
D Skyline Storm Drain		1,508
Glassell Street Bridge Sidewalk		3,889
	Subtotal	25,868
Flood Control District		
Fullerton Creek Knott to Beach		2,631
Huntington Beach Channel:		
- Indianapolis to Adams		4,974
- Atlanta to Indianapolis		1,199
	Subtotal	8,804
Harbor, Beaches, and Parks		
Laguna Coast Wilderness Park Interpretive Center		3,073
	Subtotal	3,073

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Project Title		Remaining Commitments
Governmental Activities (Continued):		
Other Governmental Funds		
Sheriff-Coroner Maintenance/Repair Plan	$	1,646
Santa Ana Heights Redevelopment Sewer Improvements		2,733
800 MHz Countywide Coordinated Communications System		2,582
Vehicles for Transportation Internal Service Fund		1,168
Subtotal		8,129
Business-type Activities:		
Airport		
Rehabilitate Taxiway "E"		1,345
Subtotal		1,345
Integrated Waste Management		
Light Duty Vehicles/Heavy Equipment		1,075
Prima Zone 1 Phase B1/A2 & Distiller Basin		6,256
FRB-Phase 7A/B Gas Header Extension		4,038
FRB-Phase VIIA Construction		1,549
Subtotal		12,918
Total	$	75,455

In addition, the County is involved in The Santa Ana River (SAR) Mainstem Project. 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 only through a separate project cooperation agreement (PCA). The purpose of the SAR Mainstem/Prado Dam project ("Project") is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain, which is considered by the U.S. Army Corps of Engineers (COE) 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 new 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.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

The COE's estimated combined cost of all project components is $1,400,000 with the OCFCD's cost share estimated to be $413,000 for acquisition of real property rights, relocations (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction. As of June 2005, the OCFCD has expended about $311,000 on the 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) is complete. Construction to raise the Prado Dam embankments and install new outlet gates is underway. Construction of improvements and protection of SR 91 in the SAR Canyon is also underway. Several environmental mitigation studies and restoration/preservation projects are underway in all three counties. All property rights acquisition for the Seven Oaks Dam, and along the lower SAR in Orange County up to Weir Canyon Road, are completed. Since approval of the PCA in February 2003, the OCFCD is actively acquiring property rights, subject to the availability of funding for the Project.

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, administered by the Department of Water Resources (DWR). To date, the OCFCD has submitted $137,000 in claims, and received $121,000 in reimbursements. An additional $78,000 in claims have been or are in the process of being prepared for submittal to the DWR. Once a claim is reviewed and approved by the DWR, 90% of the eligible expenditures can be paid, with the remaining 10% paid after an audit by the State Controller's Office. The County does not accrue these claim amounts as revenue due to the typical lengthy review and audit time periods after claim submission and uncertainty on the availability of funding for audits and reimbursements.

At this time, the OCFCD will not have sufficient funds to meet its entire cost share obligation for the Project, primarily due to the rapid escalation in real estate costs, and relocations and mitigation expenses that were not initially or fully contemplated in the COE's estimates. Therefore, reimbursements on past expenses through the Subvention Program are critical for Project completion.

15. SELF-INSURANCE

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

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

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-funded, up to $5,000. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance provides up to an additional $40,000 in liability coverage. There have been no claims or settlements that exceeded the self-insurance threshold. Accordingly, no claims or settlements have been paid by the excess insurance.

15. SELF-INSURANCE (Continued)

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

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

The County has also established the Unemployment Insurance ISF, which covers all employees, and the County PPO Health Plans and Self-Insured Benefits ISFs, which provide health, dental and salary continuance for a portion of its employees. The County pays through the State of California the standard unemployment benefits. The health insurance coverage for calendar year 2004 was a maximum of $2,000 for each covered employee or dependent. As of January 1, 2005, the calendar year 2005 health insurance coverage is $1,000 for each covered employee or dependent.

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

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

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 2003-04	$ 83,240	$ 16,756	$ 12,145	$ 112,141
Claims and Changes in Estimates	39,754	9,180	61,863	110,797
Claim Payments	(27,232)	(8,219)	(59,653)	(95,104)
Unpaid Claims, End of FY 2003-04	$ 95,762	$ 17,717	$ 14,355	$ 127,834
Claims and Changes in Estimates	28,001	17,672	56,341	102,014
Claim Payments	(26,782)	(8,722)	(59,833)	(95,337)
Unpaid Claims, End of FY 2004-05	$ 96,981	$ 26,667	$ 10,863	$ 134,511

15. SELF-INSURANCE (Continued)

Workers' Compensation legislation that passed in April 2004 has resulted in a leveling of overall costs. Initially this leveling has occurred through a reduction in medical expenses, which offset the slight increase in indemnity payments. The other cost saving measures included in that legislation have only just begun to make an impact, and are expected to be reflected in further cost reductions in the future.

16. ESTIMATED LIABILITY FOR OTHER 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 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 15, 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. The County is also subject to audits by federal and state agencies to determine if expenditures of grant monies received from these agencies are in compliance with the respective grant provisions. Although the aggregate amount asserted in such lawsuits, claims, or potential audit findings 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.

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

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

- *Coyote Canyon Landfill,* The Irvine Company – Pending Litigation
- *Sparkes Pit/Rains Disposal Station #18*, City of Anaheim – Potential Litigation
- *Forster Refuse Disposal Station #17*, Private Owner – Potential Litigation
- *Cannery Street Refuse Disposal Station #16*, City of Huntington Beach – Notice of Intent to Sue
- *San Joaquin Refuse Disposal Station #13*, University of California, Irvine — Actively Negotiating Resolution

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)

Barratt American Incorporated, et al. v. County of Orange (Orange County Superior Court Consolidated cases No. 814037 and 01CC04025) Plaintiff alleges the County overcharged for building permit and inspection fees from 1999 through 2001 (and continuing) and impermissibly accumulated a surplus in the Building and Safety special revenue fund. The fund is used to account for building and safety permit fees; much of which plaintiff alleges were subsequently spent on impermissible items. Plaintiff seeks a variety of forms of relief, including injunctive, declaratory and monetary damages.

The trial court ruled that the County failed to meet its burden of proof that $4,500 of $18,000 originally challenged by plaintiff was spent appropriately. The court ruled that the County reduce future building permit and plan check fees by that amount. The court awarded the plaintiff $1,380 in attorney fees; and this award has been accrued as a liability in the government-wide financial statements. The judgment is now final and the County has filed a notice of appeal. The plaintiff has also appealed portions of the judgment.

On July 1, 2003, plaintiff filed a new complaint (Orange County Superior Court Case No. 03CC00235) against the County seeking various forms of relief regarding the building permit fee ordinance enacted by the Board of Supervisors in March 2003. Plaintiff's complaint was served in July 2003; the County has filed its answer and the trial date is set for February 27, 2006.

On October 1, 2004, plaintiff filed another complaint (Orange County Superior Court Case No. 04CC001664) against the County for declaratory relief, validation and Petition for Mandate challenging Orange County Ordinance 04-007, setting fees for building permits and plan reviews. The County denies the allegations and intends to defend itself in court against the complaint. The Court has set a trial date for February 27, 2006.

William B. Bunker, etc., et al. v. County of Orange Plaintiff contends that the County has consistently violated the statute requiring the Assessment Appeals Board ("AAB") to hear and finally determine applications for change in property tax assessments within two years. According to the statute, if the applications are not finally determined by the AAB within two years, the taxpayers' opinions of value as stated in their applications must be adopted. The plaintiff seeks an order on behalf of himself and all similarly situated taxpayers whose applications were not finally determined within two years requiring that the County give notice to each of these taxpayers that they have overpaid their taxes. The taxpayers would then have one year to file a claim for property tax refunds.

The County prevailed upon demurrer at the trial court level. However, on November 6, 2002, the Court of Appeals reversed the trial court's ruling. The Court of Appeals held that the County is required to give notice under Revenue and Taxation Code section 1604(e) and 2635 to the class of taxpayers whose applications for reduction in assessment were not finally determined within two years as required by Revenue and Taxation Code section 1604(c). The Court of Appeal subsequently denied the County's Petition for Rehearing on the issue of the court's opinion addressing Revenue and Taxation Code section 1604(e).

Since the amount of the liability depends upon the number of taxpayers entitled to notice, the number of taxpayers filing claims for refunds and the amount of such claims, the County is unable to estimate potential liability in this matter. However, the total liability to the County, including attorney's fees, could exceed $2,000. The court has approved the class settlement and a claims administrator has been retained to handle claims. The actual amount of the liability is not yet known, however, an estimated $2,000 liability has been accrued in the financial statements. Attorneys' fees are unresolved at this time. Plaintiff's motion for attorneys' fees is scheduled to be heard on January 31, 2006.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)

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

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

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

Smith v. County of Orange, et al. (Orange County Superior Court Case No. 05CC00053) This action is a class action lawsuit filed by a few named foster children through their Guardian Ad Litem on behalf of the foster children and all those similarly situated and by certain foster parents on behalf of themselves and all those similarly situated. The action was filed on March 8, 2005 and the County was served with the Complaint on May 25, 2005. The Complaint alleges that certain foster children in the County have been assessed as developmentally disabled, and as a result are "dually aligned" or "dual agency" children, and thus are a recipient of the foster children program as well as a client for the State Regional Centers for the developmentally disabled. Plaintiffs further allege that as a result of the foster children being dually aligned, the rate of monetary support to be paid to the foster parent Plaintiffs is greater that the regular foster care monetary rate.

The Complaint alleges that the Foster Parent Plaintiffs have been receiving payments at a lower rate than they are entitled. The Complaint contains four different causes of action for underpayment, writ of mandate, declaratory and injunctive relief. The ultimate relief sought is to compel the payment of the difference in the rate for dually aligned children and the regular foster care monetary rate.

The County denies that it has any liability in this matter or that it breached any alleged duty. However, at this preliminary stage of litigation, the County is unable to estimate potential liability in this matter. The amount of such liability, if any, depends upon whether the Court determines the County breached a duty owing to the Plaintiffs, if the Court certifies the class, and if so, the number of potential class members. It also depends on whether the Court finds the foster children Plaintiffs have standing, whether the statute of limitations has run as to the foster parent Plaintiffs, and whether Plaintiffs need to exhaust their administrative remedies.

Butler v. County of Los Angeles, et al. (Los Angeles Superior Court Case No. BC329695) This is a class action lawsuit with the same charging allegations and theories of liability as the *Smith v. County of Orange* case detailed in the above paragraphs. However in this case, the foster children and their foster parents are seeking to have a defendant class certified as well as the Plaintiff class. Plaintiffs are seeking to have each of the 58 counties in California certified as the defendant class. The County of Orange, although named as a defendant, has not been formally served with the complaint in this matter.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)

Butler v. County of Los Angeles, et al. (Continued)

The County denies that it has any liability in this matter or that it breached any alleged duty. However, at this preliminary stage of litigation, the County is unable to estimate potential liability in this matter. The amount of such liability, if any, depends upon the same factors discussed above with respect to the *Smith v. County of Orange* action.

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

HCA is currently engaged in ongoing settlement discussions with the federal government. No civil lawsuits have been filed by the federal government in connection with the investigation. Because no civil lawsuits have yet been filed in this investigation, and because the issues in this matter involve complex and disputed issues of fact and law, it is difficult to estimate any likely penalties and/or other costs that the County may be required to pay and no amounts have been accrued in the basic financial statements.

17. 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 and employees of certain cities and special districts within the County participate. OCERS is governed by the Board of Retirement (the "OCERS Board"), which is independent of the County Board of Supervisors. Certain attributes of independence of OCERS are guaranteed under the California Constitution. The OCERS Board consists of nine regular and one alternate member. Four OCERS Board members are appointed by the Board of Supervisors, 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 "unfunded actuarial accrued liability" (the "UAAL") contribution, to the extent an UAAL exists.

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

OCERS issues a stand-alone annual financial report each year ending December 31, which 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.

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Plan Description (Continued)

According to OCERS most recent public report dated December 31, 2004, entities paying into the OCERS include the County of Orange, Orange County Transportation Authority, Orange County Sanitation District, University of California, Irvine Medical Center, City of San Juan Capistrano, Transportation Corridor Agencies, Orange County Vector Control District, Orange County Department of Education, Orange County Cemetery District, Orange County Public Law Library, In-Home Supportive Service Public Authority, Orange County Fire Authority, City of Rancho Santa Margarita, Children and Families Commission of Orange County, OCERS, Orange County Local Agency Formation Commission and Orange County Superior Court. The County payments represent approximately 80% of the payments into OCERS.

