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

In the opinion of Orrick, Herrington & Sutcliffe LLP, 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 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."

$146,005,000
COUNTY OF ORANGE, CALIFORNIA
REFUNDING RECOVERY BONDS
2005 SERIES A

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

The above-captioned bonds (the "Bonds") will be issued by the County of Orange, California (the "County"), and together with certain funds of the County and other funds available under the Trust Agreement (defined herein), will be used to refund and defease the County's outstanding Refunding Recovery Bonds, 1995 Series A and to pay costs related to the issuance of the Bonds, including bond insurance premium. See "PLAN OF FINANCE" herein.

Interest on the Bonds will be payable by The Bank of New York Trust Company, N.A., as trustee (the "Trustee") on June 1 and December 1 of each year, commencing December 1, 2005. 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 interest on the Bonds, DTC will remit such principal 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 not subject to redemption prior to maturity. See "THE BONDS—Redemption."

Payment of scheduled principal of and interest on the Bonds maturing on and after June 1, 2007 (the "Insured 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 payable from all lawfully available funds of the County. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS DO NOT CONSTITUTE AN OBLIGATION 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 listed below (the "Underwriters"), subject to approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. Sidley Austin Brown & Wood 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 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 August 18, 2005.

Goldman, Sachs & Co. **Citigroup**

Banc of America Securities LLC **Morgan Stanley & Co. Incorporated** **Stone & Youngberg LLC**

Dated: August 3, 2005

$146,005,000
COUNTY OF ORANGE, CALIFORNIA
REFUNDING RECOVERY BONDS
2005 SERIES A

Base CUSIP*: 684201

MATURITY SCHEDULE

Maturity Date (June 1)	Principal Amount	Interest Rate	Yield	CUSIP*
2006	$14,375,000	4%	2.621%	FJ0
2007	12,195,000	4	2.820	FK7
2008	7,685,000	4	3.010	FL5
2008	5,000,000	3	3.010	FM3
2009	13,145,000	5	3.140	FN1
2010	8,800,000	5	3.270	FP6
2010	5,000,000	4	3.270	FQ4
2011	14,445,000	5	3.420	FR2
2012	15,165,000	5	3.560	FS0
2013	15,925,000	5	3.690	FT8
2014	16,715,000	5	3.780	FU5
2015	17,555,000	5	3.860	FV3

COUNTY OF ORANGE, CALIFORNIA

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

BOARD OF SUPERVISORS

Bill Campbell (Third District), Chair
Thomas W. Wilson (Fifth District), Vice Chair
Lou Correa (First District)
Chris Norby (Fourth District)
Jim Silva (Second District)

COUNTY OFFICIALS

Thomas G. Mauk, County Executive Officer
Edward Corser, Chief Financial Officer
John M.W. Moorlach, County Treasurer-Tax Collector
David E. Sundstrom, County Auditor-Controller
Thomas L. Beckett, Public Finance Manager
Benjamin P. de Mayo, County Counsel

SPECIAL SERVICES

Bond Counsel

Orrick, Herrington & Sutcliffe LLP

Disclosure Counsel

Sidley Austin Brown & Wood LLP

Financial Advisor

Public Financial Management, Inc.
Newport Beach, California

Trustee

The Bank of New York Trust Company, N.A.
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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 County 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 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 County.

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 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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$146,005,000
COUNTY OF ORANGE, CALIFORNIA
REFUNDING RECOVERY BONDS
2005 SERIES A

INTRODUCTION

Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Trust Agreement referred to below. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT."

The purpose of this Official Statement, which includes the cover page and Appendices hereto (this "Official Statement"), is to furnish information concerning the County of Orange, California (the "County"), and certain other information in connection with the issuance and sale by the County of $146,005,000 Refunding Recovery Bonds, 2005 Series A (the "Bonds" or the "2005 Recovery Bonds").

The Bonds will be issued pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Division 2 of Title 5 of the Government Code (the "Act"), a Trust Agreement, dated as of June 1, 1995 as amended and supplemented, including as further amended and supplemented by a Third Supplemental Trust Agreement, dated as of August 1, 2005 (the Trust Agreement as amended and supplemented being referred to herein as the "Trust Agreement"), between the County and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"), and a resolution of issuance adopted by the Board of Supervisors of the County on July 19, 2005. The proceeds of the Bonds, together with certain funds of the County and other funds available under the Trust Agreement will be used by the County to (i) refund and defease the County's outstanding Refunding Recovery Bonds, 1995 Series A (the "Prior Bonds"), and (ii) pay costs related to the issuance of the Bonds, including bond insurance premium. See "PLAN OF FINANCE." The Prior Bonds were issued in 1995 as part of the County's bankruptcy recovery plan.

The Bonds are payable from all lawfully available funds of the County. Payment of scheduled principal of and interest on the Bonds maturing on and after June 1, 2007 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, 2005, 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 by first class mail to the respective Owners thereof at their respective addresses, as they appear on the Registration Books required to be maintained by the Trustee at the close of business on the applicable Record Date, except that at the written request of an Owner of at least $1,000,000 in aggregate principal amount of Outstanding Bonds, received by 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 rescinded 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

The Bonds are not subject to redemption prior to maturity.

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."

PLAN OF FINANCE

Plan of Refunding

The Bond proceeds, net of costs of issuance, will be transferred to the Trustee, which will apply a portion of such proceeds, together with certain funds of the County and other funds available under the Trust Agreement to (i) redeem the Prior Bonds maturing on June 1, 2015 in the outstanding principal amount of $120,220,000 on the date of issuance of the Bonds and (ii) deposit certain available funds into an escrow account established under an Escrow Agreement, dated as of August 1, 2005, (the "Escrow Agreement") between the County and the Escrow Agent in order to provide sufficient funds to defease the remaining $90,485,000 aggregate principal amount of the Prior Bonds maturing on June 1, 2006 through June 1, 2010 (the "Prior Serial Bonds").

Moneys held under the Escrow Agreement will be invested in US Government obligations which will be irrevocably pledged to the payment of the Prior Serial Bonds. At closing, the County will provide the Trustee with a verification report prepared by Grant Thornton LLP to the effect that amounts deposited under the Escrow Agreement, together with interest earnings on the investments of such amounts, will be sufficient to pay the principal and interest on the Outstanding Prior Serial Bonds. See "VERIFICATION OF MATHEMATICAL ACCURACY."

2005 Lease Revenue Bonds

On or about the issuance date of the Bonds, the Orange County Public Financing Authority (the "Authority") expects to issue $419,755,000 Orange County Public Financing Authority Lease Revenue Refunding Bonds, Series 2005 (the "2005 Lease Revenue Bonds") to defease and prepay the Authority's outstanding 1996 Recovery Certificates of Participation, Series A (the "1996 Certificates").

Estimated 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)]	$155,323,015
County Funds	31,872,249
Funds Available under the Trust Agreement	35,011,606
TOTAL SOURCES	$222,206,870
Estimated Uses:	
Redemption of Prior Bonds	$124,102,939
Deposit to Escrow Fund	97,019,048
Costs of Issuance[(2)]	1,084,883
TOTAL USES	$222,206,870

(1) Includes net premium of $9,318,015.

(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
2006	$14,375,000	$5,351,609	$19,726,609
2007	12,195,000	6,232,700	18,427,700
2008	12,685,000	5,744,900	18,429,900
2009	13,145,000	5,287,500	18,432,500
2010	13,800,000	4,630,250	18,430,250
2011	14,445,000	3,990,250	18,435,250
2012	15,165,000	3,268,000	18,433,000
2013	15,925,000	2,509,750	18,434,750
2014	16,715,000	1,713,500	18,428,500
2015	17,555,000	877,750	18,432,750
	$146,005,000	$39,606,209	$185,611,209

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bonds are payable from all lawfully available funds of the County. The Bonds 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, 2004".

The Bonds do not constitute an obligation 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. See "CERTAIN RISK FACTORS" below.

No reserve fund will be established with respect to the Bonds.

BOND INSURANCE

Payment of scheduled principal and interest on the Bonds maturing on and after June 1, 2007 (the "Insured Bonds") when due will be insured by the Policy issued by the Bond Insurer. The following information concerning the Bond Insurer and the Policy has been provided by representatives of the Bond Insurer, and has not been independently certified or verified by the County. No representation is made by the County 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—MBIA Insurance Corporation" and with regard to the form of MBIA's specimen policy contained in APPENDIX G – "SPECIMEN BOND INSURANCE POLICY" herein. Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

MBIA Insurance Policy. MBIA's Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the County 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 Insured 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 MBIA's 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); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured 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").

MBIA's Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. MBIA's 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 Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's Policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Insured 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 Insured 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 Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured 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 Insured 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 or 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 has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain.

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 Insured 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 Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

MBIA Financial Information. As of December 31, 2004, MBIA had admitted assets of $10.4 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.4 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2005 MBIA had admitted assets of $10.6 billion (unaudited), total liabilities of $7.0 billion (unaudited), and total capital and surplus of $3.6 billion (unaudited) 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, 2004 and December 31, 2003 and for each of the three years in the period ended December 31, 2004, 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, 2004 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2005 and for the three month periods ended March 31, 2005 and March 31, 2004 included in the Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2005, 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, 2004; and

(2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005.

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 Insured 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, 2004, and (2) the Company's Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005) 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 COUNTY

For information regarding the County, see APPENDIX A – "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 DO NOT CONSTITUTE AN OBLIGATION 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.

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 payments on the Bonds. See APPENDIX A – "THE COUNTY—COUNTY FINANCIAL INFORMATION."

Recurring State Budget Deficits

The State has been experiencing budgetary shortfalls for the past four fiscal years, and it is currently projected to experience budgetary shortfalls in the future. 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 can 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 2003-04

On August 2, 2003, Governor Davis signed the 2003-04 Budget Act (the "2003-04 Budget Act") into law. The 2003-04 Budget Act projected that State General Fund (the "State General Fund") revenues would increase from $70.9 billion for Fiscal Year 2002-03, excluding the proceeds of any fiscal recovery bonds, to $72.8 billion in Fiscal Year 2003-04, an increase of 2.8 percent. State General Fund expenditures were projected to decrease from $78.1 billion in Fiscal Year 2002-03 to $70.8 billion in Fiscal Year 2003-04, or 10 percent. A significant portion of this 10 percent decrease was attributable to the Vehicle License Fee (the "VLF") increase which eliminated the need for the State to backfill local governments, new federal funds, borrowings to cover the State's 2003-04 pension obligations, and the Medi-Cal accounting shift from an accrual to a cash basis.

The 2003-04 Budget Act contained various reductions in local revenues provided by the State, including a reduction in VLF revenues of approximately $825 million during the period between the elimination of the State's VLF backfill and the increase in the VLF rate on October 1, 2003. The 2003-04 Budget Act assumed that the VLF rate would increase from the rate of 0.65 percent to 2.0 percent beginning October 1, 2003. During the approximately 90 day period between the date when the State backfill ended on July 1, 2003, and the date when the VLF rate increased, local governments would only receive revenues based on the 0.65 percent VLF rate. The 2003-04 Budget Act and related legislation required the State to repay the $825 million VLF "gap" loss to local governments no later than August 15, 2006. Since the passage of the 2003-04 Budget Act, the State has estimated that the VLF "gap" for Fiscal Year 2003-04 will be approximately $1.3 billion. The 2005-2006 Budget (described below) provides for full repayment of this amount.

The 2003-04 Budget Act identified a budget shortfall of $38.2 billion between expenditures and revenues and attempted to close this shortfall through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals. Program savings were primarily achieved in the 2003-04 Budget

Act through significant reductions in spending for certain programs. Some reductions in program spending were to be offset by higher fees. The year-end reserve was projected to be approximately $2 billion and reflected the issuance of $10.7 billion in fiscal recovery bonds to eliminate the Fiscal Year 2002-03 deficit and the issuance of a second series of tobacco securitization bonds. Governor Schwarzenegger subsequently proposed, and the State Legislature approved, placing a bond measure on the March 2, 2004 ballot which authorized the issuance of up to $15 billion of economic recovery bonds to replace the fiscal recovery bonds. See "State Budget for Fiscal Year 2005-06" herein.

Certain of the features of 2003-04 Budget Act affecting counties included the following:

1. The Senate budget package required redevelopment agencies to shift $250 million of redevelopment agency funds to the Educational Revenue Augmentation Fund (the "ERAF") in Fiscal Year 2003-04. The Assembly version of the budget also required such a one-time shift to the ERAF but set the amount at $135 million.

2. The 2003-04 Budget Act repealed six mandates and suspended local government requirements to implement 37 other mandates in Fiscal Year 2003-04. The 2003-04 Budget Act deferred (to an unspecified date) State funding to reimburse local agencies for: (1) implementing 40 active mandates in Fiscal Year 2003-04 (about $200 million) and (2) unpaid prior-year mandate claims (about $700 million.

State Budget for Fiscal Year 2004-05

On July 31, 2004, Governor Schwarzenegger signed the 2004-05 Budget Act (the "2004-05 Budget Act") into law. The 2004-05 Budget Act assumed General Fund revenues would increase from $76.6 billion in Fiscal Year 2003-04 to $77.3 billion in Fiscal Year 2004-05. General Fund expenditures would increase from $77.6 billion in Fiscal Year 2003-04 to $78.8 billion in Fiscal Year 2004-05 and the State would have a year-end reserve of $768 million as of June 30, 2005.

The 2004-05 Budget Act numbers were revised as part of the 2005-06 Budget Act, which was signed on July 11, 2005. The 2005-06 Budget Act increased projected State revenue for Fiscal Year 2004-05 to $79.7 billion (due largely to a $4.2 billion increase in major tax revenues from an improved economic forecast), increased expenditures to $82.0 billion and increased the projected year end reserve to $6.8 billion (although this reserve included $4 billion of tax amnesty payments that have already been projected or that may have to be refunded).

Certain of the features of 2004-05 Budget Act affecting local governments include the following:

1. The VLF rate is lowered from 2.0 percent to 0.65 percent and the VLF backfill is eliminated. The State will provide increased property tax revenues to compensate for the reduction in revenues local governments previously received from VLF.

2. A diversion of $1.3 billion from local governments in Fiscal Years 2004-05 and 2005-06, including $350 million from counties, $350 million from cities, $350 million from special districts and $250 million from redevelopment agencies. Each county's reduction reflects its proportionate share of statewide county VLF revenues, property taxes and sales taxes.

3. The 2004-05 Budget Act proposed a constitutional amendment to protect certain local government revenues ("Proposition 1A"), which was approved by the voters in November 2004. Pursuant to Proposition 1A, the State may not reduce local governments' share of the property tax below current levels, but may borrow up to 8% of local property tax revenues in the event of a fiscal emergency,

provided the amount borrowed would be repaid within three years and certain other conditions are satisfied. Proposition 1A also prohibits the State from reallocating local sales taxes. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS—Proposition 1A" and APPENDIX A – "THE COUNTY—COUNTY FINANCIAL INFORMATION."

State Budget for Fiscal Year 2005-06

On July 11, 2005, Governor Schwarzenegger signed the 2005-06 Budget Act. The 2005-06 Budget Act projects 2005-06 General Fund revenues of $84.2 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 may 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, have 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 eliminates 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 revenue increase forecasted by the 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 $41.9 billion in Fiscal Year 2004-05 and $43.2 billion in Fiscal Year 2005-06. This forecast assumes a percent change increase in personal income tax revenue of 15.1 percent for Fiscal Year 2004-05 and 3.2 percent for Fiscal Year 2005-06. Sales and use tax revenue is forecasted to be $25.1 billion in Fiscal Year 2004-05 and $27.0 billion in Fiscal Year 2005-06, a 7.6% increase. Corporation tax revenues are expected to total $7.6 billion in Fiscal Year 2004-05 and $8.8 billion in Fiscal Year 2005-06, a 15.8% increase.

The 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 2005-06 Budget Act projects 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 is 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 is 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 projects 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 include the following:

1. The 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 off 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 $5.6 billion in 2005-06, which represents 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 includes 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 includes 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, 2005 resulting in an additional $26.5 million of additional resources to the County which have not been included in its 2005-06 budget.

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

Governor's Budget Reform Proposal

In the 2005-06 proposed budget, the Governor proposed several budget reforms to address the State's continued structural budget deficit. The Governor's reform proposals included: (a) a proposed amendment to the State Constitution to require across-the-board spending reductions to address a budget shortfall either (i) shortly after the beginning of a Fiscal Year when the State has not enacted a budget and faces a budgetary imbalance, or (ii) during specified times in a Fiscal Year when the administration determines an enacted budget has fallen out of balance and the Governor and legislature fail to agree on a mid-year plan to address the shortfall within a specified period; (b) a proposed amendment to the State Constitution to eliminate the ability to suspend the minimum funding requirement of the State Proposition 98 (school funding) Guarantee with a two-thirds vote of the legislature and to eliminate a calculation related to the Proposition 98 Guarantee, which reduces the growth rate of Proposition 98 funding during the years when the State encounters low revenues; (c) the proposed repayment over a 15-year period of certain outstanding obligations of the State, including the currently outstanding $3.6 billion in "maintenance factor" and $1.3 billion in potential "settle-up" payments to schools, the unfunded mandates to local governments and schools, loans to the State's General Fund from special funds supporting transportation and other loans from special funds; (d) a proposal to eliminate the legislature's ability, after the Fiscal Year 2006-07, to suspend the transfer of sales tax revenues on gasoline from the State's General Fund to special funds supporting transportation as currently permitted; and (e) a proposal that prohibits the Governor and the legislature from borrowing from special funds to cover State's General Fund shortfalls in the future.

"California Live Within Our Means Act" Initiative

An initiative, known as the "California Live Within Our Means Act" Initiative, has been endorsed by the Governor and has qualified for the special election in November 2005 which the Governor has called. This initiative resembles the Governor's budget reform proposals in many respects, including constitutional reforms related to State Proposition 98 (although, unlike the Governor's proposal, the initiative would not eliminate the Legislature's ability to suspend Proposition 98), the elimination of the State's ability to borrow from special funds except for cashflow short term borrowing, and the repayment of existing inter fund borrowings and mandates. The initiative, however, expands upon the Governor's expenditure reform proposals in certain significant ways. The initiative would amend the Constitution to limit the annual growth in State spending to the average annual growth in State General Fund and special fund revenues for the prior three fiscal years. This limit on spending would be in addition to the Appropriations Limit imposed by Article XIII B of the Constitution. Any revenues collected in excess of this limitation and allocated to the State General Fund would be dedicated to specified purposes, including (i) the funding of the Budget Stabilization Account created under State Proposition 58, (ii) the retirement of outstanding Proposition 98 mandates and economic recovery bonds, and the funding of the previous suspensions of transfer to the State transportation funds, and (iii) the construction of school and highway infrastructure. Funds allocated for these purposes would not be counted for purposes of calculating the following year's spending limit.

The initiative would also amend the Constitution to authorize the Governor to address budget shortfalls during any fiscal year, not otherwise addressed by the Legislature within the time parameters set forth in the initiative, in any manner the Governor deems appropriate (whether proportionately or disproportionately), but subject to certain priority payments (including the payment of debt service, payments required by federal law, and payments under contracts incurred prior to the enactment of the initiative). The initiative also provides that if a budget is not adopted in any year by July 1, then the budget appropriation levels for the prior year would remain in effect until the new budget is adopted.

Full text of this initiative is available on the Attorney General's website at www.caag.state.ca.us/initiatives/activeindex.htm.

LAO Budget Overview

On January 12, 2005 and in February 22, 2005, the LAO released reports analyzing the Governor's 2005-06 Budget.

In these reports the LAO concluded that by adopting ongoing legislative solutions similar in magnitude to those proposed by the 2005-06 Governor's Budget, the State could balance its budgets in fiscal years 2005-06 and 2006-07, and reduce its structural balance shortfall from a projected peak of $10 billion to about $4 billion per year. However the LAO warned that revenue growth, even adjusted for the improved economy outlook, was not enough to allow the State to "grow its way" out of its long term structural imbalance. The LAO concluded that, without further actions, "the State would face major budget problems in 2006–07 and beyond (when temporary solutions adopted in past budgets expire and past budgetary borrowing starts coming due), with its borrowing capacity exhausted and relatively few easy options available."

In its "Overview of the 2005–06 May Revision," released on May 13, 2005, the LAO found "sensible" the Governor's use of the estimated $4 billion of new funds generated by an improved economic outlook to reducing debt and restoring Proposition 42 transportation funding. However, the LAO stated that the basic fiscal picture for the State had not changed dramatically from its earlier assessment; the LAO reiterated its forecasts of budget shortfalls of about $4.1 billion in fiscal year 2006-07 (net of amnesty related tax refunds and adjustments), $4 billion in fiscal year 2007-08 and then $3 billion for fiscal year 2008-09.

In addition, the LAO continued to express caution about the reliability of certain revenue and savings proposals incorporated into the 2005–06 Governor's Budget, including approximately $1 billion assumed savings proposed. In addition, the LAO also projected that revenues during the second half of the current fiscal year (2004-05) would be $600 million less than as projected in the 2005–06 May Revision, although the LAO stated their forecast of revenues for the 2005-06 budget year is similar to the Governor's revised estimate.

The LAO also expressed concerns relating to the Governor's structural budget reforms. These concerns fall into two categories. First, the LAO believes that the proposed amendments to the State Constitution to change Proposition 98 would leave policy makers with limited discretion over the allocation of budget resources between Proposition 98 and other state programs. According to the LAO, the consequence of this is that, during revenue downturns, all of the burden of balancing the budget may shift to non-Proposition 98 programs or to taxpayers in the form of higher fees and taxes. Second, the

LAO believes that the proposed changes represent a serious diminution in the Legislature's authority to appropriate funds and craft budgets.

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 2005-06 is $4,440,402,406, an increase of 6.9% over Fiscal Year 2004-05. Estimated appropriations for Fiscal Year 2005-06 subject to the limitation total $732,496,428.

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.

In a recent California Appellate Court decision, the court looked to the definitions in Article XIII D in its analysis of the scope of the initiative power set forth in Article XIII C. It determined that, because fees and charges imposed for water services under Article XIII D can be imposed without voter approval, such fees and charges are not subject to the Article XIII C initiative power. In its decision, the court also held that, because the initiative process cannot be allowed to interfere with a legislatively delegated function, the rate setting function that was the subject of the litigation was not subject to initiative since it was an administrative act. This case has been accepted for review by the California Supreme Court, and for that reason it may not be cited.

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 *Santa 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. See "STATE OF CALIFORNIA BUDGET INFORMATION—'California Live Within Our Means Act' Initiative."

LITIGATION

No litigation is pending or threatened against the County concerning the validity of 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.

VALIDATION ACTION

Pursuant to California Code of Civil Procedure section 860, *et seq.*, and Government Code section 53510, *et seq.* (collectively, the "Validation Act"), on April 11, 1995, the County filed a Complaint for Validation (*County of Orange v. All Persons Interested, etc*., Case No. 74-55-37) (the "Complaint") in the Superior Court of the State of California for the County of Orange (the "Court"). The Complaint sought to validate, among other matters, the County's issuance of the Prior Bonds and any other evidences of refunding indebtedness (and all proceedings related thereto). Five parties answered the Complaint and one of the answering parties also filed a demurrer (the "Demurrer") seeking dismissal of the Complaint on the asserted basis that the proposed financing constituted debt within the meaning of Article XVI, Section 18 of the California Constitution (the "Debt Limitation Provision") and could not, therefore, be effected without voter approval. The Court conducted a hearing on the Demurrer on May 31, 1995, and on June 1, 1995, entered an Order denying the Demurrer on the grounds that the obligations of the County being discharged by the Prior Bonds are involuntary tort obligations imposed by law and therefore not subject to the Debt Limitation Provision. Thereafter, all of the answering parties withdrew their answers and appearances and the Court entered a default judgment on June 5, 1995 (the "Judgment"). The Judgment provides, among other things, that the Prior Bonds, other evidences of refunding indebtedness and all other agreements executed in connection therewith are valid, legal and binding obligations of the County. The last day to appeal the Judgment was July 5, 1995. In issuing the opinion as to validity of the Bonds, Bond Counsel has relied on the Judgment.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("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 County has 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 Trust Agreement, 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 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 County has 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 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 County and its 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 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 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." Sidley Austin Brown & Wood 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 Underwriter's Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon 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 Insured Bonds with the understanding that the Policy will be issued by the Bond Insurer as described herein upon delivery of the Bonds. The underlying ratings on the Insured Bonds, without regard to the Policy, and the ratings on the uninsured Bonds which mature on June 1, 2006, are "Aa3" 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 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 Underwriters 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 $154,876,642.40, which represents the par amount of the Bonds, plus a net premium of $9,318,014.65, less an underwriters' discount of $446,372.25. 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 Public Financial Management, Inc., Newport Beach, California, as Financial Advisor to the County 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 2003-04 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, 2004."

VERIFICATION OF MATHEMATICAL ACCURACY

Grant Thornton LLP, independent accountants, will upon delivery of the Bonds deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the County, relating to the sufficiency of the moneys and anticipated receipts from investments to pay, when due, the principal and interest on the Outstanding Prior Bonds through and including June 1, 2010.

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 2004-05 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 Trust Agreement. 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 County.