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 County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement Law.

Funding Policy In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with 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. 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' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For FY 2004-05, employer's contributions, as a percentage of covered payrolls, were 12.62% for General members, 39.39% for Safety-Law Enforcement members and 12.75% for Safety-Probation members.

Employee contributions for Tier I members is based on the member's age at entry in OCERS and is calculated to provide an annual annuity equal to 2% of the member's "final compensation" for each year of service rendered at age 57 for General members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1.6667% of the member's "final compensation" for each year of service rendered at age 57.5. In the 1997 Ventura decision of the Southern California Supreme Court, the Court stated that for the purpose of calculating pension benefits, "final compensation" can mean not only base salaries, but also other components (such as overtime and extra pay categories). Orange County employee contributions under current contracts are calculated only on base salary, which excludes other additional items of compensation.

Effective June 28, 2002, for Tier I and II Safety members, the rate of contribution is calculated to provide an annuity equal to 3% of the member's "final compensation" for each year of service rendered at age 50. Probation Services employees were granted safety retirement status by the Board of Supervisors as of June 28, 2002 and earn benefits under a 2% at 50 formula for service after that date. On or after June 10, 2005, Probation Service employees will earn benefits under a 3% at 50 benefits formula.

17. 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 13,000) became Plan I (formally Tier I) members and Plan J (formally Tier II) members. The benefit formula beginning July 1, 2005 is 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General Members, which expire in June 2007, the unions agreed that current employees will pay the costs of the difference between retirement benefits at the prior formulas and the new 2.7% at age 55 formula. However, members of the American Federation of State, County and Municipal Employees (approx. 860 employees) did not receive the 2.7% at age 55 retirement formula and remain at the current benefit formulas. Refer to Note 19 (Subsequent Events) for updated information on retirement benefits.

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

Actuarial Valuation and Funding Methodology Actuarially, based on OCERS' assumptions, OCERS currently has an UAAL. The UAAL for OCERS is an estimate based on a series of assumptions that operate on demographic data of OCERS' membership. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in OCERS are to fund the accrued costs attributable to active, vested terminated and retired employees. This determination of underfunding rests on actuarial assumptions regarding expected return on invested assets, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, the post-employment life expectancies of retirees and beneficiaries, salary increases, contributions to OCERS, inflation, and other factors. The UAAL is paid by all participating agencies, including the County, and amortized, over a period of years (as described below). The County previously funded a portion of the UAAL attributable to the County with the proceeds of taxable pension obligation bonds. For further information regarding the pension obligation bonds, refer to the "Actuarial and Funding Status" section on the next page and Note 9, Long-Term Obligations.

When measuring assets for determining the UAAL, many pension plans, including OCERS, "smooth" market value gains and losses to reduce volatility. If in the period for which an actuarial valuation is prepared the actual investment return on OCERS' assets is lower or higher than the actuarial assumed rate of return, then 20% of the shortfall or excess is recognized in each of the succeeding fiscal years, resulting in the smoothing or spreading of that shortfall or excess over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

December 31, 2004 Actuarial Valuation In 2004, OCERS retained the Segal Company as its actuary to complete an actuarial valuation of OCERS (the "Segal Valuation") as of December 31, 2004. OCERS' prior actuarial valuation, as of December 31, 2003, was completed on July 16, 2004 by Towers Perrin and determined the UAAL to be $1,309,000. The Segal Valuation calculated the UAAL as of December 31, 2004 to be $2,340,000. The Segal Valuation determined that the ratio of the valuation assets to actuarial accrued liabilities decreased from 78.5% as of December 31, 2003 to 69.1% as of December 31, 2004. The Segal Valuation estimated that the UAAL and funding ratio, without the changes in actuarial assumptions, procedures and methodologies used in their valuation, would have been $1,761,000 and 74.9%, respectively.

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

December 31, 2004 Actuarial Valuation (Continued)

The average aggregate employer contribution rate for the County in the Segal Valuation increased from 18.9% of payroll beginning July 1, 2005 to 30.3% beginning July 1, 2006, and employee rates, some of which are contributed by the County under existing bargaining agreements also increased. Employer and employee rates are expressed as a percentage of payroll. The $1,031,000 increase in the UAAL was attributable to a number of factors including the following:

- Differences between the Segal Valuation and the prior actuary's valuation system and procedures
- Changes in assumptions, including salary scale, withdrawal and retirement assumptions, based upon the December 31, 2004 triennial experience study of the County
- Benefit changes including the adoption of a 2.7% at 55 formula for the County, Orange County Superior Court and Orange County Fire Authority general members; 2.5% at 55 for the Orange County Sanitation District; and 3% at 50 for the County's safety officers

On October 24, 2005, the OCERS Board met to consider the Segal Valuation and the recommendations of OCERS Chief Executive Officer, including a phased approach to rate adjustments over three years, commencing FY 2006-07. The Segal recommendations were adopted and the County will be given the option to phase in increased contribution requirements over a three year period beginning in FY 2005-06. Under the phase-in plan, if applied by the County, the employer contribution rate will increase by 16.9% in FY 2006-07. If the phase-in plan is not adopted by the County, the employer contribution rate will increase by 44% in FY 2006-07.

Actuarial and Funding Status The table below presents OCERS actual investment returns for the past five years. Average returns for OCERS over the past ten years have been 10.8% per year.

Orange County Employees Retirement System
Historical Investment Returns
(Market Value)

2000	2001	2002	2003	2004
3.28%	(3.22%)	(5.46%)	19.84%	11.40%

Source: Orange County Employees' Retirement System Comprehensive Annual Financial Report 2004

OCERS is funded pursuant to the Projected Unit Credit funding method. Among the actuarial assumptions currently used in valuing the plan are that future earnings will be 7.5%, and this same rate is used to discount future values. Actuarial losses are funded and actuarial gains credited over fixed 15 year periods. Any liability or surplus due to benefit or assumption changes is funded over 30 years. However, any liability or surplus due to a benefit change adopted after April 22, 2005 will be amortized over a fixed 15 year period. Actuarial assumptions are subject to change.

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial and Funding Status (Continued)

The table below shows the changes in OCERS net plan assets for the past three calendar years. The County contributions represent approximately 80% of total employer contributions.

Orange County Employees Retirement System
Contributions

	Years Ended December 31		
	2002	2003	2004
Contributions Received:			
Employer Contributions	$ 13,289	$ 124,243	$ 194,430
Employee Contributions	77,917	81,581	81,931
Net Investment Gains (Losses)	(270,654)	788,036	568,027
Net Securities Lending Income and Other Income	1,466	1,050	973
Participant Benefits	(181,549)	(210,273)	(230,684)
Withdrawals and Refunds	(4,482)	(6,412)	(7,845)
Administrative Expenses	(8,279)	(8,848)	(9,463)
Increases (Decreases) in Plan Net Assets	$ (372,292)	$ 769,377	$ 597,369

Source: Orange County Employees' Retirement System Comprehensive Annual Financial Report 2004

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial and Funding Status (Continued)

The table below shows the present value of retirement benefits, the actuarial value of assets available for retirement benefits, and two indicators of funding progress for OCERS, the funding ratio and the ratio of UAAL to annual payroll. As of December 31, 2004, OCERS' actuarial valuation of assets still reflected the deferral of approximately $156,000 in net gains due to the recognition of gains and losses on an actuarial basis over a five-year "smoothing" period. Approximately 80% of the OCERS unfunded liability is allocable to the County.

Orange County Employee's Retirement System
Schedule of Funding Progress for Years Ended December 31

Actuarial Valuation as of December 31	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded or (Overfunded) AAL (1)	Funded Ratio (2)	Covered Payroll (3)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll (4)
2000	$ 4,497,326	$ 4,335,025	$ (162,301)	103.74%	$ 994,669	(16.32%)
2001	4,586,844	4,843,899	257,055	94.69%	1,122,763	22.89%
2002	4,695,675	5,673,754	978,079	82.76%	1,242,348	78.73%
2003	4,790,099	6,099,433	1,309,334	78.53%	1,243,964	105.25%
2004 (5)	5,245,821	7,589,690	2,340,869	69.15%	1,257,085	186.21%

(1) Commonly referred to as UAAL - Actuarial value of assets minus actuarial accrued liability (positive numbers represent an actuarial surplus)
(2) Actuarial value of assets divided by actuarial accrued liability
(3) Annual payroll against which UAAL amortized
(4) UAAL divided by covered payroll
(5) Effective with the 2004 plan year, the actuarial valuation of plan assets was changed to a 5-year smoothing methodology based on market value rather than a rolling 5-year modified book value

Source: Orange County Employees' Retirement System Comprehensive Annual Financial Report 2004

In September 1994, the County issued $320,000 of pension obligation bonds, of which $318,000 in proceeds were paid to OCERS. For accounting purposes, 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, 2005, $152,475 of such proceeds remain available for future credits to the County's pension obligations.

17. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Actuarial and Funding Status (Continued)

The table below shows the County's required contributions and the percentage contributed for the current fiscal year and each of the two prior fiscal years.

Orange County Employees' Retirement System
County Contributions

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/03	$ 59,801	$ 37,804	$ 97,605	100%
06/30/04	114,847	33,309	148,156	100%
06/30/05	175,119	7,158	182,277	100%

County Administered Pension Plans

County of Orange 401(a) Plan

Plan Description Effective January 1999, as amended and restated on March 1, 2002, the County established the County of Orange 401(a) Plan for the benefit of eligible employees, which included members of the Board of Supervisors, certain executive managers, administrative managers included in the Executive Policy Unit, attorneys represented by the Orange County Attorney's Association and certain other employee classifications as defined in the plan document. 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, 2005, the plan has 735 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 $100 per month to 6% 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, 2005, were $1,163 by the County and zero by the employees. A third-party custodian 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, 2005, the value of plan assets was $4,453.

Extra Help Employees

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

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Defined Benefit Retirement Plan

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

The plan was closed to new participants as of February 28, 2002. As of June 30, 2005, the plan consists of 236 active plan participants, 574 terminated plan participants entitled to but not yet receiving benefits, and 18 retirees receiving benefits.

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

Investments are reported at fair value as further described in Note 1.F and are fully invested in the County Pool as described in Note 3. The plan has not issued separate stand-alone financial statements.

Funding Policy Plan participants are required to contribute between 2.5 and 7.5 percent of their annual covered compensation based upon their attained age as of January 1 of each calendar year. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, the County has contributed $342. The annual required contribution is equal to:

- Normal cost
- Minus employer and employee contribution
- Plus 30-year amortization of the UAAL

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. The plan's annual pension cost was calculated using the data and assets as of June 30, 2004.

The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is the total of (a) normal cost, (b) minus employee contribution, and (c) plus 30-year amortization of the unfunded actuarial liability. Based on the actuarial report dated July 1, 2005, interest on the net pension obligation is $42.

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

For the fiscal year ended June 30, 2005, the County's annual required contribution was $342. The required contribution was determined as part of the July 2004 actuarial valuation report, which used the traditional (unprojected) unit credit actuarial cost method. The actuarial assumptions included (a) 5.5% investment return (net of administrative expenses), (b) the 1983 Group Annuity Mortality table for Males and Females, and (c) projected annual salary increases of 4% a year (used to project future payroll only). Both (a) and (c) include a 3.75% annual inflation component. The unfunded actuarial liability is being amortized as a level dollar on a closed basis. The remaining amortization period is 30 years.

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 AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/00	$ 2,666	$ 3,750	$ 1,084	71.1%	$ 18,920	5.7%
06/30/01	3,419	4,149*	730	82.4%	19,676	3.7%
06/30/02	4,121	7,035	2,914	58.6%	24,192	12.0%
06/30/03	4,655	8,137**	3,482	57.2%	25,160***	13.8%
06/30/04	4,707	8,124	3,417	57.9%	9,306	36.7%
06/30/05	4,387	7,329****	2,942	59.9%	6,112	48.1%

**June 30, 2001 Actuarial Accrued Liability based on June 30, 2000 valuation results rolled forward one year*
***June 30, 2003 Actuarial Accrued Liability based on June 30, 2002 valuation results rolled forward one year*
****June 30, 2003 covered payroll is based on June 30, 2002 valuation results rolled forward one year using salary scale assumption of 4.0%*
*****June 30, 2005 Actuarial Accrued Liability based on June 30, 2004 valuation results rolled forward one year*

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

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

	06/30/03	06/30/04	06/30/05
Annual required contribution	$ 277	$ 336	$ 342
Interest on net pension obligation	9	24	42
Adjustment to annual required contribution	(11)	(30)	(53)
Annual pension cost	275	330	331
Contributions made	--	--	(342)
Increase/Decrease in net pension obligation	275	330	(11)
Net pension obligation, beginning of year	166	441	771
Net pension obligation, end of year	$ 441	$ 771	$ 760

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
2000	$ 22	0%	$ 28
2001	73	0%	101
2002	65	0%	166
2003	277	0%	441
2004	336	0%	771
2005	342	100%	760

Extra Help Defined Contribution Plan

Plan Description On March 1, 2002, the County adopted a Defined Contribution Plan to replace the Defined Benefit Retirement Plan for extra-help employees and part-time employees working less than 20 hours per week. 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. Eligible employees of this plan are not covered by OCERS. As of June 30, 2005 there were 1,568 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 Deferred Compensation Plan or leave the balance in the plan until they are no longer employed with the County.

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Extra Help Defined Contribution Plan

Funding Policy Participants in the plan are required to contribute 7.5% of compensation each pay period. The contributions are invested in a stable value fund offered through GWFS Equities, Inc., which is designed to protect principal and maximize earnings. There is no additional contribution made by the County. Total contributions for the year ended June 30, 2005 were $747 by the employees and zero by the County.

Annual Pension Cost There are no separate recordkeeping or administrative fees charged to the participants. The investment management fee charged by GWFS Equities, Inc. for the stable 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 pension trust funds, condensed financial statements are presented below as of and for the year ended June 30, 2005:

	Total	Extra Help Defined Benefit Retirement Plan	Extra Help Defined Contribution Plan	401(a) Defined Contribution Plan
Statement of Net Assets				
Pooled Cash/Investments	$ 4,361	$ 4,361	$ --	$ --
Restricted Cash and Investments with Trustee	6,158	--	1,704	4,454
Receivables:				
Interest/Dividends	27	27	--	--
Due from Other Governmental Agencies	760	760	--	--
Total Net Assets Held in Trust	$ 11,306	$ 5,148	$ 1,704	$ 4,454

(Dollar Amounts in Thousands)

17. RETIREMENT PLANS (Continued)

County Administered Pension Plans (Continued)

Condensed Financial Statements (Continued)

	Total	Extra Help Defined Benefit Retirement Plan	Extra Help Defined Contribution Plan	401(a) Defined Contribution Plan
Statement of Changes in Net Assets				
Additions:				
Contributions to Pension Trust:				
Employer	$ 342	$ 342	$ --	$ --
Employee	2,311	400	747	1,164
Interest and Investment Income	361	109	54	198
Less: Investment Expense	(4)	(4)	--	--
Total Additions	3,010	847	801	1,362
Deductions:				
Benefits Paid to Participants	387	57	240	90
Refunds of Prior Contributions	970	970	--	--
Total Deductions	1,357	1,027	240	90
Change in Net Assets Held in Trust For:				
Employee's Retirement	1,653	(180)	561	1,272
Net Assets Held in Trust at July 1, 2004	9,653	5,328	1,143	3,182
Net Assets Held in Trust at June 30, 2005	$ 11,306	$ 5,148	$ 1,704	$ 4,454

18. POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description On August 1, 1993, the County Board of Supervisors approved the County of Orange Retiree Medical Plan (the "Medical Plan") to assist career employees in maintaining health insurance coverage following retirement from County service.

Under the Medical Plan, eligible retired County employees receive a monthly grant (the "grant"), which helps offset the cost of County sponsored medical plan premiums and can also be applied towards Medicare premiums. The grant amount is determined by a formula which 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 2005 is $15.67 (in absolute dollars), and the maximum monthly grant is $391.75 (absolute dollars). The base number is adjusted annually based on a formula defined in the Medical Plan document, which limits increases or decreases to a maximum of 5%.

18. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Plan Description (Continued)

In order for an employee to be eligible for the grant upon retirement, an employee must be at least 50 years old, completed at least 10 years of service (exceptions exist for disabled persons), be enrolled in a County sponsored health plan, and be able to receive a monthly benefit payment from OCERS. The grant is applied towards the retiree health plan premiums and can also be applied towards Medicare premiums payable by the retiree for themselves and their dependents. The retiree is responsible for any premiums exceeding the grant. Any grant amount that exceeds the retiree health plan and Medicare premiums is forfeited to the Medical Plan. Surviving dependents of a deceased employee or retiree eligible for the grant are entitled to receive 50% of the grant.

In addition to the grant, the Medical Plan provides a lump sum severance benefit payment to terminated employees not eligible for the grant. The lump sum benefit payment is equal to 1% of the employee's final three-year average hourly pay, multiplied by the employee's qualifying hours of service since the Medical Plan's effective date.

Funding Policy To date, the County has paid Medical Plan liabilities on a "pay-as-you-go" basis, and has not established a permanent funding (reserve) policy for the Medical Plan. Funds used to pay the FY 2004-05 Medical Plan benefits are derived from two sources: *first*, employee contributions described below, and *second*, certain funds set aside in OCERS. The source of the funds within OCERS is certain investment earnings that exceeded the assumed actuarial rate of return. Due to several years where the OCERS' assets have earned less than the assumed actuarial rate of return, excess reserves have been depleted. A fund at OCERS was created, the Retiree Member Benefit Reserve (RMBR), that set aside interim funding of the Medical Plan and is being used for that purpose. According to OCERS, excess reserves are not expected to be available for payment of Medical Plan benefits for the foreseeable future.

In August 2004, the County and OCERS approved an amended Additional Retiree Benefit Account (ARBA) agreement which, among other things, revised the funding of the Medical Plan in cases when excess reserves from OCERS are not available. Under the ARBA agreement, if the funding level for RMBR is less than the projected two years' funding level and there are no excess reserves in OCERS, the County will increase its OCERS contributions to the lesser of the amount required to bring RMBR to a two year funding level or one percent of General Fund payroll. Since RMBR is not currently funded at the two year level, the County will begin paying 1% of payroll to OCERS beginning July 1, 2005. Current projections indicate that current funding sources will fall short of meeting long term funding requirements. For FY 2004-05, the Plan contributed $15,824 in Retiree Medical Grants for retiree health premium costs.

As part of County agreements with employees and bargaining units, employees contribute 1% of their salary towards retiree health care costs. Currently, 0.75% of the 1% employee payment is used to pay grants.

Actuarial Valuation In November 2005, the County received an actuarial valuation for Post Employment Health Care Benefits (the "Report") from an outside consultant, Bartel Associates, LLC. The purpose of the Report was to determine the Medical Plan benefit obligations as of June 30, 2005 pursuant to GASB Statement No. 45 and to calculate the County FY 2005-06 Medical Plan cost as if GASB Statement No. 45 were effective and adopted for FY 2005-06. The County is required to report in conformity with GASB Statement No. 45 beginning with the fiscal year ending June 30, 2008. See Note 1.P for more information on GASB Statement No. 45.

(Dollar Amounts in Thousands)

18. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Actuarial Valuation (Continued)

The actuarial cost method used in the Report is the Entry Age Normal (EAN) cost method. Under the EAN cost report method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits. The unfunded AAL is amortized over 30 years as a level percent of payroll. This is consistent with GASB Statement No. 45. As of June 30, 2005, the Report's total estimated actuarial liability is approximately $1,418,692, which, due to the current "pay-as-you-go" funding, is virtually all unfunded.

Based on the Report, retiree medical benefit liabilities are as follows:

	Number	Actuarial Liability for Past Service
Current Retirees	5,720	$ 475,971
Active Employees	18,269	942,721
Total	23,989	$ 1,418,692

	Severance Benefit	Retiree Medical Grant	Total
Actuarial Liability for Past Service	$ 434	$ 1,418,258	$ 1,418,692
Plan Assets	--	--	--
Unfunded Liability for Past Service	$ 434	$ 1,418,258	$ 1,418,692

The County intends to implement GASB Statement No. 45 for its FY 2007-08 financial statements, which is the required implementation effective date in accordance with the standard. However, if the County were to implement GASB Statement No. 45 for FY 2005-06, the Annual Required Contribution (ARC) determined by the Report, which includes the employer normal cost plus a 30-year amortization of the unfunded actuarial accrued liability, would be as follows:

	Severance Benefit	Retiree Medical Grant	Total
Employer Normal Cost	$ (1,430)	$ 77,112	$ 75,682
Unfunded Actuarial Accrued Liability Amortization	15	49,969	49,984
Annual Required Contribution	$ (1,415)	$ 127,081	$ 125,666

- As level percent of pay over 30 years.

Based upon projections in the Report, the projected costs for Medical Plan benefits (the grants and the lump sum severance payments) are estimated to be $137,311 for FY 2006-07. Annual costs are expected to substantially increase in future years to an estimated $170,426 in FY 2011-12 and $210,057 in FY 2016-17.

18. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

County Plans for the Future For the immediate future, the County intends to fund the Medical Plan on a "pay-as-you-go" basis. The County is currently studying funding and plan design options, eligibility requirements, as well as wellness, consumer education and other programs designed to control medical premium costs. Certain changes with respect to the Medical Plan may be subject to meet and confer process with employee bargaining units. Current Memoranda of Understanding with bargaining units run through FY 2007-08 and do not include re-openers for Medical Plan negotiations. The County is unable to represent that to the extent Medical Plan design changes are desired, and to the extent such changes require bargaining, that bargaining units will agree to such changes.

19. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2005:

Bankruptcy Debt Refinancing

Background As of August 18, 2005, the County has successfully completed a refunding and restructuring of the $763,200 of bankruptcy related debt. The bankruptcy debt consisted of the Recovery Refunding Bonds - the 1995 Series A (Recovery Bonds) and the 1996 Recovery Certificates of Participation (Recovery COPs), which were both obligations of the County General Fund. The Recovery Bonds were paid with intercepted Motor Vehicle License Fees. The Recovery COPs were paid through diverted revenue sources through 2016 and directly from the General Fund from 2017 through 2026. The outstanding principal as of July 1, 2005 was $210,705 of Recovery Bonds and $552,455 of Recovery COPs. The final maturities for the Recovery Bonds and Recovery COPs were June 1, 2015 and July 1, 2026, 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), the proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the Recovery COPs, were used to defease certain non-callable Recovery COPs, refund the remaining COPs, fund a debt service reserve fund for the Series 2005 Bonds, and pay costs of issuance of the Series 2005 Bonds. The result was to shorten the final maturity to 2017 (paid entirely by the Series 2005 Bonds Reserve Fund) with debt services payments from the General Fund ceasing after 2016 when the diverted revenue sources expire. This will eliminate the General Fund obligation of approximately $41,000 of annual debt service payments from 2017 through 2026.

The Series 2005 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 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.

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), the proceeds of which, together with certain monies contributed by the County and other funds available to the trustee of the Recovery Bonds, were used to refund and defease the outstanding Recovery Bonds and pay costs of issuance for the 2005 Recovery Bonds. The refunding results in approximately $4,700 annual net savings to the General Fund through 2015.

19. SUBSEQUENT EVENTS (Continued)

Bankruptcy Debt Refinancing (Continued)

Refunding Recovery Bonds 2005 Series A (Continued)

The County utilized $116,200 accumulated in the Debt Prepayment Fund, existing funds held by the trustees for the Recovery Bonds and Recovery COPs and the proceeds of the 2005 Recovery Bonds and Series 2005 Bonds to refund and defease the Recovery Bonds and Recovery COPs. The intent of the refinancing was to reduce the interest rates on the debt and shorten the maturity of the Recovery COPs. The refinancing results in a total gross debt service savings of $505,300. The outstanding principal amounts of the Recovery Bonds are $146,005 for the 2005 Recovery Bonds and $419,755 for the Series 2005 Bonds, which reduced the County's bankruptcy related debt to $565,760.