COUNTY OF ORANGE, CALIFORNIA

By: /s/ Thomas G. Mauk
County Executive Officer

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APPENDIX A

THE COUNTY

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APPENDIX A

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, 2005, the number of permanent employee positions was 16,504. 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)

1996	12,882
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

(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 13,400 employees. Labor agreements are in place for most labor organizations, including OCEA, through June 2007 covering approximately 11,600 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, 2005)

Bargaining Agents	Number of Employees	Contract Term
Orange County Employees Association	11,606	June 2007[1]
American Federation of State, County and Municipal Employees	1,129	June 2005[2]
Orange County Managers Association	866	January 2005[2]
Orange County Attorneys Association	487	June 2007
Association of Orange County Deputy Sheriffs	1,785	October 2006
International Union of Operating Engineers	142	June 2006
Service Employees International Union	489	June 2007

(1) Most expire June 2007, probation units currently in negotiations.
(2) Currently in negotiations; employees continue to operate under existing contract.
Source: County of Orange.

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, 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 (COPs) and Debt Prepayment Fund accounts for the debt service transactions handled by the trustee bank for the 1995 Bonds and the 1996 Certificates and the prepayment of the County's outstanding bonds.

- 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, 2003 and 2004.

TABLE A-3

GOVERNMENTAL FUNDS
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
June 30, 2003 and June 30, 2004
(In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances	
	2003	2004	2003	2004	2003	2004
General Fund	$2,170,606	$2,291,343	$2,206,647	$2,308,807	$(36,041)	$(17,464)
Roads	44,110	47,973	38,813	39,856	5,297	8,117
Public Library	32,936	29,156	32,679	32,471	257	(3,315)
Tobacco Settlement	36,249	31,375	35,548	41,858	701	(10,483)
Refunding Bonds and Recovery COPs & Debt Prepayment	130,681	102,998	92,163	98,045	38,518	4,953
Flood Control District	87,075	72,870	58,721	75,936	28,354	(3,066)
Harbors, Beaches, and Parks	73,188	71,207	71,447	71,218	1,741	(11)
Other Governmental	445,297	476,960	388,984	429,867	56,313	47,093
TOTAL	$3,020,142	$3,123,882	$2,925,002	$3,098,058	$95,140	$25,824

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

The following table sets forth the audited Total Governmental Funds and General Fund Combined Balance Sheet for Fiscal Year ended June 30, 2003 and for Fiscal Year ended June 30, 2004.

TABLE A-4

COUNTY OF ORANGE
GENERAL FUND COMBINED BALANCE SHEET[1]
June 30, 2003 and June 30, 2004
(In Thousands)

	2002-03		2003-04	
	Total Governmental Funds 2003	General Fund 2003	Total Governmental Funds	General Fund
ASSETS				
Pooled Cash/Investments[1][2]	$1,427,697	$391,877	$1,424,752	$382,395
Imprest Cash Funds[2][4]	1,333	1,267	1,313	1,247
Restricted Cash and Investments with Trustee[2]	483,251	–	510,326	–
Investments[1][2]	6,809	–	6,199	–
Receivables	71,453	25,823	76,541	34,460
Due from Other Funds[3]	86,334	39,032	86,303	36,562
Due from Component Unit[3]	436	436	320	320
Due from Other Governmental Agencies	223,343	212,464	259,475	242,236
Inventory of Materials and Supplies[1][4]	1,259	364	1,102	295
Prepaid Costs[1][4]	1,153	2	1,083	52
Land and Improvements Held for Resale[1][4]	2,141	–	1,703	–
Notes Receivable	16,861	–	21,590	1,719
Total Assets	$2,322,070	$671,265	$2,390,707	$699,286
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable	$78,179	$59,240	$60,891	$47,427
Salaries and Employee Benefits Payable	46,857	42,930	66,284	60,411
Deposits from Others	66,402	1,351	71,124	1,780
Due to Other Funds[3]	78,678	41,115	75,815	42,460
Due to Other Governmental Agencies	20,432	13,665	30,403	22,835
Unapportioned Taxes	–	–	210	171
Deferred Revenue[1]	217,240	192,335	245,874	221,037
Total Liabilities	507,788	350,636	550,601	396,121
Fund Balances				
Reserved[4]	1,043,143	160,945	1,093,446	179,186
Unreserved, Reported in:				
General Fund	159,684	159,684	123,979	123,979
Special Revenue Funds	430,335	–	340,750	–
Debt Service Funds	1,354	–	101,447	–
Capital Projects Funds	179,733	–	180,477	–
Permanent Fund	33	–	7	–
Total Fund Balances	1,814,282	320,629	1,840,106	303,165
Total Liabilities and Fund Balances	$2,322,070	$671,265	$2,390,707	$699,286

Source: Orange County Comprehensive Annual Financial Reports June 30, 2003 and June 30, 2004.

(1) See Note 1 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2004 in APPENDIX B to this Official Statement.

(2) See Note 3 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2004 in APPENDIX B to this Official Statement.

(3) See Note 6 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2004 in APPENDIX B to this Official Statement.

(4) See Note 12 in the Notes to the County's Basic Financial Statements Fiscal Year Ended June 30, 2004 in APPENDIX B to 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 2000-01 through 2003-04.

TABLE A-5

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

	2000-01	2001-02	2002-03	2003-04
REVENUES				
Taxes	$ 200,836	$ 209,481	$ 221,223	$ 237,544
Licenses, Permits & Franchises	6,853	7,488	6,649	8,099
Fines, Forfeitures & Penalties	44,365	44,648	48,623	40,210
Use of Money and Property	34,070	18,079	11,859	6,869
Intergovernmental Revenues	1,252,683	1,319,000	1,355,112	1,361,531
Charges for Services	248,113	268,648	307,929	311,082
Other Revenues	69,267	70,175	120,723	169,632
TOTAL REVENUES	$1,856,187	$1,937,519	$2,072,118	$2,134,967
EXPENDITURES				
General Government*	$ 111,636	$ 129,710	$ 197,922	$ 272,762
Public Protection	633,389	686,119	748,922	788,007
Public Ways and Facilities	26,707	24,314	26,058	27,967
Health and Sanitation	352,999	417,373	435,898	439,376
Public Assistance	516,633	595,628	612,374	605,829
Capital Outlay	23,612	28,979	17,536	39,681
Principal Repayment	–	2,689	3,362	3,635
Capital Lease Interest	6,743	4,165	4,227	4,687
TOTAL EXPENDITURES	$1,671,719	$1,888,977	$2,046,299	$2,181,944
Excess of Revenues Over Expenditures	184,468	48,542	25,819	(46,977)
Other Financing Sources (Uses)				
Operating Transfers In	59,406	89,596	95,671	138,234
Operating Transfers Out	(133,328)	(110,741)	(160,348)	(126,863)
Capital Lease Proceeds	6,544	1,696	2,817	18,142
Excess of Revenues & Other Sources Over Expenditures and Other Uses	117,090	29,093	(36,041)	(17,464)
Fund Balance, July 1	238,730	327,577	356,670	320,629
Adjustment due to Change in Accounting Principles	(23,539)	–	–	–
FUND BALANCES (June 30)	$332,281	$356,670	$320,629	$303,165

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 2005-06 on June 28, 2005.

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 $446.3 million or about 9% of the total Fiscal Year 2005-06 budget and approximately 17.1% of the General Fund Budget; in comparison, General Purpose Revenues totaled $435.8 or about 9.4% of the total Fiscal Year 2004-05 final budget and approximately 17.6% 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.

One of the County's Strategic Priorities is conservation of resources to be applied to the reduction of debt. Among the funds established pursuant to the Strategic Plan is a Debt Prepayment Fund, the balance of which, in the amount of approximately $116 million will be used to retire the 1995 Bonds and the 1996 Certificates. See "PLAN OF FINANCE" in the forepart of this Official Statement.

The County has also established a Strategic Priority reserve within the General Fund for designated and undesignated purposes (approximately $60 million, as of June 30, 2005).

Certain other funds, held outside the County General Fund have also been established under the Strategic Plan including (all amounts as of June 30, 2005):

- A Designated Special Revenue Fund, (outside the General Fund) to be used for capital projects and interfund borrowings in the amount of approximately $31 million;

- Program reserves (outside the General Fund) in the amount of approximately $69 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 ($150 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 2003-04 through 2005-06.

The following table sets forth the County's adopted General Fund Budgets for Fiscal Years 2003-04 through 2005-06, the current modified budget for Fiscal Year 2004-05, the variance between the adopted budget and the current modified budget for Fiscal Year 2004-05, and the change between the adopted budgets for Fiscal Years 2004-05 and 2005-06.

TABLE A-6

COMPARISON OF GENERAL FUND ADOPTED BUDGETS FOR FISCAL YEAR 2003-04, 2004-05 AND 2005-06 (In Thousands of Dollars)

	2003-04		2004-05			2005-06	
	Adopted Budget	Final Budget	Adopted Budget	Current Modified Budget	Variance between Adopted Budget and Current Modified Budget	Adopted Budget	Change from 2004-05 Adopted Budget
REQUIREMENTS:							
Public Protection	$748,441,529	$779,677,020	$780,079,975	$812,024,125	4%	$813,382,873	4%
Health & Community Services	1,160,840,712	1,192,964,780	1,166,382,223	1,182,398,700	1	1,209,793,803	4
Infrastructure & Environmental Resources	94,130,817	95,075,238	93,427,136	95,124,839	2	96,666,868	3
General Government & Services	134,541,896	137,169,424	119,948,714	120,921,310	1	120,837,353	1
Capital Improvements	59,926,093	47,780,996	43,144,791	44,092,229	2	65,178,110	51(5)
Debt Service	73,259,467	76,700,071	74,835,394	77,557,282	4	77,326,505	3
Insurance, Reserves & Misc.	180,640,946	203,311,414	203,282,198	238,636,670	17	219,505,127	8
Total Requirements	**$2,451,781,460**	**$2,532,678,943**	**$2,481,100,431**	**$2,570,755,155**	**4%**	**$2,602,690,639**	**5%**
AVAILABLE FUNDS:							
Fund Balance Available	$123,297,767	$163,829,923(10)	$107,100,000	$145,262,326(10)	36%	$105,000,000	-2%
Taxes							
Property Tax	181,288,431	181,809,464	199,302,728	319,302,728	60(6)	350,101,530	76(6)
Sales Tax	43,764,008	43,764,008	43,611,008	43,611,008	0	44,373,008	2
Licenses, Permits & Franchises	7,297,455	7,357,455	8,157,656	7,367,656	-10	7,580,410	-7
Fines, Forfeitures & Penalties	36,995,089	33,557,089	37,868,792	33,089,152	-13	37,819,609	0
Use of Money & Property(1)	8,621,547	8,621,857	9,526,995	9,526,995	0	15,445,385	62(7)
Intergovernmental Revenues(2)	1,363,696,954	1,379,271,495	1,344,080,193	1,268,115,970	-6	1,308,252,212	-3
Charges for Services	339,253,529	340,814,605	354,051,756	355,148,879	0	362,216,404	2
Miscellaneous Revenues (3)	183,334,474	183,392,329	212,761,408	215,586,410	1	213,112,218	0
Other Financing Sources(4)	164,232,206	190,260,718	130,919,663	155,314,918	19	146,086,852	12(8)
Decreases to Reserves	–	–	33,720,232	18,429,113	-45	12,703,011	-62(9)
Total Available Funds	**$2,451,781,460**	**$2,532,678,943**	**$2,481,100,431**	**$2,570,755,155**	**4%**	**$2,602,690,639**	**5%**

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 attributable to a County’s cogeneration plant project, estimated to be a $26.4 million capital project during Fiscal Year 2005-06.

(6) The increase is primarily due to the State “Triple-Flip: in which, commencing in Fiscal Year 2004-05, the VLF revenues were exchanged for property tax revenue. The impact of the “Triple-Flip” was not reflected until after the Fiscal Year 2004-05 budget was adopted, and is reflected in the Fiscal Year 2004-05 Current Modified Budget. For Fiscal Year 2005-06, property taxes increased by $135.8 million due to this change. In addition, the secured property taxes are projected to increase by 6.0% and sales taxes are assumed to grow at 3.9%. See “Vehicle License Fees” below and “STATE OF CALIFORNIA BUDGET INFORMATION” in the forepart of this Official Statement.

(7) The estimated rate for Fiscal Year 2005-06 is 3.0% which is 1.6% higher than the assumption used during the preparation of the Fiscal Year 2004-05 budget. Each one percent change in interest rate earnings is estimated to result in $3.78 million more in interest revenue.

(8) The Fiscal Year 2005-06 increase is attributable to anticipated long term debt proceeds from the future financing of the County’s planned cogeneration plant, net of transfers.

(9) The 2005 Strategic Financial Plan projected that the County would be required to reduce reserves by $27.7 million to offset the State’s second year of ERAF transfers. The projected Fiscal Year 2005-06 growth in General Fund revenues allowed the County to reduce the use of reserves for ERAF transfers by $18.0 million. In addition, the planned use of reserves for one-time capital projects decreased in Fiscal Year 2005-06 by $3.0 million for a combined reduction of $21.0 million. See “Vehicle License Fees” below and “STATE OF CALIFORNIA BUDGET INFORMATION” in the forepart of this Official Statement.

(10) The difference between the Final Budget for Fiscal Year 2003-04 and the Current Modified Budget for Fiscal Year 2004-05 reflects interfund transfers.

General Discussion of General Fund Budgets for Fiscal Year 2003-04 through 2005-06

The largest single source of funding in the General Fund portion of the County Budget is intergovernmental revenues. Intergovernmental revenues accounted for an estimated 55.6% and 54.2% of all General Fund funding sources for Fiscal Years 2003-04 and 2004-05, and are budgeted to account for an estimated 50.3% of General Fund funding sources for Fiscal Year 2005-06. 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 18.2% 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.

Included in intergovernmental revenues are vehicle license fee ("VLF") revenues, which are allocated by the State to counties on a population-based formula. A portion of these VLF revenues are restricted in use for health, mental health and social services programs. During recent years, portions of unrestricted VLF revenues paid to the County were replaced by "backfill payments" made by the State general fund, to reimburse the County for reductions in the VLF rate. These backfill payments have been subject to delay and reduction due to the State's budget crises. The County experienced a $26.5 million reduction in unrestricted VLF revenues in Fiscal Year 2003-04 as a result of the suspension of payment of the "backfill payments" for the first three months of the Fiscal Year 2003-04.

State legislation (adopted as part of the "triple flip" in the State's 2004-05 Budget) replaced lost 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 are projected to decline from $145 million in Fiscal Year 2004-05 and to $54 million in Fiscal Year 2005-06. Due to the pledge and intercept of VLF revenues for debt service payments on the 1995 Certificates, applicable State legislation provides the County with an amount of unrestricted VLF revenues equal to $54 million plus growth. 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 6%. 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 Budget. See "STATE OF CALIFORNIA BUDGET INFORMATION" in the forepart of this Official Statement.

Additional Assumptions Incorporated into the 2005-06 Budget. The following additional assumptions are incorporated into the 2005-06 Budget:

- Secured property taxes are assumed to grow at 6% and unincorporated area sales tax at 2.9%.
- The Fiscal Year 2005-06 State Budget accelerated payment of the $26.5 million VLF gap loan repayment into Fiscal Year 2005-06, resulting in additional unencumbered available funds to the County. See "STATE OF CALIFORNIA BUDGET INFORMATION" in the forepart of this Official Statement and "Vehicle License Fees" below.
- State mandate reimbursements of $75 million to the County will not be paid during Fiscal Year 2005-06 and instead will be paid over 15 years (rather than 5 years) as proposed in the Governor's Budget Reform package and a pending State initiative. 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 55 formula for general members, as calculated by OCERS prior actuary. Fiscal Year 2005-06 OCERS contributions

do not reflect the December 31, 2004 actuarial valuation completed by Segal. 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 increased by 15%.
- No revisions to the current allocation of Proposition 172 sales tax revenues, which is before the County voters in the November 2005 special election and proposes to shift funds to the Orange County Fire Authority; potential impact for Fiscal Year 2005-06 is approximately $6.5 million. See "Proposition 172" below.

***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 30, 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 will receive 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 2004-05, 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 1996-97.

TABLE A-7

COUNTY OF ORANGE
DETAIL OF ASSESSED VALUATION

Fiscal Year	Secured	Unsecured	Total	% Change
1996-97	$165,537,053,169	$11,763,610,285	$177,300,663,454	0.30
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

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 2004-05.

TABLE A-8

COUNTY OF ORANGE
TOP TEN SECURED TAXPAYERS
FISCAL YEAR 2004-05

	Taxpayers	Secured Taxes Paid
1.	The Irvine Company	$ 44,073,955
2.	The Walt Disney Company	27,637,432
3.	Irvine Apartment Communities	18,640,427
4.	Southern California Edison Company	16,239,450
5.	SBC Communications, California	7,748,620
6.	Walt Disney World	6,816,663
7.	United Laguna Hills	6,108,448
8.	Irvine Company of W VA	5,198,796
9.	Irvine Community Development	4,873,225
10.	McDonnell Douglas Corp.	4,126,825
	TOTAL	$141,463,841

Source: Orange County Treasurer-Tax Collector.

TABLE A-9

COUNTY OF ORANGE
TOP TEN UNSECURED TAXPAYERS
FISCAL YEAR 2004-05

	Taxpayers	Unsecured Taxes Paid
1.	American Airlines, Inc.	$ 8,282,600
2.	Jazz Semiconductor, Inc.	3,281,855
3.	Alaska Airlines, Inc.	3,108,091
4.	Cox Communications Orange	2,999,427
5.	McDonnell Douglas Corp.	1,935,198
6.	Broadcom Corp.	1,778,205
7.	IBM Credit LLC	1,510,244
8.	SBC E-Services Inc.	1,498,149
9.	Parker Hannifin Corp.	1,493,216
10.	Powerwave Technologies Inc.	1,429,715
	TOTAL	$27,316,700

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 special legislation enacted as part of the County's recovery from bankruptcy (California Government Code Sections 25350.6, 25350.7, 53584.1 and 53585.1, collectively the "VLF Recovery Statutes"), County's unrestricted VLF revenues, including State general fund "backfill" payments and the ERAF shift amounts (as described below) paid in lieu thereof, were pledged (to the extent of annual debt service requirements) to, and intercepted for the payment of, debt service on the 1995 Bonds and the 1996 Certificates. 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. After the issuance of the 2005 Recovery Bonds and the 2005 Lease Revenue Bonds, 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, including the 2005 Recovery Bonds and the 2005 Lease Revenue Bonds. 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 2005-06, 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 $135.8 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.

In Fiscal Year 2003-04, the State suspended VLF payments during the first three months of this Fiscal Year to cities and counties. Under new Section 10754.11 of the California Revenue and Taxation Code (the "VLF Law"), the State Controller is required to make a one-time payment in Fiscal Year 2006-07 on or before August 15, 2006 to cities and counties to replace amounts cities and counties did not receive during the first three months of Fiscal Year 2003-04. The State's Fiscal Year 2005-06 budget included the accelerated repayment of this amount owed to cities and counties (including the County), which was not required to be repaid until Fiscal Year 2006-07. The County received its repayment from the State on July 26, 2005 in the amount of $26.5 million.

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. Such revenues are available for the payment, but not pledged to the 2005 Lease Revenue Bonds and the 2005 Recovery Bonds, 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 have been intercepted for payment of the 1995 Bonds and the 1996 Certificates. Following issuance of the 2005 Recovery Bonds and the 2005 Lease Revenue Bonds, these funds will flow into the General Fund, and will be available for the payment of all general fund obligations of the County, including the 2005 Lease Revenue Bonds and the 2005 Recovery Bonds.

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 $7.6 million for each fund for Fiscal Year 2005-06), 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 $12.3 million for Fiscal Year 2005-06), 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, 2005, 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 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").

In connection with the plan permitting the County to exit from bankruptcy, the State Legislature passed California Government Code Sections 25350.8 and 25350.10 which created a pledge of certain sales tax revenues to pay the 1996 Certificates. These pledged sales tax revenues consist of (i) $38 million annually through July 1, 2011, from the county sales tax that is dedicated to county transportation purposes under the Bradley-Burns Act and deposited into the Orange County Local Transportation Agency Fund (the "OCLTA Fund"), and (ii) the portion of the county sales tax under the Bradley-Burns Act derived from the unincorporated area of the County. Since the payment of the 1996 Certificates was secured, in part, from the .25% sales tax allocated to the payment of the economic recovery bonds, the State enacted special legislation to add the Countywide Adjustment Amount as security for the 1996 Certificates. In Fiscal Year 2004-05, the amount of these pledged tax revenues (including the Countywide Adjustment Amount), which was applied to pay the 1996 Certificates was $42.9 million. On and after July 1, 2011, the $38 million sales tax dedicated to transportation will again be deposited into the OCLTA Fund.

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.

Proposition 172

An initiative measure that reallocates a portion of the County's Proposition 172 Funds from the County Sheriff-Coroner and District Attorney to the Orange County Fire Authority has qualified for the November 2005 special election ballot. Proposition 172 is a State constitutional amendment that directs that proceeds of a one half cent statewide sales tax be used only for local public safety services. Qualified counties, including Orange County, receive allocations of Proposition 172 Funds from the State. By statutory formula, the County allocates a portion of the Proposition 172 Funds to certain cities within the County that provide local public safety services, with the remaining funds allocated to the County. The County's share of the funds must be used for local public services, which may include sheriffs, police, fire protection, county district attorneys, county corrections and ocean lifeguards. Currently, the County's share is allocated to the County Sheriff-Coroner (80%) and to the District Attorney (20%). In Fiscal Year 2005-06 this funding is budgeted to provide $211.3 million in revenue to the Sheriff and $52.8 million in revenue to the District Attorney. If approved by the voters, the initiative would allocate 50% of any increase over a base year amount in Fiscal Year 2004-05 to the Orange County Fire Authority, subject to a maximum allocation of 10% of the County's annual Proposition 172 revenue. If the initiative is approved by the voters, the County projects that the impact in Fiscal Year 2005-06 would be approximately $7.4 million, with an ultimate impact of approximately $30 million when the 10% allocation is met.

Insurance

Tort claims, as well as workers' compensation claims, are administered and controlled through the County Executive Office/Office of Risk Management. The County has maintained a formal risk management program since the mid 1970's. Risk Management functions include risk identification, measurement, avoidance, loss prevention programs, liability transfer (by contract and commercial insurance), risk retention, and managing litigation. Various risk control techniques, including employee accident prevention training and regular work-site inspections mitigate risk exposures. 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 and the Property, Casualty and Risk Internal Service Funds ("ISFs") to pay program costs including losses, expenses and administration costs. The cash reserves held in these ISFs are restricted to the payment of current and future liability and workers' compensation costs including the cost of settlement, litigation, and judgment. 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 such as airport, helicopter, watercraft, and dam operations. Additionally, fine arts, underground storage tank, boiler and machinery, crime bond policies, and notary bonds at various levels of coverage. Excess liability insurance up to $40 million of coverage over a self-insured retention of $5 million has been purchased.

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 2005 Recovery Bonds or the 2005 Lease Revenue Bonds.

Short Term Debt

In years past, the County pursued a cash management program for its General Fund through the issuance of tax and revenue anticipation notes ("TRANs"). The notes provided cash flows to meet General Fund expenditures during the period prior to the collection of property taxes. Currently, however, the County meets its cash flow needs through interfund borrowings (including borrowings from the County Flood Control District). The County's last issuance was in Fiscal Year 1994-95.

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, 2005)	Final Maturity Date
Orange County Public Facilities Corporation Refunding Certificates of Participation (Civic Center Parking Facilities Project), 1991	General Fund	$ 9,083,790	2018
County of Orange Refunding Recovery Bonds, Series 1995 A[(2)]	General Fund	210,705,000	2015
Orange County Special Financing Authority Teeter Plan Revenue Bonds, 1995 Series A through E[(3)]	Teeter Revenues	123,725,000	2014
Orange County Public Facilities Corporation Recovery Certificates of Participation, Series 1996 A[(4)]	General Fund	580,825,000	2026
County of Orange Taxable Pension Refunding Obligation Bonds, Series 1996 A[(1)]	General Fund	64,652,232	2016
County of Orange Taxable Pension Refunding, Obligation Bonds, Series 1997 A[(1)]	General Fund	47,120,260	2021
Orange County Public Financing Authority Telecommunications Equipment Project Lease Revenue Bonds, Series 2001	General Fund	6,245,000	2008
Airport Revenue Refunding Bonds, Series 2003	Airport Revenues	46,455,000	2018
Airport Revenue Refunding Bonds, Series 1997	Airport Revenues	83,620,000	2012
Orange County Public Financing Authority Waste Management System Refunding Revenue Bonds, Series 1997	Solid Waste System Revenues	51,165,000	2013
Orange County Public Financing Authority Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002	General Fund	69,640,000	2019
Orange County Financing Authority Tax Allocation Revenue Bonds, Series 1992 A (Neighborhood Development and Preservation Project)	OCDA Tax Increment Revenues	1,450,000[(5)]	2006
Orange County Development Agency Tax Allocation Refunding Bonds, Series 2001 (Neighborhood Development and Preservation Project)	OCDA Tax Increment Revenues	24,150,000	2022
Orange County Development Agency Santa Ana Heights Project Area 2003 Tax Allocation Refunding Bonds	OCDA Tax Increment Revenues	36,820,000	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) The 1995 Recovery Bonds are being refunded with the proceeds of the 2005 Recovery Bonds, together with other moneys of the County. See "PLAN OF FINANCE" in the forepart of this Official Statement.

(3) Variable rate.

(4) The 1996 Recovery Certificates of Participation, Series A are being refunded with the proceeds of the 2005 Lease Revenue Bonds. See "PLAN OF FINANCE" in the forepart of this Official Statement.