Vehicle License Fee (VLF) Gap Loan Repayment

The FY 2003-04 State of California Budget Act and related legislation required the State to repay the VLF "gap" loan to local governments no later than August 15, 2006. The FY 2005-06 Budget Act included an accelerated repayment schedule and on July 26, 2005, the County received a $26,506 repayment from the State. The repayment resulted in additional resources to the County that had not been included in the FY 2005-06 budget.

Receipt of SB-90 Claim Payment

On September 14, 2005 the County received payments in the amount of $10,000 for partial reimbursement of FY 2004-05 state-mandated program costs. Some of the claimed costs were based on estimates and may be adjusted downward by as much as $2,000. Recommendations for the use of these unanticipated funds will be made to the Board of Supervisors in a future quarterly budget report.

Unanticipated General Fund Balance Available (FBA)

The recommended FY 2005-06 County General Fund budget adopted on June 28, 2005 included an estimated $105,000 June 30, 2005 FBA. Actual FBA was $166,800 due to improvements in property tax revenue, interest revenue and favorable variances in departmental revenues and expenses. Recommendations for the use of the unanticipated FBA were made to the Board of Supervisors in the FY 2005-06 First Quarter Budget Report. Most of the additional funds were placed into reserves.

New Benefit Formulas Effective July 1, 2005 As part of collective bargaining agreements with County employees, most General Members who work for the County will become Plan I (formally Tier I) members and Plan J (formally Tier II) members. The benefit formula beginning July 1, 2005 will be 2.7% of the member's "final compensation" for each year of service rendered at age 55. Refer to Note 17, Retirement Plans, for additional information.

Retirement Contribution Prepayment On June 28, 2005, the Board of Supervisors approved the prepayment of 50% of the County's FY 2005-06 OCERS cash contribution. $87,700 was paid to OCERS from the General Fund on July 13, 2005 and represents a $3,300 discount from the contribution which would have been paid by the County if payment was made in installments throughout the fiscal year. The remaining $91,000 contribution will be paid to OCERS during FY 2005-06.

19. SUBSEQUENT EVENTS (Continued)

Possible Changes to Local Agency Funding Requirement of Retirement Benefits A statewide taxpayers' association is circulating a ballot measure, which if presented to the voters and approved, would prohibit the State and local agencies from enrolling new employees in a defined benefit plan, like OCERS. Those employees would be enrolled in what are referred to as defined contribution plans for which an employer, such as the County, would be making annual payments during an employee's active service, which could be supplemented by employee contributions. Further, there would be annual limits on the contributions made by employers, such as the County. If approved by voters, this ballot measure would not apply to existing employees.

A constitutional amendment has been proposed in the legislature imposing on the State and local agencies similar prohibitions and limitations. No prediction can be made as to whether any of these proposals will become effective or, if adopted and implemented, what impact they would have upon local agencies like the County.

20. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

Revised December 31, 2004 Actuarial Valuation

OCERS' actuarial valuation, as of December 31, 2003, was completed on July 16, 2004 by OCERS' former actuary who determined the UAAL to be $1.309 billion. In 2004, OCERS retained a different actuary to complete an actuarial valuation of OCERS (the "2004 Valuation") as of December 31, 2004. The revised 2004 Valuation calculated the UAAL as of December 31, 2004 to be $2.16 billion. The 2004 Valuation determined that the ratio of the valuation assets to actuarial accrued liabilities decreased from 78.5% as of December 31, 2003 to 70.85% as of December 31, 2004. (The 2004 Valuation estimated that the UAAL and funding ratio, without the changes in actuarial assumptions, procedures and methodologies used in their valuation, would have been $1.761 billion and 74.9%, respectively.) The average aggregate employer contribution rate for the County in the 2004 Valuation increased from 18.89% of payroll beginning July 1, 2005 to 24.29% beginning July 1, 2006, and employee rates, some of which are contributed by the County under existing bargaining agreements also increased. Employer and employee rates are expressed as a percentage of payroll.

The $850 million increase in UAAL was attributable to a number of factors including the following:

- Differences between the 2004 Valuation and the prior actuary's valuation system and procedures;
- Changes in assumptions, including salary scale, withdrawal and retirement assumptions, based upon the December 31, 2004 triennial experience study of the County; and
- Benefit changes including adoption of a 2.7% at age 55 formula for the County, Orange County Superior Court and Orange County Fire Authority general members; 2.5% at age 55 for the Orange County Sanitation District; and 3% at age 50 for the County's safety officers.

December 31, 2005 Actuarial Valuation

OCERS December 31, 2005 actuarial valuation (the "2005 Valuation") was completed by OCERS' current actuary. The 2005 Valuation calculated UAAL as of December 31, 2005 as $2.30 billion, increased from $2.16 billion as of December 31, 2004. The UAAL increase was mainly due to interest on the existing UAAL, a higher than expected salary increase and other unfavorable actuarial experience (actual turnover, retirement experience, mortality and number of disability retirements) during the 2005 calendar year. The ratio of the valuation value of assets to actuarial accrued liabilities in the 2005 Valuation is 71.53%. The aggregate employer contribution rate is calculated in the 2005 Valuation at 24.30% of payroll beginning July 1, 2007. Employee rates, some of which are contributed by the County under existing bargaining agreements, decreased from that in the 2004 Valuation, primarily due to changes in membership demographics.

Pension Contribution Prepayment

In order to pre-pay a portion of the County's UAAL to OCERS payable in Fiscal Year 2006-07, on January 30, 2006, the County issued its $105,990,520 Taxable Pension Obligation Bonds, Series 2006 (the "2006 POBs"). The County issued the 2006 POBs following OCERS decision to grant a 7.75% discount to County Fiscal Year 2006-07 contributions pre-paid to OCERS prior to January 31, 2006. The 2006 POBs mature on June 29, 2007.

Labor Agreements

On September 12, 2006, the Board of Supervisors approved agreements with OCEA and SEIU. The agreements, covering approximately 12,000 County employees, provide for a general salary increase of 4.75% effective June 23, 2006, monies available for market adjustments for certain classifications of employees, additional pension cost payments by employees and retiree medical restructuring. The restructured Retiree Medical Plan will:

- Effective January 2008, pool current employees and retirees separately for the purposes of determining medical insurance premiums

- Once retiree becomes Medicare eligible, the monthly retiree medical plan benefit (grant) will be reduced by 50%. Retirees currently age 65 on September 12, 2006 will receive no reduction. Current retirees age 64 or younger will receive a 50% reduction once Medicare eligible, but no sooner than 1 year.

- The Grant for current employees retiring after September 12, 2006 will be reduced 7.5% for each year prior to age 60 and increased by 7.5% for each year of service after age 60 up to age 70.

- County will establish a Trust to administer Retiree Medical Plan monies, effective January 1, 2007.

- The Lump sum benefit is phased out.

- Effective June 23, 2006, the County will fund the entire cost of the Restructured Medical Plan.

The Restructured Medical Plan is expected to reduce the $1.418 billion unfunded actuarial accrued liability from the Report and lower the ARC. The extent of the UAAL and ARC reductions will depend on a number of factors, including but not limited to the result of ongoing negotiations between the County and other bargaining units. The County presently intends to fund the entire ARC for the Restructured Medical Plan. In addition, effective September 30, 2005, employees represented by the American Federation of State, County and Municipal Employees ceased participation in the Medical Plan and agreed to separate current employees from retirees for health premium purposes, effective January 1, 2007.

APPENDIX C

BOOK-ENTRY SYSTEM

General

The Bonds will be delivered in book-entry only form. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be delivered for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The Authority and the Trustee will not have any responsibility or obligation to such DTC Participants or the persons for whom they act as nominees with respect to the Bonds.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

The Authority and the Trustee cannot and do not give any assurance that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the Bonds paid to

DTC or its nominee as the registered owner, or any prepayment or other notices, to the Beneficial Owner, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The Authority and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interest in the Bonds, payment of principal, premium, if any, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Discontinuance of DTC Services

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds or (b) the Authority determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Bonds and use of the book-entry system will be discontinued. If the Authority fails to select a qualified securities depository to replace DTC, the Authority will cause the Trustee to execute and deliver new Bonds in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are required in a written request of the Authority. The Trustee shall not be required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request of the Authority. Upon such registration, such persons in whose names the Bonds are registered will become the registered owners of the Bonds for all purposes.

In the event that the book-entry system is discontinued, the following provisions would also apply: (a) Bonds may be exchanged for a new Bond or Bonds of the same aggregate principal amount and maturity date and of the same or other authorized denominations; (b) any Bond may be transferred on the registration books maintained by the Trustee under the Indenture by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender thereof to the Trustee accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee; (c) for every exchange or transfer of Bonds, the Trustee shall require the payment by any Owner requesting such transfer or exchange of any tax or other governmental charge that may be imposed with respect to such exchange or transfer and there shall be no other charge to any Owner for such transfer; (d) the Trustee will not be required to transfer or exchange any Bond during the period established by the Trustee for the selection of any Bonds for redemption or any Bond which has been selected for redemption; (e) all interest payments on the Bonds will be made by check mailed by the Trustee to the Owners thereof to such Owner's address as it appears on the registration books maintained by the Trustee on the fifteenth day of the month next preceding such interest payment date; provided, that upon written request of an Owner of $1,000,000 or more in aggregate principal amount of the Bonds received by the Trustee prior to the fifteenth day of the month next preceding an interest payment date, interest shall be paid on each succeeding interest payment date by wire transfer in immediately available funds; and (f) all payments of principal of or redemption price (including accrued interest with respect thereto) of any Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee specified in the Indenture.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Master Facilities Lease and the Master Site Lease and is not to be considered a full statement of the provisions thereof. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the documents. Complete copies of the documents are available upon request from the Trustee.

CERTAIN DEFINED TERMS

The following are definitions of certain terms used in the Indenture, the Lease and the Bonds to which reference is hereby made and not otherwise defined in the Official Statement. The following definitions are equally applicable to both the singular and plural forms of any of the terms defined herein.

"Act" means Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the California Government Code of the State, as may be amended from time to time.

"Additional Bonds" means any bonds authorized to be issued under the Indenture pursuant to the Indenture.

"Authority" means the Orange County Public Financing Authority, a joint powers authority duly organized and existing under the laws of the State.

"Authorized Authority Officer" means the Chair or Vice Chair of the Board of Directors of the Authority or the Executive Director or Finance Director of the Authority, or any such officer's duly authorized designee, or any other officer or employee of the Authority duly authorized by the Authority.

"Authorized County Officer" means the Chair of the Board of Supervisors, the Vice Chair of the Board of Supervisors, the County Executive Officer, the County Chief Financial Officer or the Public Finance Manager or any such officer's duly authorized designee, or any other officer or employee of the County duly authorized by the County.

"Base Rental Payments" means all amounts payable to the Authority by the County as Base Rental Payments pursuant to the Lease.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable to the Authority from the County pursuant to the Lease.

"Board" means the Board of Directors of the Authority.

"Bond Counsel" means any attorney or firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds, appointed by the Authority.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds or any Series or portion thereof as provided therein.

"Bond Insurer" means any insurance company or companies which has or have issued any Bond Insurance Policy insuring the scheduled payment of the principal of and interest on any Outstanding Bonds or any Series or portion thereof when due. The Bond Insurer for the Series 2006 Bonds is MBIA Insurance Corporation.

"Bond Year" means each twelve-month period extending from June 2 in one calendar year to June 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall extend from the Closing Date to June 1, 2007.

"Bondholder," "Owner" or **"Bond Owner,"** when used with respect to any Bond, means the person in whose name the ownership of such Bond shall be registered on the Registration Books.

"Bonds" means the Series 2006 Bonds and all Additional Bonds.

"Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in the city of New York or in the city in which the Trustee maintains its Trust Office are authorized or required by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed.

"Code" means the Internal Revenue Code of 1986.

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, including but not limited to all compensation, fees and expenses of the Authority and the Trustee, compensation to any financial consultants or underwriters, legal fees and expenses, filing and recording costs, appraisal fees, rating agency fees, costs of preparation and reproduction of documents, costs of printing and bond insurance and title insurance premiums, if any.

"Costs of Issuance Fund" means the fund by that name established pursuant to the Indenture.