(5) 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, 2004 was $765 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, 2004. 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	
2005	$10,520
2006	10,670
2007	10,059
2008	10,169
2009	10,327
2010-2014	35,169
2015-2019	23,199
2020-2024	13,936
2025-2027	1,910
Total minimum lease payments	125,959
Less: amount representing interest	(54,247)
Present value of net minimum lease payments	$71,712

Source: Orange County Office of Auditor-Controller, Comprehensive Annual Financial Report for year ended June 30, 2004.

* Total payment stream of existing lease obligations until 2027.

Note: The majority of the capital lease obligations payable in the General Long-Term Debt Account Group will be financed by the General Fund.

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, 2004.

TABLE A-12

COUNTY OF ORANGE
OPERATING LEASE PAYMENTS
(In Thousands)

Fiscal Year Ending June 30	Equipment	Real Property	Total
2005	$20,807	$27,963	$48,770
2006	12,222	27,084	39,306
2007	6,569	22,933	29,502
2008	3,459	22,319	25,778
2009	--	15,424	15,424
2010-2014	--	54,120	54,120
2015-2019	--	14,715	14,715
TOTAL	$43,057	$184,558	$227,615

Source: Orange County Office of Auditor-Controller, Comprehensive Annual Financial Report for year ended June 30, 2004.

* Total payment stream of existing lease obligations until 2019.

Note: The majority of the operating lease obligations will be financed by the General Fund.

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, 2005. 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

COUNTY OF ORANGE
DIRECT AND OVERLAPPING DEBT
AS OF JULY 1, 2005

2004-05 Assessed Valuation:	$311,802,395,470	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	27,388,453,123	
Adjusted Assessed Valuation:	$284,413,942,347	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 7/1/05
Orange County Teeter Plan Obligations	100. %	$ 123,725,000
Metropolitan Water District	21.117	88,309,182
Coast Community College District	100.	102,780,000
North Orange County Joint Community College District	97.400	240,318,917
Rancho Santiago Community College District	100.	212,704,867
Unified School Districts	100.	554,114,659
Anaheim Union High School District	100.	118,808,955
Fullerton Joint Union High School District	90.537	58,426,161
Huntington Beach Union High School District	100.	178,960,074
School Districts	100.	185,871,804
Irvine Ranch Water District Improvement Districts	100.	196,800,000
Moulton-Niguel Water District Improvement Districts	100.	59,575,000
Santa Margarita Water District Improvement Districts	100.	207,400,000
Other Water Districts	100.	6,125,000
Cities	100.	28,070,000
Orange County Community Facilities Districts	100.	699,275,071
Other Community Facilities Districts	100.	1,068,612,995
City and Special District 1915 Act Bonds (Estimate)	100.	839,228,353
County 1915 Act Bonds	100.	103,584,366
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$5,072,690,404

OTHER DIRECT AND OVERLAPPING DEBT:		
Orange County General Fund Obligations	**100. %**	**$ 848,129,000 (1)**
Orange County Pension Obligations	**100.**	**102,777,492**
Orange County Office of Education Certificates of Participation	100.	19,900,000
Orange County Transit Authority	100.	2,470,000
Municipal Water District of Orange County Water Facilities Corporation	100.	28,205,000
Orange County Sanitation District Certificates of Participation	100.	142,325,000
Community College District Certificates of Participation	100.	47,745,000
Unified School District Certificates of Participation	100.	196,185,207
High School District Certificates of Participation	90.537-100.	61,286,352
School District Certificates of Participation	100.	64,630,000
Irvine Ranch Water District Certificates of Participation	100.	46,600,000
Moulton-Niguel Water District Certificates of Participation	100.	33,555,234
Other Special District General Fund Obligations	100.	39,015,000
City of Anaheim General Fund Obligations	100.	669,383,047
Other City General Fund Obligations	100.	573,193,340
TOTAL GROSS OTHER DIRECT AND OVERLAPPING DEBT		$2,875,399,672
Less: Orange County Transit Authority (80% self-supporting)		1,976,000
MWDOC Water Facilities Corporation (100% self-supporting)		28,205,000
City of Anaheim self-supporting obligations (100% self-supporting)		636,206,957
Other city authority self-supporting bonds		39,087,400
South Coast Water District Enterprise Revenue Bonds (100% self-supporting)		3,470,000
TOTAL NET OTHER DIRECT AND OVERLAPPING DEBT		$2,166,454,315
GROSS COMBINED TOTAL DEBT		$7,948,090,076 (2)
NET COMBINED TOTAL DEBT		$7,239,144,719

(1) Excludes refunding certificates of participation 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 2004-05 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 1.63%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt ($950,906,492) 0.33%

Gross Combined Total Debt 2.79%

Net Combined Total Debt 2.55%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/04: $12,541,364

Source: California Municipal Statistics, Inc.

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, 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, 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 Retirement Law, 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

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 billion. The Segal Valuation calculated the UAAL as of December 31, 2004 to be $2.34 billion. 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 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 Segal Valuation increased from 18.89% of payroll beginning July 1, 2005 to 30.33% 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 billion increase in 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 ($107 million);

– changes in assumptions, including salary scale, withdrawal and retirement assumptions, based upon the December 31, 2004 triennial experience study of the County ($580 million); and

– benefit changes including 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 ($365 million).

On June 20, 2005, the OCERS Board of Retirement 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 2006-07. If the Segal recommendations are adopted, the County may be given the option to phase in increased contribution requirements over a three year period, beginning in Fiscal Year 2005-06. Under the phase-in plan, if offered by OCERS and applied by the County, the employer contribution rate will increase by 3.81% per year for 3 years beginning in Fiscal Year 2006-07. OCERS deferred consideration of the Segal recommendations to a future meeting. If the Segal Valuation is adopted by the OCERS Board of Retirement, the County contribution rates will take effect on July 1, 2006.

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 10.79% per year.

TABLE A-14

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 Reports 2004.

OCERS is funded pursuant to the Projected Unit Credit Cost 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.

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		
	2002	2003	2004
Contributions Received	$ 91,206	$205,824	$276,361
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's 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

The County contributions represents 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, 2004, 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)	Underfunded or (Overfunded) AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll[4]
2000	$4,497,362	$4,335,025	$ (162,337)	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	7,586,690	2,340,869	69.15	1,257,085	186.21

(1) Commonly referred to as UAAL. Actual value of assets minus actual 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: The Orange County Employees' Retirement System Audited Basic Financial Statements, as of December 31, 2004.

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 June 30, 2005, approximately $150 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 three Fiscal Years, the current Fiscal Year and projections for the following two Fiscal Years.

TABLE A-17

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

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/02	$ –	$38,322	$38,322	100%
06/30/03	59,801	37,804	97,605	100
06/30/04	114,847	33,309	148,156	100
06/30/05[1]	178,761	7,754	186,515	100
06/30/06[2]	180,318	11,000	191,318	100
06/30/07[3]	301,893	11,000	312,893	100

(1) Estimated.
(2) Projected.
(3) Actuarial projection which varies from County projection methodology, by including portion (approximately $18 million) that will be paid by employees and not including amounts to be paid by the County on behalf of employees (approximately $26 million).

Source: The Orange County Employees' Retirement System Audited Basic Financial Statements, as of December 31, 2004 for Fiscal Years 2001-02 through 2003-04. Orange County CEO Budget Services for Fiscal Years 2004-05 and 2005-06. Segal Company December 31, 2004 Actuarial Valuation for Fiscal Year 2006-07.

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, 2004," 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 June 28, 2005, the Board of Supervisors approved the prepayment of 50% of the County's Fiscal Year 2005-06 OCERS contribution. The $87.7 million was paid to OCERS from the General Fund on July 13, 2005 and represents a $3.3 million discount from the contribution which would have been paid by the County if payment was made in installments during the County's Fiscal Year. The remaining $91 million contribution will be paid to OCERS during the 2005-06 Fiscal Year.

Possible Changes to Local Agency Funding Requirements 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.

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 2005 is $15.67, and the maximum Grant is $391.75/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 will begin paying 1% of payroll to OCERS beginning 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 August 2004, the County received an actuarial valuation for Post Employment Medical Benefits (the "Report") from an outside consultant, Mercer Human Resources Consulting. The Report is based upon data as of January 1, 2004 and includes County employees and employees of other governmental entities who use the County's benefits system. **Information contained in the Report is not intended to be used for financial reporting under the provisions of GASB Statement No. 45 which the County is required to comply with beginning with Fiscal Year 2007-08. Liabilities under an actuarial valuation completed in conformity with GASB 45 may be materially higher.** See "County Plans for the Future" below. The County's 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 "subsidy" provided to retirees by extending medical benefits to retirees at the same rate charged to active employees. The Report concludes that retiree premiums would be 43% higher if retirees were not in the County health plans. The Report's total estimated actuarial liability is approximately $1.3 billion, which due to the current "pay-as-you-go" funding, is virtually all unfunded.

The Report's Retiree Medical Benefit Liabilities for County employees and employees of other governmental entities who use the County's benefits system as of January 1, 2004, are as follows:

	Number	Actuarial Liability for Past Service
Current Retirees	5,205	$ 452,023,000
Actives Eligible to Retire	3,943	435,385,000
Other Actives	14,155	441,591,000
Total	23,303	$ 1,328,999,000

	Severance Benefit	Retiree Medical Benefit	Total Retiree Medical Program
Actuarial Liability for Past Service	$15,095	$1,328,999	$1,344,094
Plan Assets	15,095	87,162	102,257
Unfunded Liability for Past Service	$ –	$1,241,837	$1,241,837
Total Annual Cost	$ 2,167	$ 99,941	$ 102,108

Source: Orange County Comprehensive Annual Financial Report June 30, 2004.

Based upon projections in the Report, the projected pay-as-you-go costs for Plan benefits (the Grants and the lump sum severance payments) and the subsidy are estimated to be $33,660,000 for Fiscal Year 2005-06. Annual costs are expected to substantially increase in future years to an estimated $58,200,000 in Fiscal Year 2010-11 and $82,500,000 in Fiscal Year 2015-16.

County Plans For the Future

The County currently intends to continue to fund Retiree Medical Plan payments on a "pay-as-you-go" basis. The County has begun 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 Retiree Medical Plan may be subject to meet and confer process with employee bargaining units. Current Memoranda of Understanding with bargaining units run through Fiscal Year 2007-08 and do not include re-openers for Retiree Medical Plan negotiations. The County is unable to represent that to the extent Retiree Medical Plan design changes are desired, and to the extent such changes require bargaining, that bargaining units will agree to such changes.

The County has hired Bartell Associates, LLC to conduct a GASB 45 compliant actuarial valuation of the Retiree Medical Plan and the retiree subsidy. The new GASB 45 compliant actuarial valuation will be as of June 30, 2005. Although the valuation has not been completed, the County believes that the GASB 45 compliant actuarial valuation will result in an unfunded liability between $1.3 billion and $2.6 billion depending upon the assumptions utilized in the valuation. Given the preliminary nature of the work to date, the County is unable to provide a more definitive estimate.

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, 2004," which appears as Appendix B to this Official Statement.

COUNTY GRAND JURY REPORT ON PENSION AND HEALTH CARE BENEFITS

On June 23, 2005, the County Grand Jury released a report examining issues relating to pension enhancements. The purpose of the study was to determine the estimate of the unfunded pension liability and related costs in light of the County's other financial obligations, including bankruptcy related obligations. The report highlights the escalating unfunded pension liabilities set forth in the Segal Valuation, as well as the County's unfunded health care liabilities, which the report suggests may be a more serious problem than unfunded pension obligations. The report questions the enforceability of contracts requiring general employees to assume the cost of enhanced benefits granted in the 2004 negotiations. The report recommended, among other things, better disclosure to the public of the costs of pension benefits, considering all other options before granting retroactive pension enhancements, efforts to start closing the gap between employee contributions that are tied to base salaries and final employee pay (which can be a higher amount that is enhanced for pension purposes based upon the Ventura decision), and providing more options for employee benefit planning.

The County is presently evaluating the report and intends to respond to the County Grand Jury within the statutory timeframe. The County takes no position on the accuracy or completeness of the County Grand Jury report.

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 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

ASSETS IN THE POOLS
As of June 30, 2005

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 not rated below P-1 by Moody's, A-1 by S&P, F-1 or by Fitch, the Money Market Fund 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 funds	20%; no more than 10% may be invested in any one money market fund
State of California or municipal debt rated at least "A" by Moody's, S&P or Fitch	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%
Money Market Fund 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%
Money Market Fund 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	50%

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. 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.

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 May 31, 2005, the market value of the Commingled Pool (combined money market fund and extended fund) was $2,951,569,514. The diversification of the Commingled Pool's assets, as of such date is shown in the following table.

Type of Investment	% of Commingled Pool
Bankers' acceptances	3.49%
Repurchase agreements	5.76
U.S. Government Agencies	30.22
Commercial paper	18.91
Certificates of deposit	29.44
Medium-term notes	11.44
Money market funds	0.74

As of May 31, 2005, the market value of Commingled Pool moneys invested in the Extended Fund was $913,938,763. The weighted average maturity of all Commingled Pool moneys was 138 days. The current yield of the Commingled Pool at May 31, 2005 was 3.03%. In total, on a cost basis on such date, the County Treasurer had $5,858,934,324 under investment in the Pools and various other separately managed investments.

ECONOMIC AND DEMOGRAPHIC INFORMATION

Population

Growth 1996-2005. The County is the second most populous county in the State and the fifth most populous in the nation. During the period 1996 through 2005, the population of the County increased by approximately 18.0%, compared to 16.4% for the State and 10.9% for the United States.

TABLE A-19

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

Date	County	State	United States
1996	2,625,300	31,837,000	269,394,200
1997	2,672,800	32,207,000	272,646,900
1998	2,724,500	32,657,000	275,854,100
1999	2,776,100	33,140,000	279,040,100
2000	2,829,800	33,753,000	281,421,900
2001	2,891,023	34,441,561	285,100,000
2002	2,940,713	35,088,671	287,941,200
2003	2,983,757	35,691,442	290,789,000
2004	3,022,613	36,271,091	293,655,400
2005	3,056,865	36,810,358	295,507,100

Source: Orange County and State Statistics – California State Department of Finance, 2005. United States Statistics – Bureau of Census, 2005.

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	3,260,100	39,246,700	308,936,000
2020	3,526,100	43,851,700	335,805,000
2030	3,665,300	48,110,600	363,584,000
2040	3,704,800	51,538,500	391,946,000
2050	3,702,641	54,777,700	419,854,000

Source: Orange County and State Projections – California State Department of Finance, 2005. United States Projections – Bureau of the Census, 2005.

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 2004, the largest district, the Santa Ana Unified School District, had 61,693 students enrolled. Public school enrollment for the period 2000-01 through 2004-05 is presented in Table A-21.

TABLE A-21

COUNTY OF ORANGE
PUBLIC SCHOOL ENROLLMENT

Grade Levels	2000-01	2001-02	2002-03	2003-04	2004-05
Total Enrollment K-12	494,178	503,351	512,105	515,464	513,744

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 for the past five years by industry.

TABLE A-22

COUNTY OF ORANGE
ESTIMATED WAGE AND SALARY WORKERS BY INDUSTRY*

	2000	2001	2002	2003	2004
Agricultural	7,600	7,100	7,300	7,200	6,900
Mining & Natural Resources	600	600	600	500	500
Construction	77,000	80,700	79,200	83,700	91,800
Manufacturing (Durable & Nondurable)	216,700	208,500	190,800	183,900	183,300
Trade, Transportation and Utilities	259,100	264,400	262,500	265,000	264,400
Information (Telecom, Publishing, etc.)	41,500	40,200	36,800	35,200	33,500
Finance, Insurance & Real Estate	100,800	105,900	110,200	122,200	131,200
Services (Professional, Health, Ed. Etc.)	546,500	562,500	568,500	584,200	602,100
Government	146,600	150,900	155,100	154,200	153,200
Total All Industries	1,396,400	1,420,800	1,411,000	1,436,200	1,467,000

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 2004 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 98,200 jobs to a total of 546,500 by 2008. The largest growth is expected to be in business services, with a projected increase of 41,900 jobs to a total of 182,700. Business services include personnel supply services, computer programming, software and data processing 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 12,300 jobs during the forecast period and reach 92,700 by 2008.

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 225,200 by 2001. 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 (2008) indicate that manufacturing jobs will increase to a total of 249,100.

Transportation and Public Utilities Sector. This employment sector comprises two primary industries: transportation and communications/public utilities. Employment in this sector averaged 52,300 jobs in 2001. It is anticipated that employment in this area will reach 58,400 by 2008. Growth will be spread throughout both segments of this employment sector, with the largest anticipated gains being in transportation with an anticipated 3,800 new jobs and second largest gains in communications and public utilities with an anticipated 2,300 new jobs.

Trade Sector. The trade sector is composed of two primary industries: wholesale trade and retail trade. Employment in this sector averaged 348,900 jobs in 2001. It is anticipated that jobs in the trade industry will increase to 394,300 jobs by 2008. It is expected that the majority of this growth will be in retail trade employment with an increase of 29,500 jobs to a total of 276,700 by 2008. Wholesale trade is expected to increase by 15,800 new jobs to a total of 117,600 by 2008.

Finance, Insurance and Real Estate Sector. This employment sector is composed of three primary industries: finance, insurance and real estate. Employment in this sector is expected to increase by 13,700 new jobs to a total of 125,500 by 2008. Most of this gain is expected to be in the finance sector with an employment increase of 5,300 new jobs for a total of 52,800 by 2008. This compares to 4,700 new jobs in real estate for a total of 33,700 new jobs in insurance for a total of 39,000 jobs by 2008.

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 slow growth rate, with an increase of 15,200 jobs to a total of 166,100 by 2008.

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

* Forecast Period 2001 to 2008.

Source: California Employment Development Department.

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.

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
Bank of America Corp.	6,500
Yum! Brands Inc.	5,658
Target Corp.	5,436

Source: Orange County Business Council, 2004 for all employers other than the County of Orange; number of County of Orange employees provided by the County of Orange.

Labor Force, Employment and Unemployment

The following table summarizes the labor force, employment and unemployment figures over the period 1995 through 2004 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
1995				
Orange County	1,321,400	1,254,400	67,000	5.1%
California	15,263,575	14,062,367	1,201,217	7.9
1996				
Orange County	1,336,400	1,280,400	56,000	4.2
California	15,435,900	14,303,500	1,132,392	7.3
1997				
Orange County	1,373,900	1,328,200	45,700	3.3
California	15,792,533	14,780,783	1,011,742	6.4
1998				
Orange County	1,426,700	1,385,300	41,400	2.9
California	16,166,908	15,203,700	963,225	6.0
1999				
Orange County	1,461,200	1,422,100	39,100	2.7
California	16,430,592	15,566,908	863,683	5.3
2000				
Orange County	1,483,900	1,431,500	52,400	3.5
California	16,869,742	16,034,100	835,650	5.0
2001				
Orange County	1,514,400	1,454,200	60,200	4.0
California	17,150,100	16,217,508	932,617	5.4
2002				
Orange County	1,532,400	1,455,700	76,700	5.0
California	17,326,900	16,165,050	1,161,842	6.7
2003				
Orange County	1,558,900	1,484,100	74,800	4.8
California	17,413,917	16,223,442	1,190,467	6.8
2004				
Orange County	1,589,300	1,521,300	68,000	4.3
California	17,552,250	16,459,867	1,092,392	6.2

Source: California Employment Development Department, 2005.

Note: Figures may not add due to rounding.

Personal Income

Table A-26 summarizes the total effective buying income for the County, the State and the United States for 2000 through 2004. The methodology used in order to produce the estimates in Table A-26 was altered in 2002 and therefore 2001 estimates are not available.

TABLE A-26

COUNTY OF ORANGE, STATE OF CALIFORNIA AND UNITED STATES PERSONAL INCOME

Area	Total Effective Buying Income* (000's Omitted)	Median Household Effective Buying Income*
2000		
Orange County	$62,330,828	$ 55,262
California	652,190,282	44,464
United States	5,230,824,904	39,129
2001**		
Orange County	–	–
California	–	–
United States	–	–
2002		
Orange County	62,568,674	53,277
California	650,521,407	43,532
United States	5,303,481,498	38,365
2003		
Orange County	60,602,515	49,726
California	647,879,427	42,484
United States	5,340,682,818	38,035
2004		
Orange County	63,712,940	50,755
California	674,721,020	42,924
United States	5,466,880,008	38,201

Source: Sales and Marketing Management, Survey of Buying Power.

* "Effective Buying Income," also referred to as "disposable" or "after tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g. proprietor's income; rental income; dividends and interest; pensions; Social Security; unemployment compensation; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g. fines, fees and penalties), and personal contributions to a retirement program.

** In 2002, Claritas Inc., the publisher of Sales and Marketing Management altered the methodology used in order to produce current year estimates. Therefore, 2001 estimates are not available.

Taxable Sales

Table A-27 summarizes the annual volume of taxable transactions since 2001.

TABLE A-27

COUNTY OF ORANGE
TAXABLE TRANSACTIONS
(In Thousands)

Type of Business	2001	2002	2003	2004	2005
Apparel Group	$ 1,446.6	$ 1,508.0	$ 1,656.0	$ 1,755.3	$ 1,854.6
General Merchandise	4,432.9	4,618.9	4,870.1	5,187.3	5,569.5
Specialty Stores	4,999.1	4,837.2	5,079.9	5,367.0	5,720.2
Food Stores	1701.6	1,722.8	1,786.4	1,848.5	1,916.6
Eating and Drinking	3,749.6	3,884.4	4,118.5	4,395.4	4,674.7
Furniture and Appliances	1,567.7	1,787.3	2,132.2	2,328.2	2,462.4
Building Materials	2,157.2	2,276.0	2,486.9	2,686.1	2,662.4
New Motor Vehicles	4,895.3	5,542.7	6,088.8	6,376.5	6,623.6
Other Motor Vehicles	1,357.2	1,311.2	1,401.4	1,447.7	1,520.3
Service Stations	2,211.6	2,158.4	2,529.5	2,955.8	2,930.5
Total Retail Sales	28,518.8	29,646.9	32,149.7	34,347.8	35,934.8
Business & Personal Services	2,673.7	2,615.2	2,696.0	2,856.9	3,060.1
All Other Outlets	13,402.9	12,607.2	12,548.4	13,021.6	13,717.7
Total Taxable Sales	$44,595.4	$44,869.3	$47,394.1	$50,226.3	$52,712.5

Source: The Chapman University Economic & Business Review, December 2004.

Housing Characteristics

The total number of housing units in the County was estimated by the California State Department of Finance to be 1,013,842 as of January 1, 2005. This compares to 969,484 reported in 2000 and 875,105 in 1990. Data Quick Information estimated that as of March, 2005, the median value of an existing single-family home in the County was $565,000 as compared to $421,000 for the State.

Building Permits

The total valuation of residential building permits issued in the County exceeded $2.2 billion in 2004. Table A-28 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-28

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	$ 2,274,267	$ 2,024,390
Nonresidential	1,349,607	1,208,626	1,005,547	1,147,696	1,175,808
Number of Deeds Recorded	145,590	176,753	202,018	169,288	129,078

Source: The Chapman University Economic & Business Review, December 2004.

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-29 summarizes the number of conventions held in the County, as well as attendance for the period 1995 through 2004.

TABLE A-29

COUNTY OF ORANGE
CONVENTION ACTIVITY

Year	Conventions	Attendance
1995	309	919,616
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	1,175,990

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 two toll road systems of the Transportation Corridor Agencies. The San Joaquin Toll Road (73) runs from Costa Mesa to Mission Viejo connecting to the 405 and 5 freeways. The Eastern and Foothill Toll Roads (241, 261 and 133) connecting the County to the 91 freeway in the North and the 5 freeway, City of Irvine other South County cities in the South, as well as Laguna Canyon Road. The 241 Toll Road connects to the 5 freeway near San Clemente.

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 2004, approximately 9.2 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.

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APPENDIX B

AUDITED BASIC FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR ENDED JUNE 30, 2004

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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

MACIAS GINI & COMPANY LLP

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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, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of County 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the basic financial statements, effective July 1, 2003, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2004, 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 assessing the results of our audit.

www.maciasgini.com

The management's discussion and analysis on pages 26 through 45 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 6, 2004


Management's
Discussion and Analysis

COUNTY OF ORANGE CALIFORNIA

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, 2004. 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

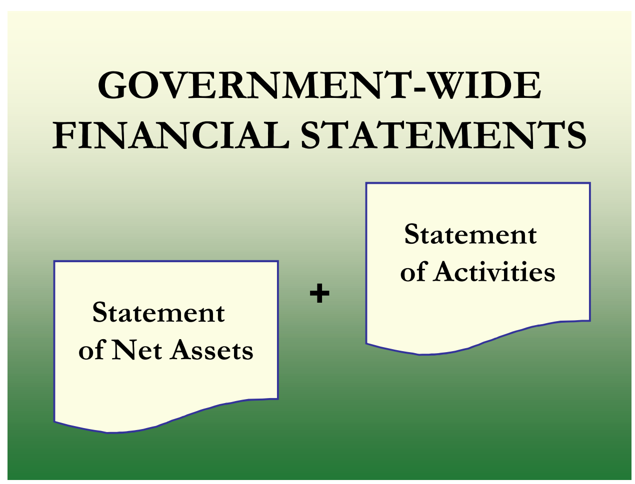
- Total net assets increased by $236,599, or 7% as compared to last year's.
- Long-term debt decreased by $75,572, or 5% during the current fiscal year.
- As of the end of the fiscal year, the County's governmental funds reported combined ending fund balances of $1,840,106, an increase of $25,824, or 1% in comparison with the prior year.
- At June 30, 2004, unreserved fund balance in the General Fund was $123,979, or 5% of total FY 2003-04 expenditures and transfers of $2,308,807.
- General Fund revenues and transfers ended the year 3% below budget.
- General Fund expenditures and transfers ended the year 11% 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

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 accounting methods similar to those used by private-sector companies, the economic resources measurement focus and the accrual basis of accounting. 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," ("GASB 34")*. 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 **current financial resources measurement focus** and **modified accrual basis of accounting.**

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 2003-04, an increase of $180,085 in net assets in the government-wide financial statements was reported, while an increase of $25,824 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. **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

COMPONENTS OF NET ASSETS

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

As noted earlier, net assets may serve over time as a useful indicator of the County's financial position. At June 30, 2004, the County's combined net assets (governmental and business-type activities) totaled $3,601,348, an increase of 7% from FY 2002-03.