"Current Interest Bonds" means Bonds the interest on which is payable on each Interest Payment Date to the maturity date for each such Bond.

"Debt Service" means, for any Fiscal Year or other period, the sum of (1) the interest payable during such Fiscal Year or other period on all Outstanding Bonds, assuming that all Outstanding Serial Bonds are retired as scheduled and that all Outstanding Term Bonds are redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any Bonds so long as such funded interest is in an amount equal to the gross amount necessary to pay such interest on the Bonds and is invested in Permitted Investments which mature no later than the related Interest Payment Date), (2) the principal amount of all Outstanding Serial Bonds maturing during such Fiscal Year or other period, and (3) the principal amount of all Outstanding Term Bonds required to be redeemed or paid (together with the redemption premiums, if any, thereon) during such Fiscal Year or other period; provided, that with respect to Capital Appreciation Bonds, the Accreted Value payment shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond.

"Denominational Amount" means, with respect to Capital Appreciation Bonds, the initial offering price thereof, which represents the principal amount thereof, and, with respect to the Current Interest Bonds, the principal amount thereof.

"Event of Default" means any of the events described in the Indenture or the Lease, as applicable.

“Expiry Date” means June 1, 2018.

“Federal Securities” mean any direct, noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or any obligations the principal of and interest on which are unconditionally guaranteed (directly or indirectly) by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1, in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Indenture” means the Indenture, dated as of October 1, 2006, between the Authority and Deutsche Bank National Trust Company, as trustee for the Bonds as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof.

“Independent Certified Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority or the County, and who, or each of whom: (a) is in fact independent and not under domination of the Authority or the County; (b) does not have any substantial interest, direct or indirect, in the Authority or the County; and (c) is not connected with the Authority or the County as an officer or employee of the Authority or the County but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the County.

“Interest Account” means the account by that name established and held by the Trustee pursuant to the Indenture.

“Lease” means the Master Facilities Lease dated as of October 1, 2006, by and between the Authority and the County, pursuant to which the Authority leases the Leased Facilities back to the County, as it may from time to time be supplemented or amended.

“Leased Facilities” means the real property and improvements and equipment thereon described in and subject to the Lease, as all or any portion thereof may be withdrawn or substituted in accordance with the Lease, together with any additional capital improvements or equipment added thereto by any supplement or amendment thereto.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore executed, issued and delivered by the Authority under the Indenture except: (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and (c) Bonds in lieu of which or in substitution for which other Bonds shall have been executed, issued and delivered pursuant to the Indenture or any Supplemental Indenture.

“Permitted Investments” means any of the following that at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein (provided that the Trustee may rely upon investment direction of the Authority as a determination that such investment is a legal investment):

(1) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

a. Farmers Home Administration (FmHA) -- Certificates of beneficial ownership

b. Federal Housing Administration Debentures (FHA)

c. General Services Administration -- Participation certificates

d. Government National Mortgage Association (GNMA or "Ginnie Mae")

GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations

e. U.S. Maritime Administration -- Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)

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(3) Bond, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

a. Federal Home Loan Bank System -- Senior debt obligations (consolidated debt obligations).

b. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")

Participation Certificates (mortgage-backed securities)
Senior Debt Obligations

c. Federal National Mortgage Association (FNMA or "Fannie Mae") -- Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal).

d. Student Loan Marketing Association (SLMA or "Sallie Mae") -- Senior debt obligations.

e. Resolution Funding Corp. (REFCORP) obligations -- Only the interest component of REFCORP strips that have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable.

f. Farm Credit System -- Consolidated systemwide bonds and notes.

(4) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAAm; or AA-m, and if rated by Moody's, having a rating of Aaa; Aa1; or Aa2.

(5) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1" or better by S&P and "Prime-1" by Moody's. The collateral must be held by a third party and the Trustee on behalf of the Bondholders must have a perfected first security interest in the collateral.

(6) Certificates of deposit, savings accounts, deposit accounts or money market deposits that are fully insured by FDIC, including BIF and SAIF.

(7) Investment agreements or guaranteed investment contracts, acceptable to the Bond Insurer.

(8) Commercial paper rated, at the time of purchase, "Prime-1" by Moody's and "A-1" or better by S&P.

(9) Bonds or notes issued by any state or municipality that are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(10) Federal funds or bankers acceptances with a maximum term of one year of any bank that has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1+" by S&P.

(11) Repurchase agreements acceptable to the Bond Insurer.

(12) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals to satisfy this condition.

(13) Orange County Investment Pool.

(14) Any other investment approved by the Bond Insurer.

"Principal Account" means the account by that name established and held by the Trustee pursuant to the Indenture.

"Project" means the 2006 Project and all Additional Projects.

"Rebate Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the month preceding the month in which such Interest Payment Date occurs (i.e. May 15 or November 15, as the case may be), whether or not such day is a Business Day.

"Registration Books" means the records maintained by the Trustee pursuant to the Indenture for the registration and transfer of ownership of the Bonds.

"Rental Payments" means Base Rental Payments and Additional Rental Payments, collectively.

"Reserve Facility" means a surety bond, insurance policy or letter of credit credited to the Reserve Fund and meeting the requirements of the Indenture.

"Reserve Fund" means each fund by that name established and held by the Trustee pursuant to the Indenture.

"Reserve Fund Requirement" means an amount equal to one-half of the least of (i) ten percent of the original proceeds of the Bonds; (ii) maximum annual Debt Service on all Bonds Outstanding; or (iii) 125% of average annual Debt Service on all Bonds Outstanding.

"Revenue Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Revenues" means all Base Rental Payments payable by the County pursuant to the Lease.

"Series 2006 Bonds" means the Orange County Public Financing Authority Lease Revenue Bonds, Series 2006, authorized by and at any time Outstanding pursuant to the Act and the Indenture.

"Site Lease" means the Master Site Lease dated as of October 1, 2006, between the County, as lessor, and the Authority, as lessee, as it may from time to time be supplemented or amended.

"State" means the State of California.

"Supplemental Indenture" means any agreement supplemental to or amendatory of the Indenture entered into in accordance with the provisions of the Indenture.

"Tax Certificate" means the Tax Certificate relating to compliance with certain provisions of the Code, executed and delivered by the Authority and the County on the Closing Date, as amended or supplemented from time to time.

"2006 Project" means the cogeneration conversion project at the central utility facility of the County.

"Trust Office" means the corporate trust office of the Trustee in Los Angeles, California; provided that for registration, transfer, exchange, surrender and payment of the Bonds, Trust Office means the corporate trust operations office of the Trustee, or such other offices as may be specified to the Authority by the Trustee in writing.

"Written Certificate," "Written Request" or **"Written Requisition"** means written certificate, request or requisition of the County or of the Authority, as the case may be, signed by an Authorized County Officer or an Authorized Authority Officer duly authorized for that purpose by a resolution, respectively, and in each case filed with the Trustee.

THE INDENTURE

The Indenture provides for, among other things, the issuance, execution and delivery of the Bonds and sets forth the terms thereof, the creation of certain funds and accounts described herein, certain covenants of the Authority, defines events of default and remedies therefor, and sets forth the rights and responsibilities of the Trustee. Certain provisions of the Indenture setting forth the terms of the Bonds, the redemption provisions thereof and the use of the proceeds of the Bonds are set forth elsewhere in the Official Statement. See "THE BONDS."

Pledge of Revenues; Assignment of Rights

Subject to the provisions in the Indenture, the Bonds shall be secured by a first lien on and pledge of all of the Revenues and a pledge of all of the moneys in the funds and accounts established and held by the Trustee under the Indenture (other than the Rebate Fund). The Bonds shall be equally secured by a pledge, charge and lien upon the Revenues and such moneys without priority for number, date of the Bonds, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds shall be and are secured by an exclusive pledge, charge and lien upon the Revenues. So long as any of the Bonds are Outstanding, the Revenues shall not be used for any other purpose; except that out of the Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by provisions in the Indenture.

The Authority transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Lease and the Site Lease (except for the Authority's right to indemnification under the Lease and the Site Lease, which right shall not be assigned). The Trustee under the Indenture accepts such assignments. The Trustee shall be entitled to and shall receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Creation and Application of Funds and Accounts

The Indenture establishes the following funds and accounts for the Bonds:

Costs of Issuance Fund;
Acquisition and Construction Fund;
Revenue Fund, and the Interest Account and Principal Account therein;
Reserve Fund; and
Rebate Fund.

Costs of Issuance Fund. The moneys in the Costs of Issuance Fund shall be used to pay Costs of Issuance from time to time, upon receipt by the Trustee of a Written Requisition. On the date that is 6 months following the Closing Date, or upon the earlier determination by the Authority that all Costs of Issuance have been paid and written direction to the Trustee to make the transfer described herein, the Trustee shall transfer remaining amounts in the Costs of Issuance Fund to the Revenue Fund.

Acquisition and Construction Fund. The Trustee shall disburse amounts in the Acquisition and Construction Fund upon Written Request of the County for purposes of acquiring and constructing the 2006 Project. Upon the completion of the 2006 Project, the County shall deliver to the Trustee a Written Certificate certifying that all of the 2006 Project has been acquired and constructed, and that all such costs and incidental expenses have been determined and paid. Upon the receipt of such Written Certificate, the Trustee shall transfer any remaining balance in the Acquisition and Construction Fund to the Revenue

Fund for the payment of the Series 2006 Bonds and the Acquisition and Construction Fund shall be closed.

Revenue Fund; Receipt, Deposit and Application of Revenues. All Revenues shall be deposited by the Trustee, on or before each Interest Payment Date, in the Revenue Fund. On or before each Interest Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority.

Interest Account. On or before each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on such Interest Payment Date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having come due and payable on the Outstanding Bonds, shall be transferred to the Principal Account.

Principal Account. On or before each Interest Payment Date on which the principal of the Bonds shall be payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal (i) the principal amount of the Bonds coming due and payable on such Interest Payment Date pursuant to the provisions of the Indenture, and (ii) the redemption price of the Bonds (consisting of the principal amount thereof) required to be redeemed on such Interest Payment Date pursuant to any of the provisions of the Indenture. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of the Bonds upon the redemption thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then having come due and payable, shall be transferred to the Reserve Fund, to the extent necessary to satisfy the Reserve Fund Requirement, and otherwise shall be withdrawn therefrom and transferred to the County to be used for any lawful purposes of the County.

All amounts on deposit in the Revenue Fund on the last day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then coming due and payable, shall be transferred to the Reserve Fund, to the extent necessary to satisfy the Reserve Fund Requirement, and otherwise shall be withdrawn therefrom and transferred to or upon the direction of the County to be used for any lawful purposes of the County.

Reserve Fund. (a) All moneys in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of funding the Interest Account or the Principal Account, in that order, in the event of any deficiency in either of such accounts on a payment date, or to make the final payment on the Bonds at maturity, except that so long as the Authority is not in default under the Indenture, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement shall be withdrawn from the Reserve Fund and deposited to the Interest Account on each Interest Payment Date.

(b) The Authority may satisfy the Reserve Fund Requirement at any time by the deposit with the Trustee for the credit of the Reserve Fund of a surety bond, an insurance policy or letter of credit as described below, or any combination thereof. If the Reserve Fund Requirement is satisfied by a Reserve Facility, the Trustee shall draw on such Reserve Facility in accordance with its terms, in a timely manner, to the extent necessary to fund any deficiency in the Interest Account or Principal Account.

(i) Surety Bond or Insurance Policy. A surety bond or insurance policy issued to the Trustee, on behalf of the Holders of the applicable series of Bonds, by a company licensed to issue an insurance policy guaranteeing the timely payment of principal of and interest on the applicable series of Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of such municipal bond insurer shall be rated "Aaa" by Moody's Investors Service and "AAA" by Standard & Poor's Corporation.

(ii) Letter of Credit. A letter of credit may be deposited in the Reserve Fund to meet the Reserve Fund Requirement, provided that any such letter of credit must be issued or confirmed by a state or national bank or a foreign bank with an agency or branch located in the continental United States which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category (disregarding rating subcategories) by Moody's Investors Service and Standard & Poor's, but in no event less than the rating on the Bonds given by any rating agency which has a then currently effective rating on the Bonds.