The largest component of the County's net assets (71%) 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.

$1,307,541 of the County's net assets (36%) are **restricted.** 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, 2004, governmental activities showed a negative amount of $280,592 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, 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, 2004
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
ASSETS						
Current and other assets	$ 2,635,324	$ 2,552,793	$ 555,986	$ 524,901	$ 3,191,310	$ 3,077,694
Capital assets	2,320,885	2,271,150	499,987	489,045	2,820,872	2,760,195
Total Assets	**4,956,209**	**4,823,943**	**1,055,973**	**1,013,946**	**6,012,182**	**5,837,889**
LIABILITIES						
Long-term liabilities	1,650,412	1,677,495	363,678	382,780	2,014,090	2,060,275
Other liabilities	334,551	355,287	62,193	57,578	396,744	412,865
Total Liabilities	**1,984,963**	**2,032,782**	**425,871**	**440,358**	**2,410,834**	**2,473,140**
NET ASSETS						
Invested in capital assets, net of related debt	2,259,064	2,183,152	315,335	293,959	2,574,399	2,477,111
Restricted	992,774	982,861	314,767	279,629	1,307,541	1,262,490
Unrestricted	(280,592)	(374,852)	--	--	(280,592)	(374,852)
Total Net Assets	$ **2,971,246**	$ **2,791,161**	$ **630,102**	$ **573,588**	$ **3,601,348**	$ **3,364,749**

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, 2004
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program Revenues:						
Charges for Services	$ 436,139	$ 431,151	$ 203,155	$ 191,188	$ 639,294	$ 622,339
Operating Grants and Contributions	1,532,106	1,545,050	7,459	10,494	1,539,565	1,555,544
Capital Grants and Contributions	55,337	510,311	6,183	16,374	61,520	526,685
General Revenues:						
Property Taxes	342,412	303,436	--	--	342,412	303,436
Other Taxes	51,104	51,694	--	--	51,104	51,694
Grants and Contributions not Restricted to Specific Programs	11,969	22,707	--	--	11,969	22,707
State Allocation of Vehicle License Fees	189,732	178,446	--	--	189,732	178,446
Other General Revenues	69,776	64,453	965	537	70,741	64,990
Total Revenues	**2,688,575**	**3,107,248**	**217,762**	**218,593**	**2,906,337**	**3,325,841**
EXPENSES						
General Government	170,820	193,192	--	--	170,820	193,192
Public Protection	905,229	892,817	--	--	905,229	892,817
Public Ways and Facilities	78,454	74,561	--	--	78,454	74,561
Health and Sanitation	447,743	441,047	--	--	447,743	441,047
Public Assistance	731,698	740,794	--	--	731,698	740,794
Education	31,978	29,108	--	--	31,978	29,108
Recreation and Cultural Services	76,249	70,273	--	--	76,249	70,273
Interest on Long-Term Debt	78,474	53,853	--	--	78,474	53,853
Airport	--	--	78,235	75,770	78,235	75,770
Waste Management	--	--	70,858	79,217	70,858	79,217
Total Expenses	**2,520,645**	**2,495,645**	**149,093**	**154,987**	**2,669,738**	**2,650,632**
Excess (Deficit) before Transfers	167,930	611,603	68,669	63,606	236,599	675,209
Transfers	12,155	13,419	(12,155)	(13,419)	--	--
Increase in Net Assets	**180,085**	**625,022**	**56,514**	**50,187**	**236,599**	**675,209**
Net Assets - Beginning of the Year	2,791,161	2,166,139	573,588	523,401	3,364,749	2,689,540
Net Assets - End of the Year	**$ 2,971,246**	**$ 2,791,161**	**$ 630,102**	**$ 573,588**	**$ 3,601,348**	**$ 3,364,749**

As of June 30, 2004, the County's net assets increased by 7%, or $236,599, during the current fiscal year. Revenues for the year totaled $2,906,337, a decrease of $419,504 from the previous year and expenses totaled $2,669,738, an increase of $19,106.

Governmental Activities

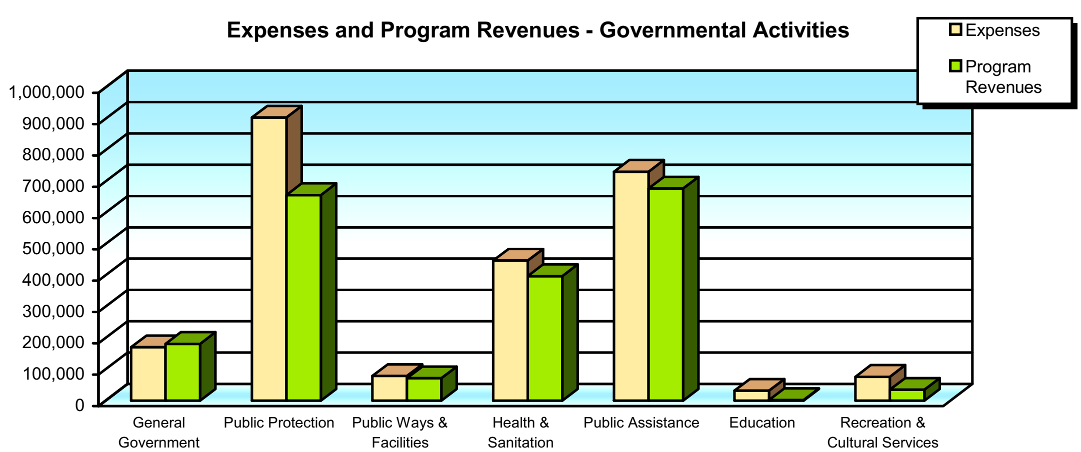
The County's governmental activities rely on several sources of revenue to finance ongoing operations. Operating Grants and Contributions comprised the largest revenue source for the County followed by Charges for Services. Operating Grants and Contributions are monies received from parties outside the 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. 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 2003-04, total revenues for the governmental activities, including transfers from the business-type activities were $2,700,730, a decrease of $419,937 from the previous year. Expenses totaled $2,520,645, an increase of $25,000 from the prior year. The majority of these expense increases were in the Public Protection and Interest on Long-Term Debt functions. While revenues decreased and expenses increased from the prior year, the current year's revenues still exceeded expenses, therefore, governmental activities increased the County's net assets by $180,085, accounting for 76% of the total growth in the net assets of the County. Key elements of the increase are as follows:

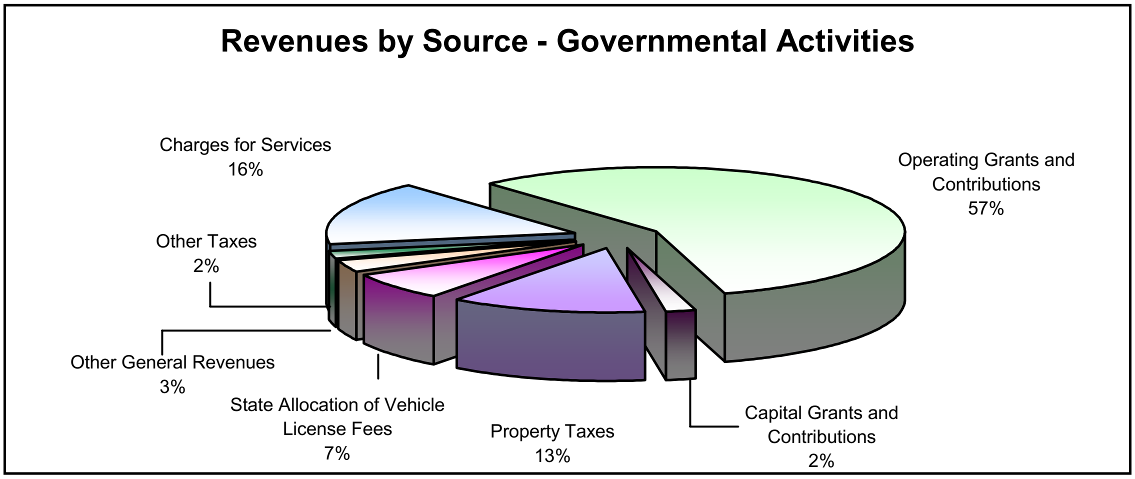
- Property taxes increased by $38,976, or 13%, due to an increased number of home purchases as a result of low housing interest rates.
- State Allocation of Vehicle License Fees revenue increased by $11,286, or 6%, due to the Motor Vehicle License Fee (VLF) backfill gap loan amount due from the State for FY 03-04.
- Charges for Services increased by $4,988 due to an increase in reimbursement from the Ladera Ranch Community Facilities District (CFD) for the widening of Antonio Parkway.
- Capital Grants and Contributions decreased by $454,974, mainly due to the one-time contribution of the Seven Oaks Dam from the US Army Corps of Engineers to the County in FY 2002-03.
- General Government expenses decreased by $22,372, or 12%, primarily resulting from the disposition of capital assets reported in FY 2002-03 that no longer belong to the primary government.

In addition to the above, the County received $4,000 of deferred pass-through tax incremental revenue from the City of Yorba Linda Redevelopment Agency. This is the first 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.

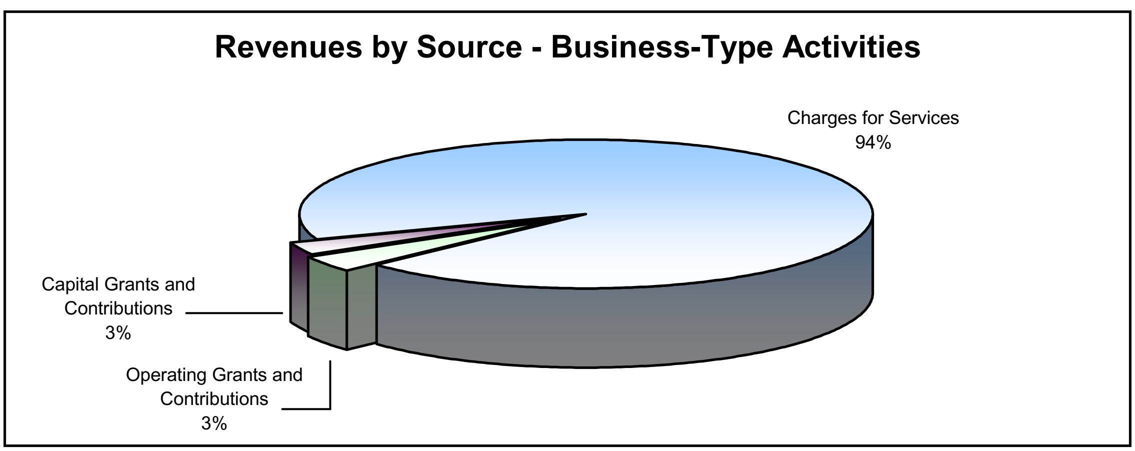


The chart below presents the percentage of total revenues by source for governmental activities.



Business-Type Activities

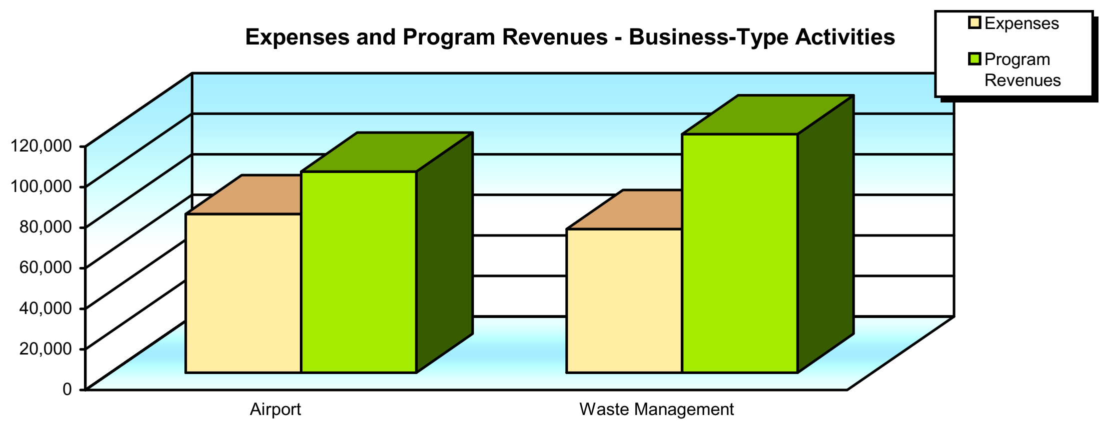
The County has two business-type activities: Airport and Waste Management. In keeping with the intent of recovering all or a significant portion of their cost through user fees and charges, business-type activities reported Charges for Services as their largest source of revenues. Operating Grants and 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 (FAA) for use in airport construction projects.



At the end of FY 2003-04, business-type activities reported total revenues of $217,764, a decrease of $829 from the prior year. Expenses, including transfers to the governmental activities, totaled $161,250, resulting in a decrease of $7,156 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 2003-04, there was an increase of $56,514 in net assets as compared to an increase of $50,187 in FY 2002-03. Key elements for the increase are as follows:

- A $4,611 increase in the amount of "in-county" solid waste disposed at the landfills.
- A $6,875 increase in rents and concession from airline rent, parking, and lease concessions due to the increased number of passengers and level of travelers' activities in the airport.
- A $10,912 decrease in landfill site closure/postclosure costs resulting from increased capacity at the Prima Deshecha Landfill.

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, 2004, the County's governmental funds reported total fund balances of $1,840,106 with an increase of $25,824 in comparison with the prior year. Of the total fund balances for the governmental funds, $746,660 (41%) 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, and seismic retrofit improvements at the County Central Garage.
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	-	Bond redemption when a cost effective opportunity to redeem debt is available.
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."

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, 2004
(In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances	
	2004	2003	2004	2003	2004	2003
General Fund	$ 2,291,343	$ 2,170,606	$ 2,308,807	$ 2,206,647	$ (17,464)	$ (36,041)
Roads	47,973	44,110	39,856	38,813	8,117	5,297
Public Library	29,156	32,936	32,471	32,679	(3,315)	257
Tobacco Settlement	31,375	36,249	41,858	35,548	(10,483)	701
Refunding Bonds and Recovery COPs & Debt Prepayment	102,998	130,681	98,045	92,163	4,953	38,518
Flood Control District	72,870	87,075	75,936	58,721	(3,066)	28,354
Harbors, Beaches, and Parks	71,207	73,188	71,218	71,447	(11)	1,741
Other Governmental	476,960	445,297	429,867	388,984	47,093	56,313
Total	**$ 3,123,882**	**$ 3,020,142**	**$ 3,098,058**	**$ 2,925,002**	**$ 25,824**	**$ 95,140**

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. In addition to the effects of expenditure-driven grants, the following information provides significant reasons for the change in fund balance.

General Fund

The General Fund is the chief operating fund of the County. At the end of FY 2003-04, there was a decrease in fund balance of $17,464. The decrease in fund balance can largely be attributed to higher Salaries and Employee Benefits (S&EB). Specifically, retirement costs increased by $41,320, regular salaries increased by $18,000, and health care insurance costs increased by $17,870. The decrease to fund balance caused by the increased retirement costs would have been even greater had the County not been able to use its Investment Account with the Orange County Employees Retirement System (OCERS) to fund a portion of its Annual Required Contribution (ARC). Refer to Note 18 for more information on the OCERS Investment Account.

While expenses for the General Fund increased, revenues from the State for Motor Vehicle License Fees (VLF) and Mandated Costs declined due to the State deferring payments to the County. For FY 03-04, the State deferred $26,506 for VLF and $30,485 for Mandated Costs. Furthermore, included in the preceding schedule of Revenues and Other Financing Sources were increased transfers from various Special Revenue Funds. The Designated Special Revenue Fund, a fund that was established to provide cash for interfund cash flow loans and to fund strategic priorities identified in the County's Strategic Financial Plan, transferred $29,700 to finance County operations. The Public Safety Sales Tax Excess Revenue fund, a fund used to place surplus Public Safety Sales Tax revenues to meet future public protection needs, increased its transfer by $8,464 over the previous year to the Sheriff Department to balance their base budget. Without the increased transfers, fund balance would have shown an even greater decline.

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 2003-04, there was an increase in fund balance of $8,117. In addition to the discussion in the Government-Wide Financial Analysis for Charges for Services, the increase is also due to a $1,006 reimbursement from the Flood Control District for additional services provided.

Public Library

This fund accounts for library services for the unincorporated areas as well as some of the incorporated areas within the County. There was a $3,315 decrease to fund balance this fiscal year. The Public Library Fund had a decrease of $4,999 in developer fee revenues, since there were no new construction projects in FY 2003-04 and a one-time contribution of $1,425 to the City of Newport Beach for the annexation of Newport Coast.

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 2003-04, there was a decrease in fund balance of $10,483 that can be primarily attributed to a $12,100 increase in expenditures for the Theo Lacy Jail capital project as well as a $5,546 reduction in revenues received from the State's 1998 Multi-State Settlement Agreement (MSA).

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 Orange County 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 2003-04, there was an increase in fund balance of $4,953. The increase is due primarily to an increase in the amount of VLF funds received from the State Controller to pay for the Recovery Bonds. In comparison to the prior year, the change in fund balance decreased by $33,565 due to a transfer to the Debt Prepayment Fund in FY 2002-03, resulting from a change in funding source for the Theo Lacy Jail Expansion Project and a programmed transfer planned in the Strategic Financial Plan.

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 2003-04, there was a decrease in fund balance of $3,066. The following is a brief summary of the primary reasons for the net decrease in fund balance for the Flood Control District in FY 2003-04 as compared to the prior year:

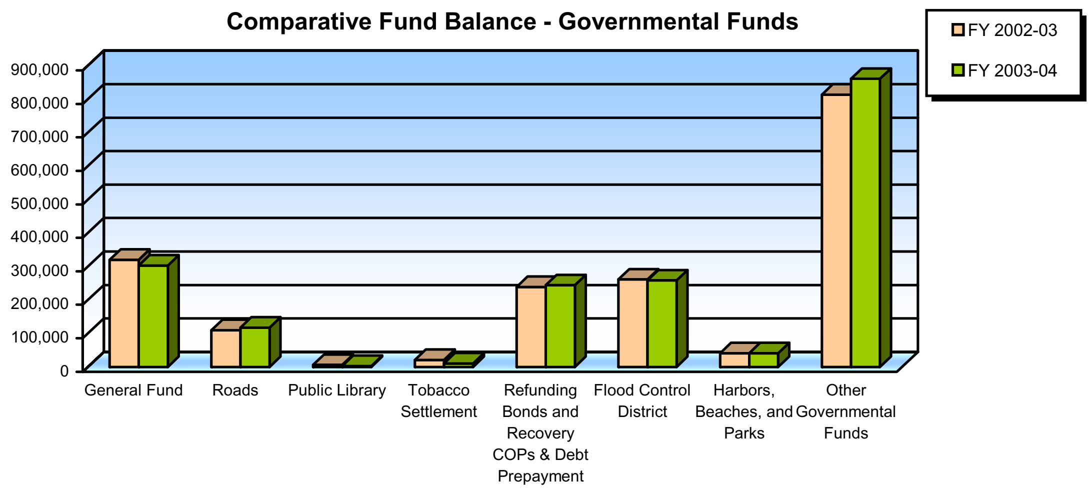
- An $18,016 decrease in revenue due to a reduction in subvention revenue from the State.
- A $1,240 decrease in revenues due to the downward trend of interest rates.
- An $8,570 increase in charges by the Army Corps of Engineers associated with the construction of the Prado Dam.

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 2003-04, there was only a small decrease in fund balance of $11 as compared to a decrease of $1,751 in FY 2002-03. This decrease resulted from the final installment payment received by the County for the purchase of the Barham Ranch Property in FY 2002-03.

Other Governmental Funds
At the end of FY 2003-04, there was an increase in fund balance of $47,093. Revenues increased primarily due to the issuance of Tax Allocation Refunding Bonds Santa Ana Heights Project (SAHP) Area by the Orange County Development Agency (OCDA) and two new Special Revenue Funds that were created in the Health Care Agency (HCA). Expenditures decreased due to fewer capital expenditures in FY 2003-04.

The following chart shows the net change in fund balance for governmental funds for the current and previous fiscal year.



Proprietary Funds

The proprietary funds 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. Conversely, the Internal Service Funds are combined into a single, aggregated presentation in the proprietary fund financial statements with the individual fund data provided in combining statements, which can be found elsewhere in this report.

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, 2004
(In Thousands)

	Revenues, Contributions and Transfers		Expenses and Transfers		Change in Fund Net Assets	
	2004	2003	2004	2003	2004	2003
Airport	$ 99,776	$ 101,314	$ 76,932	$ 74,712	$ 22,844	$ 26,602
Waste Management	118,026	117,265	82,956	92,524	35,070	24,741
Total	**$ 217,802**	**$ 218,579**	**$ 159,888**	**$ 167,236**	**$ 57,914**	**$ 51,343**

Airport

This fund accounts for major construction and self-supporting aviation-related activities rendered at John Wayne Airport (JWA), Orange County. At the end of FY 2003-04, there was an increase in fund net assets of $22,844 that can be attributed to the following factors:

- A $6,875 increase in rents and concession from airline rent, parking, and lease concessions due to the increased number of passengers and level of travelers' activities at the airport.
- A $1,334 decrease in interest expense due to the refunding of Airport Revenue Refund Bonds, Series 1993 and principal reduction of Airport Revenue Refund Bonds, Series 1997.

In comparison to the prior year, there was a decrease in fund net assets of $3,758 due to a decrease of $8,825 in capital contributions from the Federal Aviation Administration (FAA) and an increase of $2,211 in professional services as a result of additional services incurred in FY 2003-04 to evaluate the feasibility of expansion alternatives.

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 2003-04, there was an increase in fund net assets of $35,070 compared to the prior year change of $24,741 due to the following factors:

- A $4,611 increase in charges for services due to an increase in the amount of "in-county" tonnage disposed at the landfills.
- A $10,912 decrease in the closure and postclosure costs due to an increase of available capacity at the Prima Deshecha Landfill.
- A $1,209 decrease in transfers to the General Fund due to a decrease of imported (out-of-county) solid waste 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. Refer to the Budgetary Comparison Statement for details on this budgetary comparison.

Original Budget vs. Final Amended 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:

Intergovernmental Revenues:

- An increased revenue budget in Sheriff-Coroner of $11,334 for additional one-time grants, including the State Domestic Preparedness Grant, Homeland Security Grants and the Federal Bureau of Investigations and Joint Terrorism Task Force (FBI/JTTF) Reimbursement Agreement.
- An increase of $10,473 in budgeted revenues in the Social Services Agency to reconcile actual allocations for the following programs: In-Home Supportive Services, Child Welfare Services, California Work Opportunities and Responsibility to Kids (CalWORKS), Medi-Cal, Foster Care and Adult Protective Services.
- A $9,550 decrease in revenues in the County General Fund due to a reduction in VLF revenues from the State.

Transfers In:

- An increase of $3,850 in the Watershed Management Program to ensure that the Net County Cost (NCC) target set by County Executive Office (CEO) would be met.
- An increase of $13,453 in the Health Care Agency (HCA) to allow for operating transfers from various health related Special Revenue funds.

- A $9,940 increase in the Sheriff-Coroner Department revenue budget for new positions, a new helicopter, information systems, and capital projects.

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

Capital Projects:
Budget appropriations decreased by $10,114 due to the accelerated project schedule of the 60 Bed Expansion of Juvenile Hall that was encumbered in FY 2002-03.

Sheriff-Coroner:
A $20,810 increase was appropriated to fund the annual transfer to the Public Safety Sales Tax Excess Revenue Fund pursuant to 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.

Social Services Agency:
An increase of $13,046 to reflect the impacts of the final state budget for the following programs: In-Home Supportive Services, Child Welfare Services, CalWORKS, Medi-Cal, Foster Care and Adult Protective Services.

Provision for Contingencies:
An increase of $22,917 because the County increased appropriations for contingencies due to the uncertainties surrounding the VLF revenue from the State and the costs of the special recall election.

Final Amended Budget vs. Actual Amounts

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

Other Revenues:
- A $6,330 negative variance in the Miscellaneous Agency due to a late implementation date of the FY 2003-04 retirement rates for County agencies and the Superior Court.
- A $2,680 negative variance in the HCA because an anticipated one-time revenue did not materialize.
- A $2,150 negative variance in the Aid to Families with Dependent Children (AFDC) – Foster Care because child support revenues were less than projected.

Charges for Services:
- A negative variance of $7,179 in the Watershed Management Program for the National Pollutant Discharge Elimination System (NPDES) that was budgeted in “Charges for Service” but was recorded in account “Intergovernmental Revenues.”
- A negative variance of $8,475 in HCA due to lower than budgeted receipts of Medi-Cal based on reduced eligible expenditures in salaries, employee benefits, and contracted services.
- A negative variance of $6,340 in the Resources and Development Management Department (RDMD) caused by the cancellation of the Orange County Red Imported Fire Ant Program.

Taxes:
- A positive variance of $10,051 in Property Taxes due to higher than estimated housing sales caused by historically low interest rates.

Transfers In:
- A negative variance of $20,319 in HCA because transfers from Tobacco Settlement Revenue (TSR) Fund, Medi-Cal Administrative Activities/Targeted Case Management (MAA/TCM), and HCA Special Revenue Funds were lower than budgeted.

- A negative variance of $6,070 in the Sheriff-Coroner's budget due to decreased funding for information systems and capital projects not completed in FY 2003-04 and for Mobile Data Computers (MDC) and Switcher Fees that were re-budgeted in FY 2003-04.
- A $15,053 negative variance in transfers from the Real Estate Development Program Fund because planned sales of assets were not made.

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

Miscellaneous:
A positive variance of $29,252 because there were no unexpected expenditures related to legal defense and settlements for County programs. This agency in the General Fund provides for such contingencies and is not anticipated to be spent unless the need arises.

Watershed Management Program:
An $8,581 positive variance due to lower than anticipated expenditures for the NPDES program, consulting contracts and the deferral of two budgeted capital projects.

Capital Projects:
A $19,698 positive variance due to unfinished capital projects, including energy efficiency projects, maintenance and repair projects and the Youth Leadership Academy at Juvenile Hall, all of which were re-budgeted in FY 2004-05.

Health Care Agency:
- A positive variance of $7,842 due to savings from the County-wide hiring freeze, reduced use of extra help employees, employees taking time off rather than selecting a Performance Incentive Program (PIP) payoff and lower group insurance rates than anticipated.
- A $38,117 positive variance due to lower than budgeted costs in TSR funded projects, Medi-Cal funded agreements, and Proposition 36 funded agreements, a voter-approved measure passed in 2000 that allows first and second time non-violent, simple drug possession offenders the opportunity to receive substance abuse treatment instead of incarceration.

Sheriff-Coroner:
Of the total $15,702 variance, a positive variance of $3,064 is due to lower than anticipated expenditures, deleted positions based on Blue Ribbon Committee recommendations, and the deferral of some capital projects that were re-budgeted in FY 2004-05.

Social Services Agency:
Of the total $28,967 variance, a positive variance of $16,338 is due to lower than anticipated costs related to salaries and benefits, office expense, professional and specialized services, and CalWorks, In-Home Supportive Services, and Child Welfare Services.

Aid to Families with Dependent Children (AFDC) – Foster Care
A $17,079 positive variance due to lower than projected Foster Care caseloads and costs per case due to placement of children in less costly, more family-like placements.

Resources and Development Management Division:
Of the total $19,184 variance, a $5,492 positive variance is due to reduced spending on professional service contracts as a result of the cancellation of the Red Imported Fire Ant Program and the cancellation or deferral of projects to FY 2004-05.

Provision for Contingencies:
A positive variance of $27,917 occurred because the County increased appropriations for contingencies due to the uncertainties surrounding the VLF revenue from the State and the costs of the special recall election but these additional appropriations were ultimately not required to be spent.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the County's capital assets for both the governmental and business-type activities amounted to $2,820,872 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 2% (a 2% increase for governmental activities and a 2% 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, 2004
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2004	2003	2004	2003	2004	2003	% Change
Land	$ 481,048	$ 475,695	$ 34,108	$ 34,108	$ 515,156	$ 509,803	1%
Structures and Improvements	501,778	463,557	196,110	178,563	697,888	642,120	9%
Equipment	102,418	108,691	24,422	24,607	126,840	133,298	(5)%
Infrastructure	817,294	833,461	182,510	189,733	999,804	1,023,194	(2)%
Construction in Progress	418,347	389,746	62,837	62,034	481,184	451,780	7%
Total	**$ 2,320,885**	**$ 2,271,150**	**$ 499,987**	**$ 489,045**	**$ 2,820,872**	**$ 2,760,195**	**2%**

The following lists the significant expenditures for capital assets in FY 2003-04:

- $13,578 for the construction of the Theo Lacy Jail Expansion Project (Building B).
- $9,594 for the improvements of several flood channels to carry out the 100-year design flow in cooperation with the Orange County Flood Control District (OCFCD) and the Federal Emergency Management Agency (FEMA).
- $9,318 for the construction of an equipment maintenance facility at the Frank R. Bowerman Landfill.
- $5,909 for the construction of housing unit "Q" at Juvenile Hall, which will increase the capacity by 60 beds.
- $5,919 for the mass excavation project at the Prima Deshecha Landfill.
- $4,268 for structural security modifications at John Wayne Airport (JWA).
- $3,088 for the remodeling of Fire Station #33 at JWA.
- $2,859 for the construction of the easterly side of the Huntington Beach Channel that runs from Atlanta to Indianapolis.
- $2,676 for the purchase of MDC systems for the Sheriff Department.
- $1,845 for the rehabilitation of floors nine through eleven of the Central Justice Center, including the replacement of ceiling, lighting, heating and air-conditioning systems and asbestos removal.

- $1,389 for the construction of the Youth Leadership Academy at Juvenile Hall, which will increase the capacity by 120 beds for a new Youth Leadership Program.

Additional information on the County's capital assets can be found in Note 4 of this report.

Commitments for Capital Expenditures. At the end of FY 2003-04, significant commitments for capital expenditures include the following:

- $181,000 for the Santa Ana River (SAR) Mainstream Project.
- $18,721 for the construction of Laguna Canyon Road, State Route 73 to Interstate 405.
- $15,009 for replacement of three existing housing units at the Juvenile Hall.
- $8,048 for flood control channel projects.
- $6,730 for the remodeling of Fire Station #33 at JWA.

Additional information on the County's commitments for capital expenditures can be found in Note 14 of this report.

Long-Term Debt

At June 30, 2004, the County had a total debt obligation outstanding of $1,415,861, excluding capital lease obligations, compensated absences and other liabilities. During the year, $115,585 of the bonds were retired, while $38,465 was added, which resulted in a net decrease of 5% on the County's outstanding bond obligation. The County is limited by law in issuing general obligation bonded debt to 1.25 percent of the last equalized property tax roll. However, this does not affect the financing of any of the County's planned facilities or services because as of the end of the fiscal year, the County had no net general obligation bonded debt. The County's debt obligations are in the form of revenue bonds, certificates of participation, and other forms of debt not covered by the general obligation debt limitation law.

The following table summarizes the County's outstanding bonds at June 30, 2004:

LONG-TERM DEBT BOND OBLIGATIONS
June 30, 2004
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Increase (Decrease)
	2004	2003	2004	2003	2004	2003	% Change
Revenue Bonds	$ 268,607	$ 287,282	$ 196,300	$ 208,490	$ 464,907	$ 495,772	(6)%
Certificates of Participation	619,394	647,409	--	--	619,394	647,409	(4)%
Pension Obligation Bonds	116,772	120,772	--	--	116,772	120,772	(3)%
Recovery Bonds	225,870	240,110	--	--	225,870	240,110	(6)%
Add: Premium on Bonds Payable	5,045	3,445	5,082	5,777	10,127	9,222	10%
Less: Deferred Amount on Refunding	(6,110)	(4,597)	(15,099)	(17,255)	(21,209)	(21,852)	(3)%
Total	**$ 1,229,578**	**$ 1,294,421**	**$ 186,283**	**$ 197,012**	**$ 1,415,861**	**$ 1,491,433**	**(5)%**

(Dollar Amounts in Thousands)

The following summarizes the County's long-term debt activity during FY 2003-04:

- *Tax Allocation Refunding Bonds, Series 2003 (Santa Ana Heights Project Area).* On November 13, 2003, the Orange County Development Agency (OCDA) issued in the principal amount of $38,465 Tax Allocation Refunding Bonds (Santa Ana Heights Project Area) Series 2003 at a premium of $1,660. The proceeds of the bonds and other available monies were used to (1) refund and defease the outstanding 1993 Tax Allocation Revenue Bonds at a redemption price equal to 102% of the aggregate principal amount, (2) fund a reserve account for the new bonds, and (3) pay all the cost of issuing the bonds.

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 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, 2004

	Moody's	Fitch	Standard and Poor's
Airport Revenues Bonds	Aa3	A+	A+
Waste Management Revenue Bonds	A2	A+	--
Pension Obligation Bonds	Aa2	AA-	A
Recovery Bonds	Aa3	--	--
2002 Lease Revenue Bonds	A1	AA-	A
2001 Equipment Lease	A2	--	--
1996 Recovery Certificates of Participation	A1	AA-	--
1991 Parking Certificates of Participation	A1	--	--

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: The Governor signed the FY 2004-05 State Budget on July 31, 2004. The $105,000,000 spending plan addresses budget shortfalls through program savings, borrowing, funding shifts, and local government contributions. A summary of the significant components of the FY 2004-05 State Budget are as follows:

Local Government Property Tax

- In exchange for contributing $1,300,000 in each of the next two years, local governments will receive protection from future state borrowing of local government revenue through a Constitutional amendment approved by the voters on the November ballot. Orange County's share of the contribution is estimated at $27,731 per year.
- During fiscal emergencies, the state is allowed to borrow local revenues with a two-thirds vote of the Legislature and Governor's signature.
- FY 2008-09 is the first year the state may borrow.
- Legislature cannot borrow more than 8% of local property tax revenue.
- Loan has to be repaid within 3 years with interest.
- The borrowing can take place twice during a 10-year period and only after the first loan has been repaid.
- Enterprise special districts will contribute 40% of their property tax revenues, not to exceed 10% of their total revenues. Special districts will contribute 10% of their property tax revenues. In FY 2006-07, regular property tax allocations to special districts will resume. Orange County's estimated additional special district contributions total $7,600 for FY 2004-05.

Vehicle License Fees

- The local government package includes the swapping of vehicle license fee backfill for constitutionally protected property tax revenue.
- Establishes a new .65% VLF rate.

State Mandates

- Legislature must appropriate funds for state reimbursable mandates or suspend the provision for the mandate.
- Established a repayment plan for deferred mandate reimbursements commencing in FY 2006-07 and concluding in FY 2011-12.

In-Home Supportive Services (IHSS)

- Requires the state to match provider wages up to $9.50 (in absolute dollar amount) per hour plus $.60 (in absolute dollar amount) per hour for benefits. The May Revise budget assumed that the State would match only up to the minimum wage. Assuming that the County maintains the current provider wages, this change is estimated to add an additional $3,000 to the State General Fund obligation for the IHSS program.

- Retirement: On August 24, 2004, the Board of Supervisors approved a Memorandum of Understanding (MOU) with a number of employee bargaining units, except for the American Federation of State, County and Municipal Employees (AFSCME), which will provide for increased retirement benefits based on a 2.7% at 55 formula beginning July 1, 2005. Additional information on this topic can be found in Note 20 of this report.

- 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 billing, procuring goods and services, making vendor payments, processing the County's payroll, and administering enterprise-wide human resource functions. CAPS maintains financial records for the County's budget of $4,800,000 and maintains human resource records and processes payroll for a work force of over 17,000 employees.

  CAPS is based on 1980s technology and is becoming costly to maintain and operate. In addition, it is expected that the vendor will discontinue support of its Advantage products, implemented at the County, within three to five years. If the County does not take some action with the Advantage products after the vendor discontinues support system operations and 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 to be included in the assessment, 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/analyze the viable alternative(s) (e.g., pro/cons, risks, costs).

The process is expected to take approximately five months. Based on the alternative(s) selected, Requests for Proposals will be issued to source the solution(s). 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(s). Implementation of a solution could take from four to five years.

- Assessment Tax System (ATS) 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. This effort is under way and a request for proposals for a needs assessment has been finalized.

  The needs assessment is expected to last one year and will result in a requirements document which 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 $12,000 to $15,000.

- Proposition 172: On September 14, 2004, the Registrar of Voters certified to the Orange County Board of Supervisors the *Initiative Reallocating a Portion of the County's Proposition 172 Funds from the County Sheriff-Coroner and District Attorney to the Orange County Fire Authority (OCFA)* petition. The Board completed a fiscal impact analysis of the Initiative pursuant to Elections Code Section 9111 and on September 28, 2004 placed the initiative on the next statewide general election to be decided in June 2006. If approved by the voters, the initiative would allocate 50% of any increase over a base year amount in FY 2004-05 of Proposition 172 Public Safety Sales Tax revenue to OCFA, subject to a maximum allocation of 10% of the County's annual Proposition 172 revenue.

  The use of this funding is restricted to public safety purposes, which is defined by Government Code 30052(b)(1) as "sheriffs, police, fire protection, county district attorneys, county corrections, and ocean lifeguards." For purposes of allocating the County's share of Proposition 172 revenue, the Board of Supervisors designated the Sheriff-Coroner and the District Attorney as public safety services and allocated 80% of the revenue to the Sheriff-Coroner and the remaining 20% to the District Attorney. In FY 2004-05, this funding is budgeted to provide $191,600 in revenue to the Sheriff and $47,900 in revenue to the District Attorney.

Requests for Information

We hope that the preceding information has provided you with 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 Web site at http://www.oc.ca.gov.


Basic Financial Statements

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS				
Cash and Cash Equivalents (Notes 1 and 3)	$ 1,583,671	$ 263,780	$ 1,847,451	$ 148,843
Restricted Cash and Cash Equivalents (Notes 1 and 3)	510,326	230,505	740,831	--
Investments (Notes 1 and 3)	6,199	19,736	25,935	--
Deposits In-Lieu of Cash	--	32,270	32,270	--
Internal Balances	12,424	(12,424)	--	--
Due from Component Unit (Note 6)	321	--	321	--
Prepaid Costs (Note 1)	150,360	3,638	153,998	--
Inventory of Materials and Supplies (Note 1)	1,388	--	1,388	--
Land and Improvements Held for Resale (Note 1)	1,703	--	1,703	--
Receivables, Net of Allowances (Note 5)				
Accounts	35,670	13,963	49,633	--
Taxes	25,497	--	25,497	6,927
Interest/Dividends	3,484	1,130	4,614	289
Deposits	16,714	--	16,714	--
Loans	1,533	--	1,533	--
Due from Other Governmental Agencies (Note 5)	264,444	3,388	267,832	463
Notes Receivable (Note 5)	21,590	--	21,590	--
Capital Assets (Notes 1 and 4)				
Not Depreciated	899,395	96,945	996,340	--
Depreciable (Net)	1,421,490	403,042	1,824,532	9
Total Capital Assets	2,320,885	499,987	2,820,872	9
Total Assets	4,956,209	1,055,973	6,012,182	156,531

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	$ 64,060	$ 17,734	$ 81,794	$ 10,336
Salaries and Employee Benefits Payable	67,206	1,509	68,715	86
Interest Payable	21,370	253	21,623	--
Deposits from Others	71,124	37,542	108,666	--
Due to Primary Government (Note 6)	--	--	--	321
Due to Other Governmental Agencies	31,179	2,376	33,555	108
Unapportioned Taxes	210	--	210	--
Deferred Revenue	77,402	2,779	80,181	--
Estimated Liability - Litigation and Claims	2,000	--	2,000	--
Long-Term Liabilities				
Due Within One Year				
Insurance Claims Payable (Notes 1 and 15)	55,751	--	55,751	--
Compensated Employee Absences Payable (Notes 1 and 9)	79,144	2,165	81,309	135
Pool Participant Claims (Note 9)	800	--	800	--
Capital Lease Obligations Payable (Notes 9 and 11)	4,402	--	4,402	--
Bonds Payable (Note 9)	56,747	13,353	70,100	--
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	3,025	3,025	--
Due in More than One Year				
Insurance Claims Payable (Notes 1 and 15)	72,083	--	72,083	--
Compensated Employee Absences Payable (Notes 1 and 9)	66,955	2,485	69,440	--
Arbitrage Rebate Payable (Note 9)	34	88	122	--
Pool Participant Claims (Note 9)	800	--	800	--
Capital Lease Obligations Payable (Notes 9 and 11)	67,310	--	67,310	--
Bonds Payable (Note 9)	1,172,831	172,930	1,345,761	--
Interest Accretion on Capital Appreciation Bonds Payable (Note 9)	73,555	--	73,555	--
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	169,632	169,632	--
Total Liabilities	1,984,963	425,871	2,410,834	10,986
NET ASSETS				
Invested in Capital Assets, Net of Related Debt (Note 1)	2,259,064	315,335	2,574,399	9
Restricted (Note 1)				
Nonexpendable	91	--	91	--
Expendable	992,683	314,767	1,307,450	145,536
Unrestricted (Deficit) (Note 1)	(280,592)	--	(280,592)	--
Total Net Assets	$ 2,971,246	$ 630,102	$ 3,601,348	$ 145,545

Functions/Programs	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	$ 211,036	$ (40,216)	$ 30,569	$ 96,423	$ 54,570
Public Protection	879,198	26,031	256,253	400,486	81
Public Ways and Facilities	80,022	(1,568)	44,728	27,150	--
Health and Sanitation	441,892	5,851	68,778	329,429	56
Public Assistance	725,542	6,156	3,436	674,271	--
Education	31,401	577	1,156	1,148	--
Recreation and Cultural Services	74,384	1,865	31,219	3,199	630
Interest on Long-Term Debt	78,474	--	--	--	--
Total Governmental Activities	2,521,949	(1,304)	436,139	1,532,106	55,337
Business-Type Activities					
Airport	77,554	681	90,657	2,361	6,183
Waste Management	70,235	623	112,498	5,098	--
Total Business-Type Activities	147,789	1,304	203,155	7,459	6,183
Total Primary Government	$ 2,669,738	$ --	$ 639,294	$ 1,539,565	$ 61,520
Component Unit					
Children and Families					
Commission of Orange County	$ 41,637	$ --	$ 172	$ 42,231	$ --

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
Other Taxes
Grants and Contributions Not Restricted to Specific Programs
State Allocation of Vehicle License Fees
Unrestricted Investment Earnings
Miscellaneous Revenues
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
$ 10,742	$ --	$ 10,742		General Government
(248,409)	--	(248,409)		Public Protection
(6,576)	--	(6,576)		Public Ways and Facilities
(49,480)	--	(49,480)		Health and Sanitation
(53,991)	--	(53,991)		Public Assistance
(29,674)	--	(29,674)		Education
(41,201)	--	(41,201)		Recreation and Cultural Services
(78,474)	--	(78,474)		Interest on Long-Term Debt
(497,063)	--	(497,063)		Total Governmental Activities
				Business-Type Activities
--	20,966	20,966		Airport
--	46,738	46,738		Waste Management
--	67,704	67,704		Total Business-Type Activities
(497,063)	67,704	(429,359)		Total Primary Government
				Component Unit
				Children and Families
			$ 766	Commission of Orange County
				General Revenues
				Taxes
211,944	--	211,944	--	Property Taxes, Levied for General Fund
47,677	--	47,677	--	Property Taxes, Levied for Flood Control District
35,450	--	35,450	--	Property Taxes, Levied for Harbors, Beaches and Parks
25,739	--	25,739	--	Property Taxes, Levied for Public Library
21,602	--	21,602	--	Property Tax Increments
51,104	--	51,104	--	Other Taxes
11,969	--	11,969	--	Grants and Contributions Not Restricted to Specific Programs
189,732	--	189,732	--	State Allocation of Vehicle License Fees
25,753	--	25,753	--	Unrestricted Investment Earnings
44,023	965	44,988	152	Miscellaneous Revenues
12,155	(12,155)	--	--	Transfers (Note 1)
677,148	(11,190)	665,958	152	Total General Revenues and Transfers
180,085	56,514	236,599	918	Change in Net Assets
2,791,161	573,588	3,364,749	144,627	Net Assets - Beginning of Year
$ 2,971,246	$ 630,102	$ 3,601,348	$ 145,545	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)	$ 382,395	$ 159,347	$ 7,923	$ 16,455	$ 97,796
Imprest Cash Funds (Notes 3 and 12)	1,247	--	53	--	--
Restricted Cash and Investments with Trustee (Note 3)	--	--	--	--	146,503
Investments (Notes 1 and 3)	--	--	--	--	--
Receivables					
Accounts	27,752	195	241	--	--
Taxes (Note 1)	5,234	--	536	--	--
Interest/Dividends	--	--	--	--	--
Deposits	1,851	6,672	--	--	--
Loans	30	--	--	--	--
Allowance for Uncollectible Receivables	(407)	(13)	--	--	--
Due from Other Funds (Note 6)	36,562	1,083	644	2	--
Due from Component Unit (Note 6)	320	--	--	--	--
Due from Other Governmental Agencies	242,236	2,722	1	--	--
Inventory of Materials and Supplies (Notes 1 and 12)	295	91	--	--	--
Prepaid Costs (Notes 1 and 12)	52	--	--	--	--
Land and Improvements Held for Resale (Notes 1 and 12)	--	--	--	--	--
Notes Receivables	1,719	--	--	--	--
Total Assets	$ 699,286	$ 170,097	$ 9,398	$ 16,457	$ 244,299
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	$ 47,427	$ 1,023	$ 736	$ --	$ --
Salaries and Employee Benefits Payable	60,411	818	1,160	--	--
Deposits from Others	1,780	45,153	3,511	--	--
Due to Other Funds (Note 6)	42,460	1,592	34	5,644	--
Due to Other Governmental Agencies	22,835	8	213	--	--
Unapportioned Taxes	171	--	--	--	--
Deferred Revenue (Note 1)	221,037	3,539	666	--	--
Total Liabilities	396,121	52,133	6,320	5,644	--
Fund Balances					
Reserved (Note 12)	179,186	104,035	2,760	--	146,503
Unreserved, Reported in					
General Fund	123,979	--	--	--	--
Special Revenue Funds	--	13,929	318	10,813	--
Debt Service Funds	--	--	--	--	97,796
Capital Projects Funds	--	--	--	--	--
Permanent Fund	--	--	--	--	--
Total Fund Balances	303,165	117,964	3,078	10,813	244,299
Total Liabilities and Fund Balances	$ 699,286	$ 170,097	$ 9,398	$ 16,457	$ 244,299

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
$ 271,356	$ 50,472	$ 439,008	$ 1,424,752	Pooled Cash/Investments (Notes 1 and 3)
--	--	13	1,313	Imprest Cash Funds (Notes 3 and 12)
--	--	363,823	510,326	Restricted Cash and Investments with Trustee (Note 3)
--	--	6,199	6,199	Investments (Notes 1 and 3)
				Receivables
993	1,583	2,045	32,809	Accounts
1,015	752	17,960	25,497	Taxes (Note 1)
--	--	428	428	Interest/Dividends
5,176	--	3,015	16,714	Deposits
50	1,453	--	1,533	Loans
(10)	(6)	(4)	(440)	Allowance for Uncollectible Receivables
1,873	477	45,662	86,303	Due from Other Funds (Note 6)
--	--	--	320	Due from Component Unit (Note 6)
2,257	181	12,078	259,475	Due from Other Governmental Agencies
210	106	400	1,102	Inventory of Materials and Supplies (Notes 1 and 12)
--	--	1,031	1,083	Prepaid Costs (Notes 1 and 12)
--	--	1,703	1,703	Land and Improvements Held for Resale (Notes 1 and 12)
--	--	19,871	21,590	Notes Receivables
$ 282,920	$ 55,018	$ 913,232	$ 2,390,707	Total Assets
				LIABILITIES AND FUND BALANCES
				Liabilities
$ 2,421	$ 2,913	$ 6,371	$ 60,891	Accounts Payable
940	988	1,967	66,284	Salaries and Employee Benefits Payable
7,359	4,872	8,449	71,124	Deposits from Others
6,485	3,254	16,346	75,815	Due to Other Funds (Note 6)
1,770	70	5,507	30,403	Due to Other Governmental Agencies
39	--	--	210	Unapportioned Taxes
5,288	1,877	13,467	245,874	Deferred Revenue (Note 1)
24,302	13,974	52,107	550,601	Total Liabilities
				Fund Balances
153,079	30,150	477,733	1,093,446	Reserved (Note 12)
				Unreserved, Reported in
--	--	--	123,979	General Fund
105,539	10,894	199,257	340,750	Special Revenue Funds
--	--	3,651	101,447	Debt Service Funds
--	--	180,477	180,477	Capital Projects Funds
--	--	7	7	Permanent Fund
258,618	41,044	861,125	1,840,106	Total Fund Balances
$ 282,920	$ 55,018	$ 913,232	$ 2,390,707	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 $1,131,140 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		$ 1,840,106
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	$ 481,048	
Structures and improvements	826,865	
Equipment	226,018	
Infrastructure	1,104,098	
Construction in progress	417,643	
Accumulated depreciation	(755,203)	2,300,469
Other assets used in governmental activities do not consume current financial resources and therefore, are not reported in the governmental funds:		
Prepaid pension asset	146,753	
Unamortized bond issuance cost	2,524	
Receivable from other governmental agencies for pension expense	4,862	154,139
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.		52,929
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.		163,023

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.		5,449
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 $1,544,869 which consisted of the following:		
Bonds and COPs payable, net	(1,229,578)	
Compensated employee absences payable	(144,249)	
Pool participants claims	(1,600)	
Capital lease obligations payable	(71,712)	
Arbitrage rebate payable	(34)	
Interest payable on bonds and capital lease obligations payable	(21,370)	
Interest accretion on capital appreciation bonds payable	(73,555)	
Estimated liability - litigation and claims	(2,000)	
Due to fiduciary fund for the county's net pension obligation for the Exra-Help Employees' Defined Benefit Retirement Plan	(771)	(1,544,869)
Net assets of governmental activities		$ 2,971,246