Unless the Bonds have been fully paid and retired, the Trustee shall draw the full amount of any letter of credit credited to the Reserve Fund for such Bonds on the third Business Day preceding the date such letter of credit (taking into account any extension, renewal or replacement thereof) would otherwise expire, and shall deposit moneys realized pursuant to such draw in the Reserve Fund.

(iii) Release of Moneys in Reserve Fund. If the Authority replaces a cash-funded Reserve Fund, in whole or in part, with a surety bond, insurance policy or letter of credit meeting the requirements of (b) above, amounts on deposit in the Reserve Fund shall, upon written request of the Authority to the Trustee, be transferred to the Authority and applied for the acquisition, construction, installation or equipping of public capital improvements; provided, such transfer shall be conditioned on the receipt by the Authority and Trustee of an Opinion of Bond Counsel that such transfer will not cause the interest on the Bonds to be included in gross income for purposes of federal income taxation.

Rebate Fund. The Authority shall cause to be deposited in the Rebate Fund such amounts as required under the Tax Certificate. Subject to the provisions of the Indenture and the Lease, moneys held in the Rebate Fund are pledged under the Indenture to secure payments to the United States government, and the Authority, the County and the Owners shall have no rights in or claim to such moneys.

Investments

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments pursuant to a Written Request of the Authority given to the Trustee not less than two Business Days in advance of the making of such investments. In the absence of any such direction from the Authority, the Trustee shall hold any such moneys in Permitted Investments identified in clause (4) of the definition of Permitted Investments.

All interest or gain derived from the investment of amounts in any of the funds or accounts established under the Indenture shall be deposited in the fund or account from which such investment was made. For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it under the Indenture. The Trustee may act as principal or agent in the acquisition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture.

For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund or account shall be calculated at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Additional Bonds

At the request of the County, the Authority may at any time issue Additional Bonds pursuant to a Supplemental Indenture, payable from the Revenues, and secured by a pledge of and charge and lien upon the Revenues, as provided in the Indenture equal to the pledge, charge and lien securing any Outstanding Bonds, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any Additional Bonds:

(a) No Event of Default has occurred and is continuing under the Indenture, the Lease or Site Lease.

(b) The Supplemental Indenture shall require that the proceeds of the sale of such Additional Bonds shall be applied to finance or refinance Additional Projects or for the refunding of Outstanding Bonds.

(c) The Supplemental Indenture shall provide, if necessary, that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement.

(d) The aggregate principal amount of Bonds issued and at any time Outstanding under the Indenture shall not exceed any limit imposed by law, by the Indenture or by any Supplemental Indenture.

(e) The Lease shall have been amended, if necessary, so that the Base Rental Payments payable by the County thereunder in each Fiscal Year shall at least equal Debt Service, including Debt Service on the Additional Bonds, in each Fiscal Year.

(f) If the Additional Bonds are issued for a purpose other than the refunding of Outstanding Bonds, the written consent of the Bond Insurer shall be required.

Certain Covenants

Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, premium, if any, and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds of the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues while any of the Bonds are Outstanding, except as provided by the Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other Indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds, to enter into the Indenture and to pledge and assign the Revenues, the Lease, the Site Lease and the other assets purported to be pledged and assigned, respectively, under the Indenture in the manner and to the extent provided in the Indenture. The Bonds and the provisions of the Indenture are the legal, valid and binding limited obligations of the Authority in accordance with their terms, and the Authority and the Trustee (subject to the provisions of the Indenture) shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions by the Trustee relating to the proceeds of Bonds and the Leased Facilities, the Revenues, the Lease, the Site Lease and all funds and accounts established pursuant to the Indenture. Such books of record and account shall be available for inspection by the Authority and the County during regular business hours with reasonable prior notice.

Tax Covenants. The Authority covenants that, in order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, and for no other purpose, it will satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain such exclusion. In furtherance of this covenant, the Authority covenants to comply with the Tax Certificate as a source of guidance with respect to the requirements of the Code.

Lease and Site Lease; Amendments. The Trustee, as assignee of the Authority's rights under the Lease and the Site Lease pursuant to, and as limited by, the Indenture, shall receive all Revenues due from the County pursuant to the Lease. The Authority, the Trustee and the County may at any time amend or modify the Lease or the Site Lease in accordance with their respective terms, but only if (a) except as provided in clause (b) of this sentence, the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding to such amendment or modification, or (b) such amendment of modification is for any one or more of the following purposes, in which case the consent of the Bond Owners shall not be required:

(a) to add to the covenants and agreements of the County contained in the Lease or the Site Lease, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the County; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions contained in the Lease or the Site Lease in any other respect whatsoever as the County may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds; or

(c) to amend any provision of the Lease or the Site Lease relating to the Code, but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on the Bonds, in the opinion of Bond Counsel; or

(d) to amend the Lease or the Site Lease in connection with any addition, substitution or withdrawal of Leased Facilities in accordance with the Lease and the Site Lease, including any amendment of the Lease or the Site Lease in connection with the issuance of Additional Bonds under the Indenture; or

(e) to amend any provision agreed to by the Authority and the Trustee, so long as such amendment does not materially adversely affect the interests of the Bondholders.

Modification and Amendment of the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture, which shall become binding upon execution by the parties to the Indenture, without consent of any Bond Owner, to the extent permitted by law but only for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers reserved to or conferred upon the Authority so long as such limitation or surrender of such rights or powers shall not materially adversely affect the Owners of the Bonds; or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds; or

(c) to amend any provision in the Indenture relating to the Code, but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the Bonds under the Code, in the opinion of nationally recognized bond counsel; or

(d) to provide for the issuance of Additional Bonds pursuant to the Indenture; or

(e) to amend any provision agreed to by the Authority and the Trustee, so long as such amendment does not materially adversely affect the interests of the Bondholders. Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners as if there were no Bond Insurance Policy.

Except as set forth in the Indenture, the Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may only be modified or amended at any time by a Supplemental Indenture, which shall become binding when the written consent of the Bond Insurer and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal or interest at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

From and after the time any Supplemental Indenture becomes effective pursuant to the Indenture, the Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties to the Indenture or thereto and all Owners of Outstanding Bonds, as the case may be, shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, or by proceedings for redemption.

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable.

(c) Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than as referred to in the preceding clauses (a) and (b), for a period of 60 days after written notice, specifying such failure and requesting that it be remedied has been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Outstanding Bonds; provided, however, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such 60-day period, the Trustee and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Authority within such 60-day period and diligently pursued until such failure is corrected.

(d) An Event of Default occurs pursuant to the Lease.

Remedies. Subject to certain rights of the Bond Insurer, upon the occurrence of an Event of Default the Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the Authority or any member, officer or employee thereof, and to compel the Authority or any such member, officer or employee to perform and carry out its or his duties under law and the agreements and covenants required to be performed by it or him contained in the Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of an Event of Default to require the Authority and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested to do so by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds, with the prior written consent of the Bond Insurer, and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the provisions of the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or the Bond Owners under the Indenture or now or thereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Application of Revenues and Other Funds After Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture and any other funds held by the Trustee shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid;

First, to the payment of the fees, costs and expenses of the Trustee incurred in the performance of its duties and the exercise of any remedies, including any amounts owed to it pursuant to the Trust Agreement, including reasonable compensation to its agents, attorneys and counsel; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the lesser of the rate of interest payable on the Bonds or the maximum rate permitted by law, provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

first, to the payment of all installments of interest on the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

second, to the payment of principal of all installments of the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full,

third, to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein.

Rights of Bond Owners. Subject to certain rights of the Bond Insurer, no Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared under the Indenture, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds.

Defeasance

If the Authority shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest on such Outstanding Bonds, as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture and the Lease, is fully sufficient to pay such Outstanding Bonds, including all principal and interest; or

(c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an Independent Certified Accountant shall determine in a written report filed with the Trustee (upon which report the Trustee may conclusively rely) will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Outstanding Bonds (including all principal and interest thereon) at or before their respective maturity dates;

and if such Outstanding Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to the provisions of the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the Written Request of the Authority, and notwithstanding that any of such Outstanding Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture with respect to such Outstanding Bonds, and all other pecuniary obligations of the Authority under the Indenture with respect to all such Outstanding Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Outstanding Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee; subject, however, to the additional requirements set forth in the Indenture. Any money held by the Trustee following payment in full or discharge of all Outstanding Bonds pursuant to the Indenture, which are not required for said purposes, shall be paid over to the County.

The Trustee

The Authority agrees that it will maintain a Trustee having a corporate trust office in the State, with a combined capital and surplus, or a member of a bank holding company system, the lead bank of which shall have a combined capital and surplus of at least $75,000,000 and be subject to supervision or examination by federal or State authority, so long as any Bonds are Outstanding. The Trustee is authorized under the Indenture to, among other things, pay the principal of and interest on the Bonds and to keep accurate records of all funds and accounts administered by it and of all Bonds paid and discharged.

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee and signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds, with the consent of the Bond Insurer. The Authority may also remove the Trustee at any time with the consent of the Bond Insurer, except during the existence of an Event of Default. The Trustee may be removed at any time by the Bond Insurer for any breach of the Trustee's duties set forth in the Indenture. The Trustee and any successor Trustee may at any time give 60 days' written notice of its intention to resign as Trustee under the Indenture, such notice to be given to the Authority, the Bond Insurer and the County by registered or certified mail. Upon receiving such notice of resignation, the Authority shall appoint a successor Trustee with the consent of the Bond Insurer. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee shall cause notice thereof to be given by first class mail, postage prepaid, to the Bond Owners at their respective addresses set forth on the Registration Books.

Rights of the Bond Insurer

Notwithstanding anything to the contrary contained in the Indenture, so long as the Bond Insurer is not in default under the Bond Insurance Policy (a) the Bond Insurer, acting alone, shall have the right to direct all remedies upon the occurrence and during the continuance of an Event of Default under the Indenture, if and to the extent that the Owners of all of the Series 2006 Bonds, acting together, would have the right, pursuant thereto, to so direct such remedies, (b) the Bond Insurer shall be deemed to be the Owner of all Series 2006 Bonds for the purpose of exercising all rights and privileges available to Owners, and (c) the Bond Insurer shall have the right to institute any suit, action or proceeding at law or in equity under the same terms as an Owner of Series 2006 Bonds in accordance with the applicable provisions of the Indenture.

THE MASTER FACILITIES LEASE

Under the Lease, the Authority will lease the Leased Facilities to the County pursuant to the terms of the Lease; and the County will be obligated to, among other things, make Base Rental Payments to the Authority for the use and occupancy of the Leased Facilities.

Term; Use

The term of the Lease shall commence on the date the Lease is recorded in the Office of the County Recorder, and shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Lease. If on the Expiry Date, the Bonds corresponding to the Rental Payments attributable to the related Leased Facilities and all other amounts then due under the Lease with respect to such Leased Facilities shall not be fully paid, or if the Rental Payments under the Lease with respect to such Leased Facilities shall have been abated at any time and for any reason, then the term of the Lease with respect to such Leased Facilities shall be extended until all Bonds corresponding to the Rental Payments attributable to such Leased Facilities and all other amounts then due under the Lease with respect to such Leased Facilities shall be fully paid, except that the term of the Lease as to the related Leased Facilities shall in no event be extended beyond ten (10) years after such respective Expiry Dates. If prior to such Expiry Date, all Bonds corresponding to the Rental Payments attributable to the related Leased Facilities and all other amounts then due under the Lease with respect to such Leased Facilities shall be fully paid, or provision therefor made, the term of the Lease with respect to such Leased Facilities shall end ten (10) days thereafter or upon written notice by the County to the Authority, whichever is earlier.

Base Rental Payments

The County agrees to pay to the Authority, in accordance with the Base Rental Payment Schedule, rental payments as Base Rental Payments for the use and occupancy of the Leased Facilities (subject to the provisions of the Lease). Each Base Rental Payment shall be payable in funds that are immediately available to the Authority no later than the 15th day of the month preceding its due date, as set forth in the Base Rental Payment Schedule (provided that at such time as amounts in the Reserve Fund shall be sufficient to pay all remaining Base Rental Payments, such amounts shall be applied as a credit and no further Base Rental Payments need be paid by the County). Each Base Rental Payment shall be paid by the County for the use and occupancy of the Leased Facilities.