	General Fund	Roads	Public Library	Tobacco Settlement	Refunding Bonds & Recovery COPs & Debt Prepayment
Revenues					
Taxes	$ 237,544	$ --	$ 25,477	$ --	$ --
Licenses, Permits, and Franchises	8,099	335	57	--	--
Fines, Forfeitures and Penalties	40,210	2	8	--	--
Use of Money and Property	6,869	1,582	89	213	8,241
Intergovernmental Revenues	1,361,531	22,391	1,494	--	28,345
Charges for Services	311,082	23,139	1,052	--	--
Contributions from Property Owners	--	--	--	--	--
Other Revenues	169,632	524	379	31,145	--
Total Revenues	2,134,967	47,973	28,556	31,358	36,586
Expenditures					
Current					
General Government	272,762	--	--	18	56
Public Protection	788,007	--	--	--	--
Public Ways and Facilities	27,967	37,289	--	--	--
Health and Sanitation	439,376	--	--	--	--
Public Assistance	605,829	--	--	--	--
Education	--	--	31,069	--	--
Recreation and Cultural Services	--	--	--	--	--
Capital Outlay	39,681	2,566	528	--	--
Debt Service					
Principal Retirement	3,635	--	360	--	39,900
Debt Service Payment to Escrow Bond Agent	--	--	--	--	--
Interest	4,687	--	514	--	50,289
Debt Issuance Costs	--	--	--	--	--
Total Expenditures	2,181,944	39,855	32,471	18	90,245
Excess (Deficit) of Revenues Over Expenditures	(46,977)	8,118	(3,915)	31,340	(53,659)
Other Financing Sources (Uses)					
Transfers In (Note 8)	138,234	--	600	17	66,412
Transfers Out (Note 8)	(126,863)	(1)	--	(41,840)	(7,800)
Premium on Bonds Issued (Note 9)	--	--	--	--	--
Refunding Bonds Issued (Note 9)	--	--	--	--	--
Payment to Refunded Bond Escrow Agent	--	--	--	--	--
Capital Leases (Notes 9 and 11)	18,142	--	--	--	--
Net Change in Fund Balances	(17,464)	8,117	(3,315)	(10,483)	4,953
Fund Balances - Beginning of Year	320,629	109,847	6,393	21,296	239,346
Fund Balances - End of Year	$ 303,165	$ 117,964	$ 3,078	$ 10,813	$ 244,299

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
$ 47,191	$ 35,090	$ 21,785	$ 367,087	Taxes
306	302	6,768	15,867	Licenses, Permits, and Franchises
14	124	19,680	60,038	Fines, Forfeitures and Penalties
3,915	23,850	50,601	95,360	Use of Money and Property
10,194	3,171	166,049	1,593,175	Intergovernmental Revenues
9,380	7,514	8,552	360,719	Charges for Services
--	--	54,570	54,570	Contributions from Property Owners
1,870	1,142	10,651	215,343	Other Revenues
72,870	71,193	338,656	2,762,159	Total Revenues
				Expenditures
				Current
--	--	20,843	293,679	General Government
55,733	--	31,356	875,096	Public Protection
--	--	5,484	70,740	Public Ways and Facilities
--	--	4	439,380	Health and Sanitation
--	--	117,250	723,079	Public Assistance
--	--	--	31,069	Education
--	66,397	209	66,606	Recreation and Cultural Services
16,899	4,663	59,873	124,210	Capital Outlay
				Debt Service
--	--	25,581	69,476	Principal Retirement
--	--	4,314	4,314	Debt Service Payment to Escrow Bond Agent
--	--	12,209	67,699	Interest
--	--	1,279	1,279	Debt Issuance Costs
72,632	71,060	278,402	2,766,627	Total Expenditures
238	133	60,254	(4,468)	Excess (Deficit) of Revenues Over Expenditures
				Other Financing Sources (Uses)
--	14	98,179	303,456	Transfers In (Note 8)
(3,304)	(158)	(115,621)	(295,587)	Transfers Out (Note 8)
--	--	1,660	1,660	Premium on Bonds Issued (Note 9)
--	--	38,465	38,465	Refunding Bonds Issued (Note 9)
--	--	(35,844)	(35,844)	Payment to Refunded Bond Escrow Agent
--	--	--	18,142	Capital Leases (Notes 9 and 11)
(3,066)	(11)	47,093	25,824	Net Change in Fund Balances
261,684	41,055	814,032	1,814,282	Fund Balances - Beginning of Year
$ 258,618	$ 41,044	$ 861,125	$ 1,840,106	Fund Balances - End of Year

The "net change in fund balances" for governmental funds of $25,824 in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances differs from the "change in net assets" for governmental activities of $180,085 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		$ 25,824
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.		31,745
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 $71,834 principal and other long-term liability payments and other financing source are as follows:		
Principal and other long-term liability payments:		
Bonds payable	$ 103,395	
Deferred amount on refunding	1,833	
Option B pool participant claims	800	
Capital lease obligations	4,663	
Arbitrage rebate payable	(11)	
Proceeds from issuance of bonds payable, net of bond premium and bond issuance cost	(38,846)	71,834
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 $60,489 difference are as follows:		
Government mandated and voluntary nonexchange revenues earned in FY 03-04	62,488	
Property tax revenues levied in FY 03-04 but not available	(1,999)	60,489

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 $13,121 difference are as follows:		
Accrued interest expense on bonds payable	(21,370)	
Reversal of prior year's interest expense accrual	22,712	
Amortization of deferred charges	(373)	
Compensated employee absences expense	2,274	
Pension costs and amortization of the County's investment account with OCERS	(2,917)	
Accrued litigations and claims expense	(2,000)	
Interest accretion on capital appreciation bonds	(11,447)	(13,121)
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.		3,314
Change in net assets of governmental activities		$ 180,085

	Open Encumbrances July 1, 2003	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 225,052	$ 521	$ 225,573
Licenses, Permits, and Franchises		7,297	60	7,357
Fines, Forfeitures and Penalties		36,995	(3,438)	33,557
Use of Money and Property		8,622	--	8,622
Intergovernmental Revenues		1,363,697	15,574	1,379,271
Charges for Services		339,254	1,561	340,815
Other Revenues		183,424	58	183,482
Transfers In		160,939	26,028	186,967
Bond Issuance Proceeds		3,203	--	3,203
Capital Leases		--	--	--
Total Revenues and Other Financing Sources		2,328,483	40,364	2,368,847
Expenditures/Encumbrances and Other Financing Uses				
General Government:				
Assessor	$ 491	29,651	--	30,142
Auditor-Controller	765	14,462	--	15,227
Board of Supervisors - 1st District	2	745	--	747
Board of Supervisors - 2nd District	--	738	--	738
Board of Supervisors - 3rd District	1	728	--	729
Board of Supervisors - 4th District	5	735	--	740
Board of Supervisors - 5th District	1	745	--	746
Capital Acquisition Financing	--	8,856	--	8,856
Capital Projects	19,513	45,050	(12,040)	52,523
Clerk of the Board	34	2,322	71	2,427
County Counsel	451	8,365	(145)	8,671
County Executive Office	1,845	21,571	(541)	22,875
Data Systems Development Project	2,724	14,876	(105)	17,495
Employee Benefits	92	7,411	246	7,749
Internal Audit	43	2,203	71	2,317
Miscellaneous	--	164,230	(683)	163,547
Office of Protocol and International Business Development	--	175	--	175
Provisions For Contingencies	--	5,000	22,917	27,917
Recovery Certificates of Participation Lease Financing	--	64,404	3,440	67,844
Registrar of Voters	564	27,924	2,485	30,973
Treasurer-Tax Collector	71	14,441	--	14,512
Utilities	418	21,961	1	22,380
Public Protection:				
Alternate Defense	--	9,959	--	9,959
Child Support Services (Note 1)	173	57,125	4,791	62,089
Clerk-Recorder	287	9,739	684	10,710
Detention Release	--	1,421	--	1,421
District Attorney	529	76,305	2,836	79,670
Emergency Management Division	156	1,237	648	2,041
Grand Jury	--	533	--	533
Juvenile Justice Commission	--	182	--	182
Planning and Development Services Department	126	8,986	(16)	9,096
Probation	3,128	127,140	494	130,762
Public Defender	155	47,604	(391)	47,368
Sheriff-Coroner	7,635	367,619	21,885	397,139
Sheriff-Coroner Communications	110	9,528	854	10,492
Sheriff Court Operations	82	39,235	--	39,317
Trial Courts	228	67,677	4,913	72,818
Public Ways and Facilities:				
Resources and Development Management Department	1,551	45,131	641	47,323
Health and Sanitation:				
Health Care Agency	3,553	471,434	7,611	482,598
Watershed Management Program	2,445	18,053	319	20,817
Public Assistance:				
Aid to Families with Dependent Children - Foster Care	321	123,964	2,261	126,546
Aid to Refugees	--	309	--	309
California Work Opportunities and Responsibility to Kids	--	113,766	732	114,498
Community Services Agency	730	15,022	1,478	17,230
General Relief	--	1,223	--	1,223
Social Services Agency	6,958	377,996	15,251	400,205
Total Expenditures/Encumbrances and Other Financing Uses	55,187	2,447,781	80,708	2,583,676
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(55,187)	(119,298)	(40,344)	(214,829)
Fund Balances - Beginning of Year	--	123,298	--	123,298
Cancellation of Reserves/Designations	--	--	--	--
Fund Balance Reserved for Encumbrances	55,187	--	--	55,187
Provisions for Reserves and/or Designations	--	(4,000)	40,344	36,344
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, 2004	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 237,544	$ 11,971			Taxes
8,099	742			Licenses, Permits, and Franchises
40,210	6,653			Fines, Forfeitures and Penalties
6,869	(1,753)			Use of Money and Property
1,361,531	(17,740)			Intergovernmental Revenues
311,082	(29,733)			Charges for Services
169,632	(13,850)			Other Revenues
138,234	(48,733)			Transfers In
--	(3,203)			Bond Issuance Proceeds
18,142	18,142			Capital Leases
2,291,343	(77,504)			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances and Other Financing Uses
				General Government:
29,286	856	$ 615	$ 241	Assessor
14,281	946	820	126	Auditor-Controller
719	28	--	28	Board of Supervisors - 1st District
711	27	3	24	Board of Supervisors - 2nd District
710	19	--	19	Board of Supervisors - 3rd District
610	130	--	130	Board of Supervisors - 4th District
720	26	2	24	Board of Supervisors - 5th District
6,792	2,064	--	2,064	Capital Acquisition Financing
14,042	38,481	28,715	9,766	Capital Projects
2,400	27	11	16	Clerk of the Board
7,127	1,544	463	1,081	County Counsel
16,984	5,891	1,591	4,300	County Executive Office
14,235	3,260	1,704	1,556	Data Systems Development Project
4,522	3,227	16	3,211	Employee Benefits
2,079	238	8	230	Internal Audit
127,390	36,157	--	36,157	Miscellaneous
168	7	--	7	Office of Protocol and International Business Development
--	27,917	--	27,917	Provisions For Contingencies
67,844	--	--	--	Recovery Certificates of Participation Lease Financing
29,742	1,231	125	1,106	Registrar of Voters
12,921	1,591	29	1,562	Treasurer-Tax Collector
20,176	2,204	2,793	(589)	Utilities
				Public Protection:
9,401	558	--	558	Alternate Defense
75,602	(13,513)	50	(13,563)	Child Support Services (Note 1)
8,451	2,259	1,220	1,039	Clerk-Recorder
1,353	68	--	68	Detention Release
77,175	2,495	1,290	1,205	District Attorney
1,474	567	43	524	Emergency Management Division
495	38	--	38	Grand Jury
160	22	2	20	Juvenile Justice Commission
7,485	1,611	99	1,512	Planning and Development Services Department
124,788	5,974	2,858	3,116	Probation
44,730	2,638	282	2,356	Public Defender
381,437	15,702	9,297	6,405	Sheriff-Coroner
9,102	1,390	174	1,216	Sheriff-Coroner Communications
38,385	932	42	890	Sheriff Court Operations
72,366	452	292	160	Trial Courts
				Public Ways and Facilities:
28,139	19,184	1,990	17,194	Resources and Development Management Department
				Health and Sanitation:
436,529	46,069	2,483	43,586	Health Care Agency
8,187	12,630	2,813	9,817	Watershed Management Program
				Public Assistance:
111,183	15,363	314	15,049	Aid to Families with Dependent Children - Foster Care
236	73	--	73	Aid to Refugees
111,660	2,838	--	2,838	California Work Opportunities and Responsibility to Kids
14,862	2,368	651	1,717	Community Services Agency
910	313	--	313	General Relief
371,238	28,967	6,753	22,214	Social Services Agency
2,308,807	274,869	$ 67,548	$ 207,321	Total Expenditures/Encumbrances and Other Financing Uses
(17,464)	$ 197,365			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
320,629				Fund Balances - Beginning of Year
42,320				Cancellation of Reserves/Designations
67,548				Fund Balance Reserved for Encumbrances
(109,868)				Provisions for Reserves and/or Designations
$ 303,165				Fund Balances - End of Year

	Open Encumbrances July 1, 2003	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Licenses, Permits, and Franchises		$ 459	$ --	$ 459
Fines, Forfeitures and Penalties		15	--	15
Use of Money and Property		2,900	--	2,900
Intergovernmental Revenues		39,304	--	39,304
Charges for Services		14,771	--	14,771
Other Revenues		19,307	3,400	22,707
Transfers In		1,800	(1,800)	--
Total Revenues and Other Financing Sources		78,556	1,600	80,156
Expenditures/Encumbrances and Other Financing Uses				
Public Ways and Facilities:				
Roads	$ 23,055	89,429	(14,545)	97,939
Foothill Circulation Phasing Plan	2,156	7,072	4,036	13,264
Total Expenditures/Encumbrances and Other Financing Uses	25,211	96,501	(10,509)	111,203
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(25,211)	(17,945)	12,109	(31,047)
Fund Balances - Beginning of Year	--	23,338	--	23,338
Cancellation of Reserves/Designations	--	--	--	--
Fund Balance Reserved for Encumbrances	25,211	--	--	25,211
Provisions for Reserves and/or Designations	--	(5,393)	(12,109)	(17,502)
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, 2004	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 335	$ (124)			Licenses, Permits, and Franchises
2	(13)			Fines, Forfeitures and Penalties
1,582	(1,318)			Use of Money and Property
22,391	(16,913)			Intergovernmental Revenues
23,139	8,368			Charges for Services
524	(22,183)			Other Revenues
--	--			Transfers In
47,973	(32,183)			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances and Other Financing Uses
				Public Ways and Facilities:
39,378	58,561	$ 30,728	$ 27,833	Roads
478	12,786	5,363	7,423	Foothill Circulation Phasing Plan
39,856	71,347	$ 36,091	$ 35,256	Total Expenditures/Encumbrances and Other Financing Uses
8,117	$ 39,164			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
109,847				Fund Balances - Beginning of Year
(104,035)				Cancellation of Reserves/Designations
36,091				Fund Balance Reserved for Encumbrances
67,944				Provisions for Reserves and/or Designations
$ 117,964				Fund Balances - End of Year

	Open Encumbrances July 1, 2003	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 25,386	$ (237)	$ 25,149
Licenses, Permits, and Franchises		--	4,528	4,528
Fines, Forfeitures and Penalties		8	--	8
Use of Money and Property		122	(35)	87
Intergovernmental Revenues		1,444	(178)	1,266
Charges for Services		1,202	(150)	1,052
Other Revenues		4,705	(4,492)	213
Transfers In		724	1,885	2,609
Total Revenues and Other Financing Sources		33,591	1,321	34,912
Expenditures/Encumbrances and Other Financing Uses				
Education:				
Public Library - Capital	$ 728	5,158	828	6,714
Public Library	754	29,913	1,897	32,564
Total Expenditures/Encumbrances and Other Financing Uses	1,482	35,071	2,725	39,278
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(1,482)	(1,480)	(1,404)	(4,366)
Fund Balances - Beginning of Year	--	1,480	--	1,480
Cancellation of Reserves/Designations	--	--	--	--
Fund Balance Reserved for Encumbrances	1,482	--	--	1,482
Provisions for Reserves and/or Designations	--	--	1,404	1,404
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, 2004	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 25,477	$ 328			Taxes
57	(4,471)			Licenses, Permits, and Franchises
8	--			Fines, Forfeitures and Penalties
89	2			Use of Money and Property
1,494	228			Intergovernmental Revenues
1,052	--			Charges for Services
379	166			Other Revenues
600	(2,009)			Transfers In
29,156	(5,756)			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances and Other Financing Uses
				Education:
526	6,188	$ 280	$ 5,908	Public Library - Capital
31,945	619	410	209	Public Library
32,471	6,807	$ 690	$ 6,117	Total Expenditures/Encumbrances and Other Financing Uses
(3,315)	$ 1,051			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
6,393				Fund Balances - Beginning of Year
(2,760)				Cancellation of Reserves/Designations
690				Fund Balance Reserved for Encumbrances
2,070				Provisions for Reserves and/or Designations
$ 3,078				Fund Balances - End of Year

	Open Encumbrances July 1, 2003	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Use of Money and Property		$ 15	$ --	$ 15
Other Revenues		30,125	--	30,125
Transfers In		--	--	--
Total Revenues and Other Financing Sources		30,140	--	30,140
Expenditures/Encumbrances and Other Financing Uses				
General Government:				
Orange County Tobacco Settlement Fund	$ --	41,455	8,702	50,157
Tobacco Settlement Funds	--	1,474	(195)	1,279
Total Expenditures/Encumbrances and Other Financing Uses	--	42,929	8,507	51,436
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	--	(12,789)	(8,507)	(21,296)
Fund Balances - Beginning of Year	--	12,789	--	12,789
Cancellation of Reserves/Designations	--	--	8,507	8,507
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, 2004	Variance: Unspent Appropriations	
				Revenues
$ 213	$ 198			Use of Money and Property
31,145	1,020			Other Revenues
17	17			Transfers In
31,375	1,235			Total Revenues
				Expenditures/Encumbrances and Other Financing Uses
				General Government:
41,858	8,299	$ --	$ 8,299	Orange County Tobacco Settlement Fund
--	1,279	--	1,279	Tobacco Settlement Funds
41,858	9,578	$ --	$ 9,578	Total Expenditures/Encumbrances and Other Financing Uses
(10,483)	$ 10,813			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
21,296				Fund Balances - Beginning of Year
--				Cancellation of Reserves/Designations
$ 10,813				Fund Balances - End of Year

	Open Encumbrances July 1, 2003	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 43,571	$ 1	$ 43,572
Licenses, Permits, and Franchises		222	--	222
Fines, Forfeitures and Penalties		--	--	--
Use of Money and Property		5,644	--	5,644
Intergovernmental Revenues		12,095	--	12,095
Charges for Services		8,105	--	8,105
Other Revenues		1,082	--	1,082
Transfers In		--	10	10
Total Revenues and Other Financing Sources		70,719	11	70,730
Expenditures/Encumbrances and Other Financing Uses				
Public Protection:				
Flood Control District	$ 20,805	82,662	1,011	104,478
Santa Ana River Environmental Enhancement	--	238	(4)	234
Flood Control District - Capital	3,891	88,817	--	92,708
Total Expenditures/Encumbrances and Other Financing Uses	24,696	171,717	1,007	197,420
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(24,696)	(100,998)	(996)	(126,690)
Fund Balances - Beginning of Year	--	70,643	--	70,643
Cancellation of Reserves/Designations	--	30,355	--	30,355
Fund Balance Reserved for Encumbrances	24,696	--	--	24,696
Provisions for Reserves and/or Designations	--	--	996	996
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, 2004	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 47,191	$ 3,619			Taxes
306	84			Licenses, Permits, and Franchises
14	14			Fines, Forfeitures and Penalties
3,915	(1,729)			Use of Money and Property
10,194	(1,901)			Intergovernmental Revenues
9,380	1,275			Charges for Services
1,870	788			Other Revenues
--	(10)			Transfers In
72,870	2,140			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances and Other Financing Uses
				Public Protection:
59,740	44,738	$ 14,122	$ 30,616	Flood Control District
--	234	2	232	Santa Ana River Environmental Enhancement
16,196	76,512	3,664	72,848	Flood Control District - Capital
75,936	121,484	$ 17,788	$ 103,696	Total Expenditures/Encumbrances and Other Financing Uses
(3,066)	$ 123,624			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
261,684				Fund Balances - Beginning of Year
(153,079)				Cancellation of Reserves/Designations
17,788				Fund Balance Reserved for Encumbrances
135,291				Provisions for Reserves and/or Designations
$ 258,618				Fund Balances - End of Year

	Open Encumbrances July 1, 2003	Original Budget	Mid-Year Budget Adjustments	Final Budget
Revenues and Other Financing Sources				
Taxes		$ 33,914	$ (2)	$ 33,912
Licenses, Permits, and Franchises		231	--	231
Fines, Forfeitures and Penalties		22	102	124
Use of Money and Property		24,749	(452)	24,297
Intergovernmental Revenues		13,004	828	13,832
Charges for Services		6,607	235	6,842
Other Revenues		1,091	152	1,243
Transfers In		799	943	1,742
Capital Leases		--	--	--
Total Revenues and Other Financing Sources		80,417	1,806	82,223
Expenditures/Encumbrances and Other Financing Uses				
Recreation and Cultural Services:				
County Tidelands - Newport Bay	$ 86	3,065	665	3,816
County Tidelands - Dana Point	2,352	19,069	(1,127)	20,294
Harbors, Beaches, and Parks	5,929	72,264	1,673	79,866
Total Expenditures/Encumbrances and Other Financing Uses	8,367	94,398	1,211	103,976
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses	(8,367)	(13,981)	595	(21,753)
Fund Balances - Beginning of Year	--	16,316	--	16,316
Cancellation of Reserves/Designations	--	150	--	150
Fund Balance Reserved for Encumbrances	8,367	--	--	8,367
Provisions for Reserves and/or Designations	--	(2,485)	(595)	(3,080)
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, 2004	Variance: Unspent Appropriations	
				Revenues and Other Financing Sources
$ 35,090	$ 1,178			Taxes
302	71			Licenses, Permits, and Franchises
124	--			Fines, Forfeitures and Penalties
23,850	(447)			Use of Money and Property
3,171	(10,661)			Intergovernmental Revenues
7,514	672			Charges for Services
1,142	(101)			Other Revenues
14	(1,728)			Transfers In
--	--			Capital Leases
71,207	(11,016)			Total Revenues and Other Financing Sources
				Expenditures/Encumbrances and Other Financing Uses
				Recreation and Cultural Services:
1,880	1,936	$ 297	$ 1,639	County Tidelands - Newport Bay
17,518	2,776	2,520	256	County Tidelands - Dana Point
51,820	28,046	7,933	20,113	Harbors, Beaches, and Parks
71,218	32,758	$ 10,750	$ 22,008	Total Expenditures/Encumbrances and Other Financing Uses
(11)	$ 21,742			Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures/ Encumbrances and Other Financing Uses
41,055				Fund Balances - Beginning of Year
(30,151)				Cancellation of Reserves/Designations
10,750				Fund Balance Reserved for Encumbrances
19,401				Provisions for Reserves and/or Designations
$ 41,044				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)	$ 34,794	$ 203,020	$ 237,814	$ 157,473
Cash Equivalents/Specific Investments (Notes 1 and 3)	24,396	--	24,396	--
Cash/Cash Equivalents (Notes 1 and 3)	1,521	--	1,521	--
Imprest Cash Funds (Note 3)	14	35	49	133
Restricted Cash and Investments with Trustee (Note 3)	29,164	10,331	39,495	--
Restricted Pooled Cash/Investments (Note 3)	1,654	18,878	20,532	--
Investments (Notes 1 and 3)	1,352	--	1,352	--
Deposits In-Lieu of Cash	15,063	17,207	32,270	--
Receivables				
Accounts	2,788	11,180	13,968	175
Interest/Dividends	318	1	319	--
Allowance for Uncollectible Receivables	(4)	(1)	(5)	(1)
Due from Other Funds (Note 6)	177	761	938	1,676
Due from Component Unit	--	--	--	1
Due from Other Governmental Agencies	2,701	687	3,388	107
Inventory of Materials and Supplies (Note 1)	--	--	--	286
Prepaid Costs (Note 1)	2,005	--	2,005	--
Total Current Assets	115,943	262,099	378,042	159,850
Noncurrent Assets				
Restricted Pooled Cash/Investments - Closure and Postclosure Care Costs (Notes 1, 3, and 13)	--	170,478	170,478	--
Investments (Notes 1 and 3)	18,384	--	18,384	--
Capital Assets: (Note 4)				
Land	15,678	18,430	34,108	--
Structures and Improvements	326,010	6,750	332,760	4,509
Accumulated Depreciation	(133,986)	(2,664)	(136,650)	(3,560)
Equipment	8,701	40,999	49,700	86,148
Accumulated Depreciation	(5,744)	(19,534)	(25,278)	(60,881)
Construction in Progress	24,810	38,027	62,837	704
Infrastructure	117,528	190,980	308,508	--
Accumulated Depreciation	(69,027)	(56,971)	(125,998)	--
Bond Issuance Costs	1,046	587	1,633	--
Total Noncurrent Assets	303,400	387,082	690,482	26,920
Total Assets	419,343	649,181	1,068,524	186,770

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	$ 7,847	$ 9,887	$ 17,734	$ 2,905
Salaries and Employee Benefits Payable	556	953	1,509	922
Deferred Revenue	2,779	--	2,779	--
Due to Other Funds (Note 6)	1,856	3,767	5,623	746
Due to Other Governmental Agencies	256	2,120	2,376	5
Insurance Claims Payable (Notes 1 and 15)	--	--	--	55,751
Compensated Employee Absences Payable (Notes 1 and 9)	802	1,363	2,165	920
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	3,025	3,025	--
Bonds Payable (Notes 1 and 9)	9,507	3,846	13,353	--
Capital Lease Obligations Payable (Note 9)	--	--	--	1,188
Interest Payable	--	253	253	--
Deposits from Others	19,738	17,804	37,542	--
Total Current Liabilities	43,341	43,018	86,359	62,437
Noncurrent Liabilities				
Insurance Claims Payable (Notes 1 and 15)	--	--	--	72,083
Compensated Employee Absences Payable (Notes 1 and 9)	772	1,713	2,485	930
Landfill Site Closure/Postclosure Liability (Notes 9 and 13)	--	169,632	169,632	--
Bonds Payable (Notes 1 and 9)	123,544	49,386	172,930	--
Capital Lease Obligations Payable (Note 9)	--	--	--	5,244
Arbitrage Rebate Payable (Note 9)	--	88	88	--
Total Noncurrent Liabilities	124,316	220,819	345,135	78,257
Total Liabilities	167,657	263,837	431,494	140,694
NET ASSETS				
Invested in Capital Assets, Net of Related Debt (Note 1)	151,965	163,370	315,335	20,491
Restricted (Note 1)	29,164	55,922	85,086	--
Unrestricted (Note 1)	70,557	166,052	236,609	25,585
Total Net Assets	$ 251,686	$ 385,344	637,030	$ 46,076
Adjustment to reflect the consolidation of internal service funds' activities related to enterprise funds.			(1,400)	
Cumulative effect of prior year's internal service funds' allocation.			(5,528)	
Net assets of business-type activities			$ 630,102	

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSET
PROPRIETARY FUNDS

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Airport	Waste Management	Total	
Operating Revenues				
Use of Property	$ 77,290	$ 618	$ 77,908	$ 1,500
Licenses, Permits, and Franchises	--	47	47	--
Charges for Services	13,367	111,764	125,131	58,700
Insurance Premiums	--	--	--	140,616
Other Revenues	--	448	448	--
Total Operating Revenues	90,657	112,877	203,534	200,816
Operating Expenses				
Salaries and Employee Benefits	10,756	19,201	29,957	13,632
Services and Supplies	13,594	13,915	27,509	28,012
Professional Services	25,075	12,331	37,406	28,938
Operating Leases	149	646	795	5,031
Insurance Claims (Note 15)	--	--	--	110,797
Other Charges	--	--	--	15,144
Taxes and Other Fees	--	8,447	8,447	--
Landfill Site Closure/Postclosure Costs (Note 13)	--	1,173	1,173	--
Depreciation (Note 4)	18,512	11,233	29,745	5,073
Total Operating Expenses	68,086	66,946	135,032	206,627
Operating Income (Loss)	22,571	45,931	68,502	(5,811)
Nonoperating Revenues (Expenses)				
Fines, Forfeitures and Penalties	--	30	30	--
Intergovernmental Revenues	409	401	810	42
Interest Revenue	1,952	4,696	6,648	1,507
Interest Expense	(8,838)	(3,535)	(12,373)	(552)
Gain (Loss) on Disposition of Capital Assets	(8)	20	12	(124)
Other Revenue (Expense) - Net	505	(248)	257	1,547
Total Nonoperating Revenues (Expenses)	(5,980)	1,364	(4,616)	2,420
Income (Loss) Before Contributions and Transfers	16,591	47,295	63,886	(3,391)
Capital Contributions	6,183	--	6,183	34
Transfers In (Note 8)	70	2	72	4,286
Transfers Out (Note 8)	--	(12,227)	(12,227)	--
Increase in Net Assets	22,844	35,070	57,914	929
Net Assets - Beginning of Year	228,842	350,274		45,147
Net Assets - End of Year	$ 251,686	$ 385,344		$ 46,076
Adjustment to reflect the consolidation of internal servic funds' activities related to enterprise funds.			(1,400)	
Increase in Net Assets of Business-Type Activities			$ 56,514	

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 - Internal Service Funds
	Airport	Waste Management	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$ 92,125	$ 113,823	$ 205,948	$ 60,221
Cash Received for Premiums Within the County's Entity	--	--	--	140,616
Payments to Suppliers for Goods and Services	(38,695)	(22,818)	(61,513)	(150,764)
Payments to Employees for Services	(10,604)	(18,769)	(29,373)	(12,925)
Payments to Other Funds for Interfund Services Provided	571	106	677	48
Cash Received from (Paid for) Interfund Charges	(93)	(382)	(475)	2,736
Retiree Healthcare Contribitions	--	--	--	(15,121)
Landfill Site Closure/Postclosure Care Costs	--	(9,737)	(9,737)	--
Taxes and Other Fees	--	(8,446)	(8,446)	--
Other Operating Receipts (Payments)	508	(675)	(167)	(3,508)
Net Cash Provided by Operating Activities	43,812	53,102	96,914	21,303
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	70	2	72	4,098
Transfers Out	--	(12,190)	(12,190)	--
Intergovernmental Revenues	409	401	810	42
Net Cash Provided (Used) by Noncapital Financing Activities	479	(11,787)	(11,308)	4,140
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	(14,216)	(26,631)	(40,847)	(3,184)
Principal Paid on Bonds	(8,110)	(4,080)	(12,190)	--
Interest Paid on Long-Term Debt	(7,628)	(3,007)	(10,635)	(334)
Capital Contributions	4,484	--	4,484	--
Transfers In	--	--	--	188
Principal Paid on Capital Lease Obligations	--	--	--	(1,360)
Proceeds from Sale of Capital Assets	--	40	40	308
Net Cash Used by Capital and Related Financing Activities	(25,470)	(33,678)	(59,148)	(4,382)
CASH FLOW FROM INVESTING ACTIVITIES				
Interest on Investments	1,704	5,609	7,313	1,503
Purchases of Investments	464	-	464	--
Increase in Restricted Investments with Trustee	- -	(82)	(82)	--
Net Cash Provided by Investing Activities	2,168	5,527	7,695	1,503
Net Increase in Cash and Cash Equivalents	20,989	13,164	34,153	22,564
Cash Balances - Beginning of Year	52,592	379,247	431,839	135,042
Cash Balances - End of Year	$ 73,581	$ 392,411	$ 465,992	$ 157,606

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	
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	$ 22,571	$ 45,931	$ 68,502	$ (5,811)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation	18,512	11,233	29,745	5,073
Provision for Landfill Site Closure/Postclosure Costs	--	1,173	1,173	--
Fines, Forfeitures and Penalties	--	30	30	--
Other Revenue (Expense)	506	(114)	392	1,547
Landfill Site Closure Disbursements	--	(9,737)	(9,737)	--
(Increases) Decreases In:				
Deposits In-Lieu of Cash	388	357	745	--
Accounts Receivable	214	939	1,153	34
Due from Other Funds	(93)	(382)	(475)	2,731
Due from Component Unit	--	--	--	3
Due from Other Governmental Agencies	(128)	(5)	(133)	(14)
Prepaid Costs	22	--	22	--
Inventory of Materials and Supplies	--	--	--	328
Increases (Decreases) In:				
Accounts Payable	(155)	3,387	3,232	964
Salaries and Employee Benefits Payable	166	286	452	505
Deposits from Others	289	(346)	(57)	--
Due to Other Funds	571	106	677	48
Due to Other Governmental Agencies	256	41	297	--
Insurance Claims Payable	--	--	--	15,692
Deferred Revenue	706	(1)	705	(2)
Compensated Employee Absences Payable	(13)	147	134	205
Arbitrage Rebate Payable	--	57	57	--
Total Adjustments	21,241	7,171	28,412	27,114
Net Cash Provided by Operating Activities	$ 43,812	$ 53,102	$ 96,914	$ 21,303
Reconciliation of Cash and Cash Equivalents to Statement of Fund Net Assets Accounts				
Pooled Cash/Investments	$ 34,794	$ 203,020	$ 237,814	$ 157,473
Cash Equivalents/Specific Investments	24,396	--	24,396	--
Cash/Cash Equivalents	1,521	--	1,521	--
Imprest Cash Funds	14	35	49	133
Restricted Pooled Cash/Investments	1,654	18,878	20,532	--
Restricted Cash and Investments with Trustee	11,202 (1)	-- (2)	11,202	--
Restricted Pooled Cash/Investments - Closure & Postclosure Care Costs	--	170,478	170,478	--
Total Cash and Cash Equivalents	$ 73,581	$ 392,411	$ 465,992	$ 157,606

Schedule of Noncash Investing, Capital, and Financing Activities:
- The Waste Management Enterprise Fund disposed $134 of capital assets.
- During the year, the Internal Service Funds of Transportation and Information and Technology received $34 of capital contributions from the General Fund.

(1) Does not include $17,962 from Airport's nonliquid Restricted Cash and Investments with Trustee.
(2) Does not include $10,331 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)	$ 45,633	$ 2,496,410	$ 4,696	$ 144,805
Imprest Cash Funds (Notes 1 and 3)	--	--	--	110
Restricted Cash and Investments				
with Trustees (Notes 1 and 3)	2,886	--	4,325	15,993
Investments (Notes 1 and 3)	--	--	--	1,116
Deposits In-Lieu of Cash	--	--	--	15,079
Receivables				
Accounts	5	--	--	8,560
Taxes (Note 1)	--	--	--	140,558
Interest/Dividends	--	5,926	--	5,900
Allowance for Uncollectible Receivables	(3)	--	--	(2)
Due from Other Funds (Note 6)	241	612	9	105
Due from Other Governmental Agencies	--	--	771	2,508
Notes Receivable	--	--	--	7,783
Total Assets	48,762	2,502,948	9,801	$ 342,515
LIABILITIES				
Accounts Payable	1,323	--	148	--
Deposits from Others	--	--	--	361
Monies Held for Others	--	--	--	78,742
Due to Other Funds (Note 6)	35	111	--	7,554
Due to Component Unit (Note 6)	--	--	--	289
Due to Other Governmental Agencies	--	--	--	29,012
Unapportioned Taxes	--	--	--	226,557
Total Liabilities	1,358	111	148	$ 342,515
NET ASSETS				
Held in Trust (Note 12)	47,404	2,502,837	9,653	
Total Net Assets	$ 47,404	$ 2,502,837	$ 9,653	

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, 2004

	Private-Purpose Trust	Investment Trust Funds	Pension Trust and Other Employee Benefits
Additions:			
Contributions to Pension Trust	$ --	$ --	$ 2,593
Contributions to Pooled Investments	--	6,495,229	--
Contributions to Private-Purpose Trust	317,919	--	--
Interest and Investment Income	541	28,901	274
Less: Investment Expense	(51)	(2,868)	(5)
Total Additions	318,409	6,521,262	2,862
Deductions:			
Benefits Paid to Participants	--	--	48
Refunds of Prior Contributions	--	--	907
Distributions from Pooled Investments	--	6,242,799	--
Distributions from Private-Purpose Trust	321,087	--	--
Total Deductions	321,087	6,242,799	955
Change in Net Assets Held in Trust For:			
Private-Purpose Trust	(2,678)	--	--
External Investment Pool	--	278,463	--
Employees' Retirement	--	--	1,907
Net Assets Held in Trust, Beginning of Year	50,082	2,224,374	7,746
Net Assets Held in Trust, End of Year	$ 47,404	$ 2,502,837	$ 9,653

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

COUNTY OF ORANGE
CALIFORNIA

Notes to the Basic Financial Statements

COUNTY OF ORANGE CALIFORNIA

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

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

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

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

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide and fund financial statements. The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements 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. 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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government-Wide Financial Statements (Continued)

- 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. Capital assets cannot readily be sold and converted to cash.

- 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, 2004, the County reported restricted net assets of $992,774 restricted for the following purposes:

Restricted for:	Amount
Capital projects	$ 207,838
Debt service	155,964
Legally segregated special revenue funds restricted for grants and other purposes	628,881
Regional park endowment	91
Total restricted net assets	$ 992,774

  Restricted Net Assets for business-type activities amounted to $314,767 and are restricted for the use of Airport and Waste Management activities, including debt service.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and proprietary fund financial statements is on major funds. The financial information of each major fund is shown in a separate column in the fund financial statements, with the data for all nonmajor governmental funds aggregated into a single column and all nonmajor proprietary funds aggregated into a single column. GASB Statement No. 34 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.

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

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

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

Refunding 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements (Continued)

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

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

The County reports the following major proprietary enterprise funds:

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

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

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

Proprietary Funds

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

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

There are two types of proprietary funds:

- *Enterprise Funds*
- *Internal Service Funds*

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary Funds (Continued)

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

Governmental Funds

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of accounting, revenues and other governmental fund type financial resources increments (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days 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. For the year ended June 30, 2004, the County reported deferred revenue of $245,874 in the governmental funds' Balance Sheet, of which $163,023 represents the amount of intergovernmental revenues unavailable for revenue recognition.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Governmental Funds (Continued)

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

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

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

D. Budget Adoption and Revision

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budget Adoption and Revision (Continued)

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

- *Roads*
- *Public Library*
- *Tobacco Settlement*
- *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 2003-04, expenditures exceeded appropriations in the Child Support Services Agency (CSS) (the legal level of budgetary control) of the General Fund by $13,563, caused by the County entering into a capital lease for a building with a net present value of $18,000. The Board of Supervisors approved the execution of this capital lease on December 16, 2003, without increasing appropriations. This excess expenditure was funded by an other financing source of $18,000. The County will annually budget the required lease payments, but does not budget for the GAAP requirement to report both an other financing source and an 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost 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, 2004, the County has prepaid costs of $150,360 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 $146,753. See Note 18 for additional information regarding this pension investment asset for the County's Retirement Plans.

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.

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

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Capital Assets (Continued)

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

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

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

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

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

Property tax collections are apportioned (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 and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule. The County's portion of the unapportioned taxes at June 30, 2004 is allocated to the corresponding funds for reporting purposes.

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

The County 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, 2004, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.29 percent of the combined beginning secured and unsecured property tax roll charge.

(Dollar Amounts in Thousands)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Taxes (Continued)

The following are significant dates on the property tax calendar:

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

M. Compensated Employee Absences

Compensated employee absences (vacation, compensatory time off, performance incentive plan time off, annual leave and sick leave) are accrued as an expense and liability in the proprietary funds when incurred. In the governmental funds, only those amounts that are due and payable at year-end are accrued. Compensated employee absences that exceed this amount represent a reconciling item between the fund and government-wide presentations.

N. Statement of Cash Flows

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

O. Indirect Costs

County indirect costs are allocated to benefiting departments in the "Indirect Expenses Allocation" column of the government-wide Statement of Activities. Allocated costs are from the County's FY 2003-04 County-Wide Cost Allocation Plan (CWCAP), which was prepared in accordance with the Federal Office of Management and Budget Circular A-87. The County has elected to allocate indirect costs to agencies within the General Fund that were not billed in FY 2003-04 in order to match the reimbursement of indirect costs recorded as program revenues to the same function that the related expense is recorded in.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements

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

In March 2003, GASB issued Statement No. 40, "*Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*" This statement addresses common deposit and investment risks related to credit risks, concentration of credit risk, interest rate risk, and foreign currency risk and is effective for fiscal periods beginning after June 15, 2004. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. The County Treasurer has implemented the new reporting requirements for the fiscal year 2003-04 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 June 30, 2005. 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 of Orange intends to implement the new reporting requirements for the fiscal year 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 June 30, 2006. 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 of Orange intends to implement the new reporting requirements for the fiscal year 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 30, 2005. These amendments add 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 of Orange plans to implement the new reporting requirements for fiscal year 2005-06 financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Effects of New Pronouncements (Continued)

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 of Orange plans to implement the new reporting requirements for fiscal year 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. Orange County currently does not have a Tobacco Settlement Authority.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	$ 59,914

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. The County will continue to review charges to departments in relationship to the IBNR and adjust them as deemed appropriate.

3. DEPOSITS AND INVESTMENTS

Deposits and investments (including repurchase agreements) totaled $5,479,034 as of June 30, 2004. 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 in order of priority, are: 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.

3. DEPOSITS AND INVESTMENTS (Continued)

A. Deposits (Continued)

Total County deposits and investments at fair value as of June 30, 2004 are reported as follows:

Deposits:	
Imprest Cash	$ 1,620
Deposit Overdraft	(78,485)
Total Cash Overdrafts	(76,865)
Investments:	
With Treasurer	4,989,027
With Trustee	566,872
Total Investments	5,555,899
Total Deposits and Investments	$ 5,479,034

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

Governmental Funds	$ 1,942,590
Component Unit	148,843
Fiduciary Funds	2,715,974
Proprietary Funds	671,627
Total Deposits and Investments	$ 5,479,034

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 with at least one billion dollars in assets, 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 cost adjusted no less frequently than weekly (50%); the Money Market Fund may invest in funding agreements (10%);

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

External Investment Pools (Continued)

the Money Market Funds may also invest in securities lending agreements 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, as applicable, (governing the investment of public funds) and other relevant California Government Code provisions.

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

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 (in absolute dollar amount), 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 7, 2004, Fitch reaffirmed the Pools’ ratings of “AAA/V1+.” In April 2004, Moody’s Investor Service reaffirmed credit ratings of Aaa and MR1 market risk ratings for the County and Educational Investment Pools. The Pools are not registered with the SEC.

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, 2004, the County Pool includes approximately 7.64 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures

As of June 30, 2004, the major classes of the County's deposits and investments consisted of the following:

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
With Treasurer:					
County Pool					
U.S. Government Agencies	$ 613,479	$ 617,006	Discount, 1.03-6.25%	07/15/04-03/08/07	1.06
Bankers' Acceptances	29,837	29,905	Discount	08/02/04-10/01/04	0.16
Commercial Paper	966,968	967,878	Discount	07/01/04-10/08/04	0.07
Negotiable Certificates of Deposit	427,797	428,000	1.05-1.49%	07/06/04-05/04/05	0.33
Medium-Term Corporate Notes	391,470	389,939	1.30-6.875%	07/15/04-02/16/05	0.19
Other Corporate Notes	52,331	50,700	4.48%	02/22/05	0.65
Repurchase Agreements	140,000	140,000	1.61%	07/01/04	0.00
Money Market Mutual Funds	12,832	12,832	Variable	07/01/04	0.00
	$ 2,634,714	$ 2,636,260			0.37 *
Educational Pool					
U.S. Government Agencies	$ 835,105	$ 837,770	Discount, 1.03-6.25%	07/01/04-03/08/07	0.66
Bankers' Acceptances	29,862	30,000	Discount	08/18/04-11/01/04	0.29
Commercial Paper	723,796	724,743	Discount	07/06/04-10/08/04	0.09
Negotiable Certificates of Deposit	244,932	245,000	1.05-1.40%	07/06/04-10/25/04	0.13
Medium-Term Corporate Notes	295,357	294,204	1.10-7.125%	07/15/04-11/08/04	0.14
Other Corporate Notes	51,608	50,000	4.48%	02/22/05	0.65
Repurchase Agreements	80,000	80,000	1.61%	07/01/04	0.00
Money Market Mutual Funds	32,344	32,344	Variable	07/01/04	0.00
	$ 2,293,004	$ 2,294,061			0.32 *
Specific Investments					
U.S. Government Agencies	$ 20,288	$ 20,322	Discount, 1.31%	09/10/03-03/31/05	0.12
U.S. Treasury Notes	1,997	2,000	1.63%	03/31/05	0.75
Commercial Paper	16,728	16,750	Discount	03/02/04-09/07/04	0.09
Negotiable Certificates of Deposit	3,500	3,500	1.08-1.26%	05/14/04-07/30/04	0.06
Repurchase Agreements	1,082	1,082	6.18%	07/01/04	15.13
Money Market Mutual Funds	17,714	17,714	Variable	07/01/04	0.00
	$ 61,309	$ 61,368			0.36 *

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity (Years)
With Trustee:					
Restricted Investments with Trustee					
U.S. Government Agencies	$ 219,083	$ 164,984	4.39-6.15%	08/20/04-09/01/16	13.60
U.S. Treasury Bonds	3,139	2,558	9%	11/15/18	14.38
U.S. Treasury Strips	8,821	6,281	0%	8/15/04-11/15/18	0.39
Guaranteed Investment Contracts	246,395	246,395	1.15-6.77%	11/1/05-07/02/26	8.49
Repurchase Agreements	218	218	0.86%	07/01/04	0.08
Money Market Mutual Funds	89,216	89,216	Variable	07/01/04	0.00
	$ 566,872	$ 509,652			9.03 *

* Portfolio weighted average maturity

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. Of the $2,634,714 County Pool and $2,293,004 Educational Pool portfolio at June 30, 2004, over 77.28% and 84.41%, respectively of the investments have a maturity of six months or less. Of the remainder, only 11.40% and 9.5%, respectively, have a maturity of more than 1 year.

As of June 30, 2004, variable-rate notes comprised 14.38% and 9.74% 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, 2004, the weighted average maturity in years of the County Pool was 0.37 and the Educational Pool was 0.32. At the same date, the Net Asset Value (NAV) of the Money Market Funds for both pools was $1.00 (in absolute dollar amount). The average daily investment balance of the County Pool and the Educational Pool amounted to $2,640,000 and $2,330,000, with an average effective yield of 1.27% and 1.20%, respectively, for the year ended June 30, 2004.

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.

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investments Disclosures (Continued)

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations (NRSROs). 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, 2004, the County's investments in commercial paper were rated A-1 by S&P, P-1 by Moody's or F-1 by Fitch.

Concentration of Credit Risk

At June 30, 2004, 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.