Additional Rental

The County shall pay to or upon the order of the Authority as additional rental under the Lease ("Additional Rental Payments") such reasonable amounts in each year as shall be required by the Authority for the payment of all administrative costs and other expenses of the Authority in connection with the Leased Facilities, including all expenses, compensation and indemnification of the Trustee payable by the Authority under the Indenture, fees of accountants and attorneys, insurance premiums and all other necessary costs of the Authority or charges required to be paid by it in order to comply with the terms of the Indenture or of the Bonds.

Fair Rental Value

Payments of Base Rental Payments for each rental period during the term of the Lease shall constitute the total rental for said rental period and shall be paid by the County in each rental payment period for and in consideration of the right of use and occupancy of the Leased Facilities during each such period for which said rental is to be paid. The parties to the Lease have agreed and determined that such total rental payable for each twelve-month period represents no more than the fair rental value of the Leased Facilities for each such period.

Payment Provisions

Each Base Rental Payment payable under the Lease shall be paid in lawful money of the United States of America to or upon the order of the Authority. Any such installment of rental accruing under the Lease which shall not be paid when due and payable under the terms of the Lease shall bear interest at the rate of 12% per annum, or such lesser rate of interest as may be permitted by law, from the date when the same is due under the Lease until the same shall be paid. Notwithstanding any dispute between the Authority and the County and subject to the Lease, the County shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the County was not liable for said Rental Payments or any portion thereof, said Rental Payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due under the Lease or refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this section on any date shall be reduced to the extent of amounts on deposit in the Revenue Fund, the Interest Account or the Principal Account and available therefor.

All payments received shall be applied first to the interest components of the Base Rental Payments due under the Lease, then to the principal components of the Base Rental Payments due under the Lease and thereafter to all Additional Payments due thereunder, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Lease.

Release of County Operations Center

(A) The capital improvements and real property described in Exhibit A-1 of the Lease shall be released from the Lease and the Site Lease, and such property shall no longer be encumbered by the Site Lease or the Lease, but only after the County shall have filed with the Authority and the Trustee the following documents:

(i) A certificate of the County stating that the County has beneficial use of the property described in Exhibit A-2 to the Lease; and

(ii) A Certificate of the County with copies of the Site Lease and the Lease, if needed, or amendments thereto containing the amended description of the Leased Facilities and stating that such documents have been duly recorded in the official records of the County Recorder of the County.

(B) The County shall provide written notification of the release of the property described in Exhibit A-1 to the Lease to Standard & Poor's and the Bond Insurer.

Substitution, Release, Addition of Property

In addition to the release of certain capital improvements described above, the County and the Authority may add, substitute or release real property and the improvements, buildings, fixtures and equipment thereon for all or a part of the Leased Facilities for purposes of the Lease and the Site Lease, but only after the County shall have filed or caused to be filed with the Authority and the Trustee the following:

(i) Executed copies of the Site Lease and the Lease or amendments thereto containing the amended description of the Leased Facilities, including the legal description of the Leased Facilities as may be modified, in proper recordable form.

(ii) A Written Certificate of the County, accompanied by a written appraisal from a qualified appraiser, who may but need not be an employee of the County, evidencing that the annual fair rental value (which may be based on, but not limited, to the construction or acquisition cost or replacement cost of such facility to the County) of the Leased Facilities that will constitute the Leased Facilities after such addition, substitution or withdrawal will be at least equal to 100% of the maximum amount of Base Rental Payments becoming due in the then current fiscal year or in any subsequent fiscal year. At the sole discretion of the County, in the alternative, in the event of a substitution only, the Written Certificate of the County and the appraisal will evidence that the annual fair rental value of the new Leased Facility is at least equal to that of the substituted Leased Facility.

(iii) With respect to an addition or substitution of property, a leasehold owner's title insurance policy or policies or a commitment for such policy or policies or an amendment or endorsement to an existing title insurance policy or policies resulting in title insurance with respect to the Leased Facilities after such addition or substitution in an amount at least equal to the aggregate principal amount of Bonds Outstanding; each such insurance instrument, when issued, shall name the Trustee as the insured, and shall insure the leasehold estate of the Authority in such property subject only to such exceptions as do not substantially interfere with the County's right to use and occupy such property and as will not result in an abatement of Base Rental Payments payable by the County under the Lease.

(iv) A Written Certificate of the County stating that such addition, substitution or withdrawal, as applicable, does not adversely affect the County's use and occupancy of the Leased Facilities.

(v) An opinion of bond counsel stating that any amendment executed in connection with such addition, substitution or withdrawal, as the case may be, (a) is authorized or permitted under the Lease; (b) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the County; and (c) will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

(vi) Consent of the Bond Insurer.

Covenant to Budget and Appropriate; Current Expense of the County

The County covenants to take such action as may be necessary to include all Rental Payments due under the Lease in its annual budgets, and to make necessary annual appropriations for all such Rental Payments. The County will deliver to the Authority copies of the portion of each annual County budget relating to the payment of Rental Payments under the Lease within 90 days after the adoption thereof.

The Authority and the County understand and intend that the obligation of the County to pay Rental Payments under the Lease shall constitute a current expense of the County and shall not in any way be construed to be a debt of the County in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the County, nor shall anything contained in the Lease constitute a pledge of the general tax revenues, funds or moneys of the County. Rental Payments due under the Lease shall be payable only from current funds that are budgeted and appropriated or otherwise legally available for the purpose of paying Base Rental Payments, Additional Rental Payments or other payments due under the Lease as consideration for use and occupancy of the Leased Facilities, including but not limited to the proceeds of insurance maintained pursuant to the Lease. The Lease shall not create an immediate indebtedness for any aggregate payments that may become due under the Lease. The County has not pledged the full faith and credit of the County, the State of California or any political subdivision, agency or department thereof to the payment of the Rental Payments due under the Lease.

Rental Abatement.

Except to the extent payable from proceeds of insurance maintained pursuant to the Lease, the Rental Payments shall be abated proportionately, during any period in which by reason of any damage or destruction (other than by condemnation as provided for in the Lease) there is substantial interference with the use and occupancy of the Leased Facilities by the County, in the proportion in which the cost of that portion of the Leased Facilities rendered unusable bears to the cost of the whole of the Leased Facilities. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease shall continue in full force and effect and the County waives the benefits of California Civil Code Section 1932(2) and 1933(4) and Title 11 of the United States Code, Section 365(h) and all other rights to terminate the Lease by virtue of any such damage or destruction or interference.

Maintenance of Leased Facilities

During such time as the County is in possession of the Leased Facilities, all maintenance and repair, both ordinary and extraordinary, of the Leased Facilities shall be the responsibility of the County, which shall at all times maintain or otherwise arrange for the maintenance of the Leased Facilities in good condition and repair, and shall pay for or otherwise arrange for payment of all utility services supplied to the Leased Facilities, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Leased Facilities resulting from ordinary wear and tear or want of care on the part of the County or any assignee or sublessee thereof or any other cause and shall pay for or otherwise arrange for the payment of all insurance policies required to be maintained with respect to the Leased Facilities.

Changes to the Leased Facilities

The County shall, at its own expense, have the right to remodel the Leased Facilities or to make additions, modifications and improvements to the Leased Facilities. All such additions, modifications and improvements shall thereafter comprise part of the Leased Facilities and be subject to the provisions of the Lease. Such additions, modifications and improvements shall not in any way damage the Leased Facilities or cause it to be used for purposes other than those authorized under the provisions of State and federal law; and the Leased Facilities, upon completion of any additions, modifications and improvements made pursuant to the Lease, shall be of a value which is at least equal to the value of the Leased Facilities immediately prior to the making of such additions, modifications and improvements.

Installation of Equipment

The County may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed equipment or other personal property. All such items shall remain the sole property of such party, in which the Authority shall have no interest. Nothing in the Lease shall prevent the County from purchasing items to be installed pursuant to the Lease under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Leased Facilities.

Insurance

Fire and Extended Coverage Insurance. The County shall procure or cause to be procured and maintain or cause to be maintained, throughout the term of the Lease and commencing with the County's beneficial use and occupancy of the Leased Facilities, all-risk property insurance; provided that earthquake insurance will be required only if available on the open market from reputable insurers at a reasonable cost with reasonable deductibles. Such insurance shall be in an amount equal to the replacement cost (without deduction for depreciation) of the Leased Facilities, except that such insurance may be subject to deductible clauses for any one loss of not to exceed one hundred thousand dollars ($100,000) (or a comparable deductible as available at a reasonable cost), or, in the alternative, shall be in an amount and in a form sufficient, in the event of total or partial loss, to prepay all outstanding principal components of Base Rental Payments due under the Lease.

In the event of any damage to or destruction of any part of the Leased Facilities, caused by the perils covered by such insurance, the County, except as provided in the Lease, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Facilities, to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Leased Facilities to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay an aggregate principal amount of Base Rental Payments equal to the portion of the Leased Facilities so destroyed or damaged (determined by reference to the proportion that the acquisition cost of such portion of the Leased Facilities bears to the acquisition cost of the Leased Facilities), may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Facilities and thereupon shall cause said proceeds to be used for the prepayment of Base Rental Payments.

The Authority and the County shall promptly apply for Federal disaster aid or State disaster aid in the event that the Leased Facilities are damaged or destroyed as a result of an earthquake occurring at any time. Any proceeds received as a result of such disaster aid shall be used to repair, reconstruct, restore or replace the damaged or destroyed portions of the Leased Facilities, or, at the option of the County, to prepay all outstanding principal components of Base Rental Payments due under the Lease if such use of such disaster aid is permitted. Such insurance may be part of a joint-purchase insurance program.

Rental Interruption Insurance. The County shall maintain insurance issued by a responsible carrier against rental interruption or loss of use and possession of the Leased Facilities or, as an alternative, such insurance may be maintained as part of or in conjunction with any other insurance carried by the County; provided that such insurance is commercially available and subject to reasonable deductible. Such insurance shall be maintained by the County in an amount sufficient to pay the maximum annual Base Rental Payments under the Lease for any two-year period, except that such insurance may be subject to a deductible clause of not to exceed $100,000 (or a comparable deductible as available at a reasonable cost).

Defaults and Remedies

(a) If the County shall fail to (i) pay any Base Rental Payment or Additional Rental Payment under the Lease when the same becomes due and payable, time being expressly declared to be of the essence of the Lease, or (ii) keep, observe or perform any other term, covenant or condition contained in the Lease to be kept or performed by the County for a period of 30 days after notice of the same has been given to the County by the Authority or the Trustee for such additional time as is reasonably required to correct the same, but not to exceed 60 days, or upon the happening of any of the events specified in subsection (b) below (any such case above being an "Event of Default"), the County shall be deemed to be in default under the Lease and it shall be lawful for the Authority or the Trustee, as assignee of the Authority, to exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, the remedy of terminating the Lease or reletting the Leased Facilities shall not be available to the Authority or the Trustee. Upon any such default, the Authority or the Trustee shall have the option without terminating the Lease, to collect each installment of Base Rental Payments as it becomes due and enforce any other terms or provision of the Lease to be kept or performed by the County, regardless of whether or not the County has abandoned the Leased Facilities. The County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease to be kept or performed by the County and to pay the full amount of the Base Rental Payments to the end of the term of the Lease (without acceleration).

(b) If (i) the County's interest in the Lease or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as provided for in the Lease, or (ii) the County or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the County's debts or obligations, or offers to the County's creditors to effect a composition or extension of time to pay the County's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the County's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the County, or if a receiver of the business or of the property or assets of the County shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the County shall make a general or any assignment for the benefit of the County's creditors, or if (iii) the County shall abandon the Leased Facilities, then the County shall be deemed to be in default under the Lease.

(c) The Authority shall in no event be in default in the performance of any of its obligations under the Lease or imposed by any statute or rule of law unless and until the Authority shall have failed to perform such obligations within 30 days or such additional time as is reasonably required to correct any such default after notice by the County to the Authority properly specifying wherein the Authority has failed to perform any such obligation. In the event of default by the Authority, the County shall be entitled to pursue any remedy provided by law.

(d) In addition to the other remedies set forth in the Lease, upon the occurrence of an event of default as described in the Lease, the Authority or the Trustee, shall be entitled to proceed to protect and enforce the rights vested in the Authority by the Lease or by law. The provisions of the Lease and the duties of the County and of its officers or employees shall be enforceable by the Authority or the Trustee, as the case may be, by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Authority shall have the right to bring the following actions:

(1) Accounting. By action or suit in equity to require the County and its trustees, officers and employees and its assigns to account as the trustee of an express trust.

(2) Injunction. By action or suit in equity to enjoin any acts or things that may be unlawful or in violation of the rights of the Authority.

(3) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Authority's rights against the County (and its board, officers and employees) and to compel the County to perform and carry out its duties and obligations under the law and its covenants and agreements with the County as provided in the Lease.

Each and all of the remedies given to the Authority under the Lease or by any law now or thereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease shall not impair the right of the Authority to other or further exercise thereof or the exercise of any or all other rights, powers or privileges.

(e) In the event the Authority shall prevail in any action brought to enforce any of the terms and provisions of the Lease, the County agrees to pay a reasonable amount as and for attorney's fees incurred by the Authority in attempting to enforce any of the remedies available to the Authority under the Lease, whether or not a lawsuit has been filed and whether or not any lawsuit culminates in a judgment.

(f) Notwithstanding any provision of the Lease to the contrary, no Event of Default by the County shall result in the acceleration of any Base Rental Payment or Additional Rental Payment under the Lease.

(g) To the extent that the Lease confers upon or gives or grants the Trustee any right, remedy or claim under or by reason of the Lease, the Trustee is explicitly recognized as being a third-party beneficiary under the Lease and may enforce any such right, remedy or claim conferred, given or granted thereunder.

Certain Covenants

Right of Entry and Inspection. The Authority and its assignees will have the right (but not the duty) to enter upon and to examine and inspect the Leased Facilities during normal business hours following reasonable notice (and in emergencies at all times) and, with respect to certain portions of the Leased Facilities, in compliance with the County Sheriff Department's rules and regulations (a) to inspect the same, (b) for any purpose connected with the Authority's or the County's rights or obligations under the Lease, and (c) for all other lawful purposes.

Liens. In the event the County shall at any time during the term of the Lease cause any changes, alterations, additions or other work to be done or performed or materials to be supplied with respect to the Leased Facilities, the County will pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon or about the Leased Facilities and will keep the Leased Facilities free of any and all mechanics' or materialmen's liens or other liens against the Leased Facilities or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Facilities or the Authority's interest therein, the County will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the County desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the County will forthwith pay and discharge said judgment. The County agrees to and will, to the maximum extent permitted by law, indemnify and hold the Authority and its respective members, directors, agents, successors and assigns, harmless from and against, and defend each of them against, any claim, demand, loss, damage, liability or expense (including reasonable attorney's fees) as a result of any such lien or claim of lien against the Leased Facilities or the Authority's interest therein.

Quiet Enjoyment. The parties to the Lease mutually covenant that the County, by keeping and performing the covenants and agreements contained in the Lease and if not in default under the Lease, will at all times during the term of the Lease peaceably and quietly have, hold and enjoy the Leased Facilities without suit, trouble or hindrance from the Authority.

Authority Not Liable. The Authority and its members, directors, officers, agents, employees and assignees will not be liable to the County or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever about the Leased Facilities. The County, to the extent permitted by law, will indemnify and hold the Authority and its members, directors, officers, agents, employees and assignees, harmless from, and defend each of them against, any and all claims, liens and judgments arising from the possession or operation of the Leased Facilities, including, without limitation, death of or injury to any person or damage to property whatsoever occurring about the Leased Facilities regardless of responsibility for negligence, but excepting the active negligence of the person or entity seeking indemnity.

Prohibition Against Encumbrances; Assignment and Subleasing. Neither the Lease nor any interest of the County under the Lease will be mortgaged, pledged, assigned or transferred by the County by voluntary act or by operation of law or otherwise, except with the prior written consent of the Authority and the Bond Insurer. The County may sublet the Leased Facilities with the consent of the Bond Insurer. No such mortgage, pledge, assignment, sublease or transfer will in any event affect or reduce the obligation of the County to make the Base Rental Payments required under the Lease.

The Authority may assign all of its rights, title and interest in and to the Lease and the Leased Facilities, and/or may grant or assign a security interest in the Lease and the Leased Facilities to the Trustee for the benefit of the Bondholders.

Title to Leased Facilities. During the term of the Lease, the Authority shall have a leasehold interest in the Leased Facilities pursuant to the Site Lease and shall, therefore, hold title to the Leased Facilities and any and all additions that comprise repairs, replacements or modifications thereof, except for those repairs, replacements or modifications which are added thereto by the County and which may be removed without damaging the Leased Facilities. This provision shall not operate to the benefit of any insurance company if there is a rental interruption covered by insurance pursuant to the Lease. Upon the termination of the Lease (other than as provided in the Lease), or upon the Expiry Date for Leased Facilities, title to the related Leased Facilities shall vest in the County pursuant to the Site Lease. Upon any such termination, the Authority shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Purpose of Lease. The County covenants that during the term of the Lease, except as provided in the Lease, (a) it will use, or cause the use of, the Leased Facilities for public purposes, (b) it will not vacate or abandon the Leased Facilities or any part thereof, and (c) it will not make any use of the Leased Facilities which would jeopardize in any way the insurance coverage required to be maintained pursuant to the Lease.

Tax Covenants. The County and the Authority will not make any use of the Bond proceeds or any other moneys of the County or the Authority in a manner that will cause the Bonds to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Code.

Taxes. The County will pay or cause to be paid all taxes and assessments of any type or nature charged to the Authority or affecting the Leased Facilities or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are required to be paid during the term of the Lease as and when the same become due.

THE MASTER SITE LEASE

Under the Site Lease, the Authority will use the Leased Facilities solely for the purpose of leasing the Leased Facilities to the County pursuant to the Lease and for related purposes; provided, that in the event of default by the County under the Lease, the Authority may exercise any remedies provided in the Lease.

Leased Facilities

The County agrees to lease to the Authority and the Authority agrees to hire from the County, on the terms and conditions set forth in the Site Lease, the real property and improvements thereon described in the Site Lease, as such real property descriptions may be amended or modified, including removal or substitution or addition of property in accordance with the Site Lease, the Lease and the Indenture, subject to Permitted Encumbrances (collectively, the "Leased Facilities"). Permitted Encumbrances means (1) liens for Federal and State taxes and assessments not yet delinquent; (2) effect of the Lease, the Site Lease, including any amendments thereto; (3) zoning laws, ordinances and regulations; (4) effect of all deeds and deed limitations described in the Title Policy; (5) easements, encumbrances, rights of way, mineral rights, drilling rights, and other rights, reservations, covenants, conditions or restrictions that exist of record as of the date of recordation of the Site Lease in the office of the County Recorder; (6) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (7) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions that will not materially impair the use of the Leased Facilities; and (8) all matters which would be revealed by an accurate survey of the Leased Facilities.

Term

The term of the Site Lease will commence on the date of recordation of the Site Lease in the office of the County Recorder, and will end on June 1, 2018 unless such term is extended or sooner terminated as provided in the Site Lease. If on such date Base Rental Payments attributable to the related Leased Facilities and all other amounts due under the Indenture and under the Site Lease with respect to such Leased Facilities shall not be fully paid, or if the rental or other amounts payable under the Lease with respect to such Leased Facilities shall have been abated at any time and for any reason or shall not have been fully paid, then the term of the Site Lease with respect to such Leased Facilities shall be extended until ten days after the Base Rental Payments attributable to such Leased Facilities and all other amounts due under the Indenture and the Lease with respect to such Leased Facilities shall be fully paid, except that the term of the Site Lease as to the respective Leased Facilities shall in no event be extended beyond ten (10) years after such respective dates. If prior to such dates, the Base Rental Payments attributable to the related Leased Facilities and all other amounts then due under the Lease with respect to such Leased Facilities shall be fully paid, the term of the Site Lease with respect to such Leased Facilities shall end 10 days thereafter or 10 days after written notice by the County to the Authority of such event, whichever is earlier.

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

[closing date]

Orange County Public Financing Authority
Santa Ana, California

Orange County Public Financing Authority
Lease Revenue Bonds, Series 2006
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Orange County Public Financing Authority (the "Issuer") in connection with the issuance by the Issuer of $32,700,000 aggregate principal amount of Orange County Public Financing Authority Lease Revenue Bonds, Series 2006 (the "Bonds"), issued pursuant to the provisions of Article 4, Chapter 5, Division 7 of Title 1 of the California Government Code, and an Indenture, dated as of October 1, 2006 (the "Indenture"), between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed a Master Site Lease, dated as of October 1, 2006 (the "Site Lease"), between the County of Orange (the "County") and the Issuer, a Master Facilities Lease, dated as of October 1, 2006 (the "Lease"), between the Issuer and the County, the Indenture, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer, the County and the Trustee, certificates of the Issuer, the County, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Lease, the Site Lease, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer and the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease, the Site Lease, the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Lease, the Site Lease, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities and counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Lease, the Site Lease or Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Lease and the Site Lease have been executed and delivered by, and constitute the valid and binding obligations of, the Issuer and the County. The obligation of the County to make the Base Rental Payments during the term of the Lease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor.

4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing powers of the County, the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed and delivered by the County of Orange, California (the “County”) in connection with the issuance of $32,700,000 aggregate principal amount of the Orange County Public Financing Authority Lease Revenue Bonds, Series 2006 (the “Bonds”). The Bonds are being issued pursuant to an Indenture, dated as of October 1, 2006 (the “Indenture”), between the Orange County Public Financing Authority and Deutsche Bank National Trust Company, as trustee (the “Trustee”). The County covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as hereinafter defined).

SECTION 2. Definitions. The following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Central Post Office” means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission (the “SEC”) as an intermediary through which issuers may, in compliance with the Rule, make filings required by this Disclosure Certificate.

“Dissemination Agent” shall mean the County or any successor Dissemination Agent designated in writing by the County, which has filed with the County a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Participating Underwriter” shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The County shall, not later than 240 days after the end of the County's Fiscal Year (presently June 30), commencing with the report for Fiscal Year 2005-06, provide or cause to be provided to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the County required hereunder may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the County's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The County reserves the right to make this filing through the Central Post Office.

(b) Not later than fifteen (15) Business Days prior to the date set forth in paragraph (a) above, the County shall provide the Annual Report to the Dissemination Agent (if other than the County). If the County is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the County shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached to this Disclosure Certificate as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the County), file a report with the County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The County's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the County for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. The Final Budget of the County for the current Fiscal Year in the form of Table A-6.

3. Numerical and tabular information for the immediately preceding Fiscal Year of the type contained in Appendix A to the Official Statement relating to the Bonds, in the following charts and tables or under the following captions:

a) County Financial Information —Tables A-3 through A-5 and Tables A-7 through A-13; and

b) County Investment Policy.

The County has not undertaken in this Disclosure Certificate to provide all information an investor may want to have in making decisions to hold, sell or buy Bonds but only to provide the specific information listed above.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the County shall give, or cause to be given, notice of the occurrence of any of the following events (a "Listed Event") with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of holders of the Bonds;
4. optional, contingent or unscheduled calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the reserves reflecting financial difficulties;
9. unscheduled draws on the credit enhancements reflecting financial difficulties;
10. substitution of the credit or liquidity providers or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the County obtains knowledge of the occurrence of a Listed Event, the County shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the County determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the County shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Indenture. The County reserves the right to make such notice of significant event filings through the Central Post Office.

SECTION 6. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity date of the Bonds, the County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture or the Lease, and the sole remedy under this Disclosure Certificate in the event of any failure of the County to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. A Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the County agrees to indemnify and save such Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, if any, the Participating Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: ______________, 2006

COUNTY OF ORANGE, CALIFORNIA

By ____
Public Finance Manager

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person:	County of Orange, California
Name of Bond Issue:	$32,700,000 Orange County Public Financing Authority Lease Revenue Bonds, Series 2006
Date of Issuance:	October 19, 2006

NOTICE IS HEREBY GIVEN that the County of Orange, California (the "County") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of __________, 2006. [The County anticipates that the Annual Report will be filed by ________.]

Dated:

COUNTY OF ORANGE, CALIFORNIA

By ________________________________

APPENDIX G

SPECIMEN BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

____
President

Attest: _______________________________
Assistant Secretary

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