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, 2004 (NR means Not Rated):

Investments	S & P	Moody's	Fitch	% of Portfolio
County Pool				
U.S. Government Agencies	AAA	Aaa	AAA	23.28%
Bankers' Acceptances	A-1	P-1	F1	1.13%
Commercial Paper	A-1	P-1	F1	36.71%
Negotiable Certificates of Deposit	A-1	P-1	F1	16.24%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	5.16%
Corporate Notes	NR	Aa	AA	4.17%
Corporate Notes	AAA	Aaa	AAA	5.52%
Other Corporate Notes	AAA	Aaa	AAA	1.99%
Money Market Mutual Funds	AAA	Aaa	AAA	0.49%
Repurchase Agreements	NR	NR	NR	5.31%
Total County Pool				**100.00%**
Educational Pool				
U.S. Government Agencies	AAA	Aaa	AAA	36.42%
Bankers' Acceptances	A-1	P-1	F1	1.30%
Commercial Paper	A-1	P-1	F1	31.57%
Negotiable Certificates of Deposit	A-1	P-1	F1	10.68%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	5.23%
Corporate Notes	NR	Aa	AA	3.05%

(Dollar Amounts in Thousands)

3. DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investment Disclosures (Continued)

Investments	S&P	Moody's	Fitch	% of Portfolio
Corporate Notes	AAA	Aaa	AAA	4.60%
Other Corporate Notes	AAA	Aaa	AAA	2.25%
Money Market Mutual Funds	AAA	Aaa	AAA	1.41%
Repurchase Agreements	NR	NR	NR	3.49%
Total Educational Pool				**100.00%**
Specific Investments				
U.S. Government Agencies	AAA	Aaa	AAA	33.09%
US Treasury Notes	AAA	Aaa	AAA	3.26%
Commercial Paper	A-1	P-1	F1	27.29%
Negotiable Certificates of Deposit	A-1	P-1	F1	5.71%
Repurchase Agreements	AAA	Aaa	AAA	1.76%
Money Market Mutual Funds	AAA	Aaa	AAA	28.89%
Total Specific Investments				**100.00%**
Restricted Investments with Trustees				
U.S. Government Agencies	NR	Aaa	AAA	38.65%
U.S. Treasury Bonds	NR	Aaa	AAA	0.55%
U.S. Treasury Strips	NR	NR	NR	1.56%
Guaranteed Investment Contracts				
Investment Contracts	AAA	Aaa	AAA	27.21%
Investment Contracts	AAA	A	AAA	0.18%
Investment Contracts	AAA	A	AA	10.93%
Investment Contracts	NR	NR	NR	5.14%
Repurchase Agreement	AAA	Aaa	AAA	0.04%
Money Market Mutual Funds	AAA	Aaa	AAA	15.74%
Total Restricted Investments with Trustees				**100.00%**

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, 2004:

	County Pool	Educational Pool	Total
Statement of Net Assets			
Net assets held for pool participants	$ 3,236,689	$ 2,258,978	$ 5,495,667
Equity of internal pool participants	$ 2,992,830	$ --	$ 2,992,830
Equity of external pool participants	243,859	2,258,978	2,502,837
Total Net Assets	$ 3,236,689	$ 2,258,978	$ 5,495,667
Statement of Changes in Net Assets			
Net assets at July 1, 2003	$ 3,112,298	$ 2,013,487	$ 5,125,785
Net change in investments by pool participants	124,391	245,491	369,882
Net Assets at June 30, 2004	$ 3,236,689	$ 2,258,978	$ 5,495,667

(Dollar Amounts in Thousands)

4. CHANGES IN CAPITAL ASSETS

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

	Primary Government				
	Balance July 1, 2003	Increases	Decreases	Adjustment	Balance June 30, 2004
Governmental activities :					
Capital assets not depreciated:					
Land	$ 475,695	$ 5,372	$ (19)	$ --	$ 481,048
Construction in progress	389,746	67,613	(39,012)	--	418,347
Total capital assets not being depreciated	865,441	72,985	(39,031)	--	899,395
Capital assets, depreciable					
Structures and Improvements	752,403	50,233	(7,625)	36,363	831,374
Equipment	302,584	16,273	(15,395)	31	303,493
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	2,159,085	66,506	(23,020)	36,394	2,238,965
Less accumulated depreciation for:					
Structures and Improvements	(288,846)	(23,898)	3,607	(20,459)	(329,596)
Equipment	(193,894)	(22,375)	17,142	(1,948)	(201,075)
Infrastructure:					
Flood Channels	(164,566)	(8,907)	--	--	(173,473)
Roads	(48,303)	(3,576)	--	--	(51,879)
Bridges	(15,523)	(1,248)	--	--	(16,771)
Trails	(18,408)	(958)	--	--	(19,366)
Traffic signals	(5,658)	(608)	--	--	(6,266)
Harbors and Beaches	(18,178)	(871)	--	--	(19,049)
Total accumulated depreciation	(753,376)	(62,441)	20,749	(22,407)	(817,475)
Capital assets, depreciable (net)	1,405,709	4,065	(2,271)	13,987	1,421,490
Governmental activities total capital assets, net	$ 2,271,150	$ 77,050	$ (41,302)	$ 13,987	$ 2,320,885

4. CHANGES IN CAPITAL ASSETS (Continued)

	Primary Government				
	Balance July 1, 2003	Increases	Decreases	Adjustments	Balance June 30, 2004
Business-type activities:					
Capital assets not depreciated:					
Land	$ 34,108	$ --	$ --	$ --	$ 34,108
Construction in progress	62,034	37,217	(28,689)	(7,725)	62,837
Total capital assets not being depreciated	96,142	37,217	(28,689)	(7,725)	96,945
Capital assets, depreciable					
Structures and Improvements	303,825	29,667	--	(732)	332,760
Equipment	47,026	3,982	(1,308)	--	49,700
Infrastructure	302,107	--	--	6,401	308,508
Capital assets, depreciable	652,958	33,649	(1,308)	5,669	690,968
Less accumulated depreciation for:					
Structures and Improvements	(125,262)	(11,985)	--	597	(136,650)
Equipment	(22,419)	(4,136)	1,277	--	(25,278)
Infrastructure	(112,374)	(13,624)	--	--	(125,998)
Total accumulated depreciation	(260,055)	(29,745)	1,277	597	(287,926)
Capital assets, depreciable (net)	392,903	3,904	(31)	6,266	403,042
Business-type activities total capital assets, net	$ 489,045	$ 41,121	$ (28,720)	$ (1,459)	$ 499,987

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

Governmental activities:	
General Government	$ 4,120
Public Protection	29,408
Public Ways and Facilities	9,259
Health and Sanitation	2,750
Public Assistance	3,941
Education	827
Recreation and Cultural Services	7,063
Internal Service Funds' depreciation expense allocated to various functions	5,073
Total governmental activities depreciation expense	62,441
Business-type activities:	
Airport	18,512
Waste Management	11,233
Total business-type activities depreciation expense	29,745
Total depreciation expense	$ 92,186

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

$507 of accounts receivable for governmental activities is not expected to be received within the next fiscal year, which consists of $87 to record underpayment of franchise fees, as well as various invoices and non-sufficient funds checks that remain in the accounts due to statute of limitation constraints.

Deposits Receivable

$15,679 of deposits receivable for governmental activities is not expected to be received within the next fiscal year, and consists primarily of $5,033 in deposits with the U.S. Army Corps of Engineers for the Santa Ana River Project and deposits of $3,012 with John Wayne Airport for the Santa Ana Heights Acoustical Insulation Program. In addition, there is $3,395 deposited with the California Department of Transportation (CALTRANS) for bridge construction on Laguna Canyon Road and $3,202 deposited with Southern California Edison for the same project. The remaining $1,037 represents various cash advances, service contracts, and deposits.

Notes Receivable

$20,626 of notes receivable for governmental activities is not expected to be received within the next fiscal year. $17,187 consists of loans to build affordable, low-income housing. Another $1,812 is for construction of senior citizen housing, and the remaining $1,627 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 $264,444 due from other governmental agencies for governmental activities, $102,314 is not expected to be received within the next fiscal year. This consists primarily of $67,965 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. Another $26,506 is due from the State for the motor vehicle license fee gap loan, which is required to be paid in FY 2006-07. In addition, $1,287 is for property tax increments owed from the City of Yorba Linda arising from a contractual pass-through agreement between the County and the city's Redevelopment Agency. The other $6,556 is comprised of various invoices to the State for a variety of County-related activities.

Of the $3,388 due from other governmental agencies for business-type activities, $21 relates to the SB 90 mandated cost reimbursements, and is not expected to be received within the next fiscal year.

6. INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2004 is as follows:

Due From/To Other Funds:

Receivable Fund	Payable Fund		
General Fund	Roads	$ 869	
	Public Library	10	
	Tobacco Settlement	5,644	
	Flood Control District	5,809	
	Harbors, Beaches, and Parks	2,791	
	Other Governmental Funds	11,383	
	Internal Service Funds	384	
	Fiduciary Funds	4,101	
	Airport	1,819	
	Waste Management	3,752	$ 36,562
Roads	General Fund	79	
	Flood Control District	470	
	Harbors, Beaches, and Parks	169	
	Other Governmental Funds	72	
	Fiduciary Funds	285	
	Airport	8	1,083
Public Library	Other Governmental Funds	600	
	Internal Service Funds	29	
	Fiduciary Funds	15	644
Tobacco Settlement	Fiduciary Funds	2	2
Flood Control District	General Fund	128	
	Roads	506	
	Harbors, Beaches, and Parks	283	
	Other Governmental Funds	475	
	Fiduciary Funds	481	1,873
Harbors, Beaches, and Parks	General Fund	146	
	Roads	75	
	Flood Control District	145	
	Other Governmental Funds	4	
	Fiduciary Funds	92	
	Airport	15	477

(Dollar Amounts in Thousands)

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

Receivable Fund	Payable Fund		
Other Governmental Funds	General Fund	$ 40,793	
	Roads	131	
	Flood Control District	50	
	Other Governmental Funds	3,767	
	Internal Service Funds	3	
	Fiduciary Funds	914	
	Airport	2	
	Waste Management	2	$ 45,662
Airport	General Fund	113	
	Fiduciary Funds	64	177
Waste Management	General Fund	5	
	Roads	3	
	Flood Control District	5	
	Harbors, Beaches, and Parks	1	
	Fiduciary Funds	747	761
Internal Service Funds	General Fund	1,125	
	Roads	8	
	Public Library	24	
	Flood Control District	6	
	Harbors, Beaches, and Parks	10	
	Other Governmental Funds	12	
	Internal Service Funds	177	
	Fiduciary Funds	289	
	Airport	12	
	Waste Management	13	1,676
Fiduciary Funds	General Fund	71	
	Other Governmental Funds	33	
	Internal Service Funds	153	
	Fiduciary Funds Unapportioned Tax and Interest Funds	710	967
	Total		$ 89,884

Due From/To Primary Government and Component Unit:

Receivable Entity	Payable Entity	Amount
Component Unit – Children & Families Commission of Orange County	Fiduciary Funds – Agency Fund	$ 289
Primary Government – General Fund	Component Unit – Children & Families Commission of Orange County	$ 320
Primary Government – Internal Service Funds	Component Unit – Children & Families Commission of Orange County	$ 1

6. INTERFUND RECEIVABLES AND PAYABLES (Continued)

The receivable balance from the Fiduciary Funds of $7,700 payable to the various Governmental Funds, Proprietary Funds, Fiduciary Funds and Component Unit primarily consists of $4,556 in accrued interest recorded in the Unapportioned Interest Agency Fund at year-end. The majority of the remaining interfund balances resulted from the time lag between the time that (1) goods and services were provided to fiduciary funds, (2) the recording of those transactions in the accounting system, and (3) payments between the funds were made.

7. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancelable operating leases for certain buildings, which are not material to the County's general operations. The Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management Enterprise Fund derives revenue from noncancelable operating leases with synthetic fuel corporations. The Enterprise Funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 2004, approximates $55,965.

The County's General Fund, Flood Control District Fund, Harbors, Beaches, and Parks Fund, Airport Enterprise Fund and Waste Management Enterprise Fund lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 2004 are as follows:

Fiscal Years	General Fund	Flood Control District	Harbors, Beaches, and Parks	Airport	Waste Management
FY 2004-2005	$ 57	$ 214	$ 7,958	$ 30,925	$ 368
FY 2005-2006	39	133	6,954	16,532	175
FY 2006-2007	39	131	6,750	971	175
FY 2007-2008	38	131	6,409	878	175
FY 2008-2009	37	131	6,398	878	175
	210	740	34,469	50,184	1,068
FY 2009-2014	61	524	28,740	3,797	875
FY 2014-2019	--	137	24,176	267	875
FY 2019-2024	--	--	23,245	--	350
FY 2024-2029	--	--	21,899	--	--
FY 2029-2034	--	--	20,642	--	--
FY 2034-2039	--	--	18,498	--	--
FY 2039-2044	--	--	--	--	--
FY 2044-2049	--	--	--	--	--
	61	661	137,200	4,064	2,100
Total future minimum rentals	$ 271	$ 1,401	$ 171,669	$ 54,248	$ 3,168

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $3 (General Fund), $60 (Flood Control District), $155 (Harbors, Beaches, and Parks) $23,089 (Airport) and $42 (Waste Management) for the year ended June 30, 2004.

(Dollar Amounts in Thousands)

8. INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004 were as follows:

Transfer from	Transfer to		
Governmental Funds			
General Fund	Tobacco Settlement	$ 17	
	Refunding Bonds and Recovery COPS and Debt Prepayment	66,301	
	Other Governmental Funds	56,267	
	Internal Service Funds	4,278	$ 126,863
Roads	Other Governmental Funds	1	1
Tobacco Settlement	General Fund	29,740	
	Other Governmental Funds	12,100	41,840
Refunding Bonds and Recovery COPs and Debt Prepayment	General Fund	697	
	Other Governmental Funds	7,103	7,800
Flood Control District	General Fund	3,303	
	Other Governmental Funds	1	3,304
Harbors, Beaches, and Parks	Other Governmental Funds	158	158
Other Governmental Funds	Airport	70	
	Waste Management	2	
	Internal Service Funds	8	
	General Fund	92,267	
	Public Library	600	
	Refunding Bonds and Recovery COPS and Debt Prepayment	111	
	Harbors, Beaches, and Parks	14	
	Other Governmental Funds	22,549	115,621
Total Governmental Funds			$ 295,587
Proprietary Funds			
Waste Management	General Fund	$ 12,227	
Total Proprietary Funds			$ 12,227

8. INTERFUND TRANSFERS (Continued)

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

Routine Transfers

- A total of $97,495 was transferred out from the General Fund ($78,364), the Refunding Bonds and Recovery COPs and Debt Prepayment Fund ($7,103), and Other Governmental Funds ($12,028) to the debt service funds in connection with debt service payments for the various County debt covenants.
- $29,740 was transferred from the Tobacco Settlement Fund to the General Fund to finance various health care programs. The $12,100 transferred to Other Governmental Funds was for the Theo Lacy Jail construction.
- $3,303 was transferred to the Watershed Management program from the Flood Control District.
- $12,227 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, $4,393 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. The $4,000 was transferred from Orange County Development Agency (OCDA) funds to the General Fund for the annual recovery contribution.
- $31,392 was transferred from Other Governmental Funds to the General Fund for the reimbursement of various County programs as follows:
    - $2,559 for capital projects and maintenance
    - $28,833 for Sheriff Department programs and projects
- $36,250 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.

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

- $3,260 transferred from the General Fund to the Unemployment Insurance Fund for repayment of disbursements made during prior years for non-insurance related charges.
- $1,736 was transferred from the Real Estate Development Fund to the General Fund for the sale of assets and for rents and leases of certain General Fund assets.
- $1,345 was transferred from the Emergency Medical Services Fund (EMS) to reimburse the General Fund for EMS services.
- $2,651 was transferred from a Community Services Fund to the General Fund for the Community Health Nursing Program.
- $4,867 was transferred from the Facilities Development and Maintenance Fund to the General Fund to cover increased costs of IHSS provider wages and benefits.
- $29,700 was transferred from the Designated Special Revenue Fund to the General Fund to finance County Operations.
- $10,000 was transferred from the OCDA Santa Ana Heights 93 Bond Issue Fund to the OCDA Debt Service Fund to defease the outstanding 1993 Tax Allocation Revenue Bonds.

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, 2004, the County had no net general obligation bonded debt. The County's legal debt limit for the year was $3,599,048.

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

These monies, together with certain other County revenues will be used to satisfy the principal and interest payments on the Recovery Certificates of Participation ("Recovery COPs"). The Recovery COPs and Refunding Recovery Bonds ("Recovery Bonds") represent obligations of the County, payable from the General Fund. The enacted Recovery Statutes provide the Recovery 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. Beginning in 1998, State legislation reduced the amount of VLF paid by owners of automobiles in the State. The State previously made up the difference in VLF collected under reduced rates and the fees that would have been collected under the old fee formula with monies from the State general fund. However, beginning in July 2003, the State acted to triple the motor vehicle license fee. Following a successful recall, Governor Schwarzenegger rescinded the VLF increase and took action to backfill the County's VLF loss. In addition, state legislation reduced the sales tax attributable to the County by 0.25% and backfilled this revenue loss with property taxes. The backfilled property taxes are pledged to secure the Recovery COPs. With the passage of Proposition 1A in November 2004, VLF rates have been reduced. However, the Recovery COPs and Recovery Bonds will remain secured by a pledge and intercept of up to $54,000 in VLF and an additional pledge of certain property tax revenues. For more information refer to Note 20, Subsequent Events.

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Recovery COPs and to pay the annual amount of $800 plus interest due on Option B Pool Participant warrants. At the beginning of this fiscal year, the remaining balance for Option B Pool Participants was $2,400; 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 $1,600.

9. LONG-TERM OBLIGATIONS (Continued)

Bankruptcy Obligations

Refunding Recovery Bonds, Series 1995A

In June 1995, the County issued $278,790 of 1995 Refunding Recovery Bonds ("1995 Recovery Bonds"). The 1995 Recovery Bonds are a General Fund obligation of the County and are being paid from VLF intercepted from the State Controller, to the extent that there are sufficient fees available for debt service. These VLF, if not used to pay debt service, would otherwise be received by the County General Fund. The 1995 Recovery Bonds were issued to refund obligations of the County in partial satisfaction of claims of certain Investment Pool participants pursuant to the Comprehensive Settlement Agreement between the County and such participants. In June 1998, the County spent $31,335 from its Debt Repayment Reserve to purchase defeasance securities, which were placed in escrow to legally defease a portion of the 1995 Recovery Bonds. The outstanding principal balance of these bonds as of June 30, 2004 was $225,870.

Recovery Certificates of Participation, Series 1996A

In June 1996, the County issued $760,800 in the aggregate principal amount of its 1996 Recovery Certificates of Participation, Series A ("1996 Recovery COPs"). Proceeds of the 1996 Recovery COPs were applied to (1) provide funds for the payment of the claims of the holders of the County's 1994-95 Taxable Notes and 1994-95 Tax and Revenue Anticipation Notes (Series A and Series B), whose maturities were extended to June 30, 1996, and the payment of certain other claims and uses approved by the Bankruptcy Court, (2) refund $124,700 of outstanding COPs executed and delivered on behalf of the County, (3) fund a reserve account for the 1996 Recovery COPs and two months of capitalized interest, and (4) pay costs associated with the delivery of the 1996 Recovery COPs. The 1996 Recovery COPs are general 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, 2004, the outstanding principal balance of the 1996 Recovery COPs was $607,790.

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, 2004, the outstanding principal amount of the Refunding COPs was $11,604.

9. LONG-TERM OBLIGATIONS (Continued)

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

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

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, 2004, the outstanding principal amount of the current interest NDAPP Bonds was $932, the accreted interest on the capital appreciation NDAPP Bonds was $126 for the year then ended, and the outstanding principal amount of the NDAPP Refunding Bonds was $24,727.

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, 2004, the outstanding principal amount of the Juvenile Justice Center Facility Lease Revenue Refunding Bonds, Series 2002 was $76,483.

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

In February 1993, the County issued a Master Lease Equipment Obligation in the principal amount of $24,780. This obligation is secured by base rental payments on the acquired equipment. This bond was paid off on September 3, 2003.

9. LONG-TERM OBLIGATIONS (Continued)

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

Tax Allocation Revenue Bonds, Series 1993 and Series 2003 (Santa Ana Heights Project Area)

In August 1993, OCDA issued $57,965 Santa Ana Heights Project Area, 1993 Tax Allocation Revenue Bonds ("SAHP Bonds"). The SAHP Bonds were secured by property tax increment revenues received by OCDA attributable to the Santa Ana Heights Project Area. On November 13, 2003, OCDA issued $38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project 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. As of June 30, 2004, the outstanding principal amount of the SAHP Bonds was $0 and the outstanding principal amount, including the unamortized premium of the SAHP Refunding Bonds, was $40,125.

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, 2004, the outstanding principal amount of the Series 1994A, 1996A and 1997A Pension Bonds were $5,000, $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.

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, 2004 was $123,725.

9. LONG-TERM OBLIGATIONS (Continued)

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

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, 2004, the outstanding principal amount of the Lease Revenue Bonds was $7,660.

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, 2004 was $144,984. 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, 2004 was $56,398.

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, 2004, $20,550 of legally defeased debt remains outstanding.

9. LONG-TERM OBLIGATIONS (Continued)

Fiscal Year 2003-04 Debt Obligation Activity

During FY 2003-04, the following event concerning County debt obligations took place:

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

On November 13, 2003, OCDA issued in the principal amount of $38,465 Tax Allocation Refunding Bonds Santa Ana Heights Project Area 2003 at a premium of $1,660. The proceeds of the bonds and other available monies were used to (1) refund and defease the outstanding 1993 Tax Allocation Revenue Bonds at a redemption price equal to 102% of the aggregate principal amount, (2) fund a reserve account for the new bonds, and (3) pay all the cost of issuing the bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,833. This difference is reported as a deferred amount on refunding of SAHP Refunding Bonds. The current year amortization amount for the deferred amount on refunding is $46 leaving an ending balance of $1,787. The refunding resulted in a reduction of debt service payments over the next 20 years by $25,025 and obtained an economic gain of $5,256. 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, 2004, the outstanding principal amount, including the unamortized premium of the SAHP Refunding Bonds, was $40,125.

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 2004 were as follows:

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	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.	$ 240,110	$ --	$ (14,240)	$ 225,870	$ 15,165
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.	633,450	--	(25,660)	607,790	26,965

(Dollar Amounts in Thousands)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
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.	13,959	--	(2,355)	11,604	2,520
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	--	--	932	332
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.	25,712	(20)	(965)	24,727	287
Deferred Amount on Refunding	(1,097)	55	--	(1,042)	(55)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
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 5.375% Original Amount: $80,285 Maturing in installments through June 1, 2019.	80,173	(40)	(3,650)	76,483	3,771
Deferred Amount on Refunding	(3,500)	219	--	(3,281)	(219)
Orange County Public Facilities Corporation Revenue Bonds Master Lease Program:					
Date Issued: February 1, 1993 Interest Rate: 3.40% to 5.50% Original Amount: $24,780 Maturing in installments through September 1, 2003.	1,605	--	(1,605)	--	--
Orange County Development Agency Santa Ana Heights Project Area 1993 Tax Allocation Revenue Bonds:					
Date Issued: August 1, 1993 to refund prior September 1, 1987 bond issue Interest Rate: 3.25% to 6.20% Original Amount: $57,965 Maturing in installments through September 1, 2023.	49,560	--	(49,560)	--	--
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	--	40,125	1,658
Deferred Amount on Refunding	--	(1,787)	--	(1,787)	(92)

(Dollar Amounts in Thousands)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
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.	9,000	--	(4,000)	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	--
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	--
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	--

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
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.	9,020	--	(1,360)	7,660	1,415
Subtotal - Governmental Funds	1,294,421	38,552	(103,395)	1,229,578	56,747
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.	100,718	(210)	(8,110)	92,398	8,733
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(2,648)	769	--	(1,879)	(654)
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	52,886	(300)	--	52,586	2,732
Deferred Amount on Refunding (2003 Airport Revenue Bonds)	(10,827)	773	--	(10,054)	(1,304)

(Dollar Amounts in Thousands)

9. LONG-TERM OBLIGATIONS (Continued)

Schedule of Long-Term Debt Obligations, Fiscal Year 2003-04 (Continued)

Description	Balance July 1, 2003	Issuances and Discount/ Premium Amortization	Retirements	Balance June 30, 2004	Amounts Due within One Year
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.	60,663	(185)	(4,080)	56,398	4,467
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(3,780)	614	--	(3,166)	(621)
Subtotal - Enterprise Funds	197,012	1,461	(12,190)	186,283	13,353
Total	$1,491,433	$ 40,013	$ (115,585)	$ 1,415,861	$ 70,100

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:

	Enterprise Funds		Governmental Funds		
Fiscal Year(s) Ending June 30	Principal	Interest	Principal	Interest	Total
2005	$ 15,060	$ 10,085	$ 57,077	$ 73,107	$ 155,329
2006	16,015	9,282	64,853	74,107	164,257
2007	16,880	8,403	65,141	71,206	161,630
2008	17,795	7,456	75,692	67,089	168,032
2009	18,790	6,458	64,766	63,433	153,447
2010-2014	91,570	16,136	314,448	315,999	738,153
2015-2019	20,190	2,612	307,109	223,754	553,665
2020-2024	--	--	171,517	86,325	257,842
2025-2029	--	--	110,040	10,159	120,199
Total	196,300	60,432	1,230,643	985,179	2,472,554
Add: Premium	5,082	--	5,045	--	10,127
Less: Deferred amount on refunding	(15,099)	--	(6,110)	--	(21,209)
Principal Payable, Net	$ 186,283	$ 60,432	$ 1,229,578	$ 985,179	$ 2,461,472

9. LONG-TERM OBLIGATIONS (Continued)

Changes in Long-Term Liabilities:

Long-term liability activities for the year ended June 30, 2004 were as follows:

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
Bonds and COPs Payable:					
Revenue bonds	$ 287,282	$ 38,465	$ (57,140)	$ 268,607	$ 7,427
Certificates of participation	647,409	--	(28,015)	619,394	29,485
Pension obligation bonds	120,772	--	(4,000)	116,772	5,000
Recovery bonds	240,110	--	(14,240)	225,870	15,165
Add: Premium on bonds payable	3,445	1,660	(60)	5,045	36
Less: Deferred amount on refunding	(4,597)	(1,833)	320	(6,110)	(366)
Total Bonds & COPs Payable, Net	1,294,421	38,292	(103,135)	1,229,578	56,747
Interest on Capital Appreciation Bonds	62,108	11,447	--	73,555	--
Other long-term liabilities:					
Compensated employee absences payable	148,169	108,531	(110,601)	146,099	79,144
Arbitrage rebate payable	23	11	--	34	--
Pool participant claims	2,400	--	(800)	1,600	800
Capital lease obligations payable	58,233	18,142	(4,663)	71,712	4,402
Insurance claims payable	112,141	110,797	(95,104)	127,834	55,751
Total other long-term liabilities	320,966	237,481	(211,168)	347,279	140,097
Total Governmental Activities Long-term Liabilities	$ 1,677,495	$ 287,220	$ (314,303)	$ 1,650,412	$ 196,844
Business-type Activities:					
Bonds Payable:					
Revenue bonds	$ 208,490	$ --	$ (12,190)	$ 196,300	$ 15,060
Add: Premium on bonds payable	5,777	--	(695)	5,082	872
Less: Deferred amount on refunding	(17,255)	--	2,156	(15,099)	(2,579)
Total Revenue Bonds Payable, Net	197,012	--	(10,729)	186,283	13,353
Other long-term liabilities:					
Compensated employee absences payable	4,516	3,653	(3,519)	4,650	2,165
Arbitrage rebate payable	31	57	--	88	--
Landfill site closure/postclosure liabilities	181,221	1,173	(9,737)	172,657	3,025
Total other long-term liabilities	185,768	4,883	(13,256)	177,395	5,190
Total Business-type Activities Long-term Liabilities	$ 382,780	$ 4,883	$ (23,985)	$ 363,678	$ 18,543

9. LONG-TERM OBLIGATIONS (Continued)

Compensated Employee Absences

The estimated compensated employee absences payable for governmental activities recorded at June 30, 2004 is $146,099 compared with $148,169 at June 30, 2003. The decreased balance is primarily due to a reduction in the number of employees, due in part to the hiring freeze on vacant positions. For the governmental funds, most of the compensated absences liability will ultimately be paid from the General Fund.

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, 2004, amounted to $765,089.

10. CONDUIT DEBT OBLIGATIONS

From 1980 through 2004 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.

10. CONDUIT DEBT OBLIGATIONS (Continued)

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, 2004, there were 91 series of bonds outstanding, with an aggregate principal amount payable of $1,078,086.

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
2005	$ 20,807	$ 27,963	$ 48,770
2006	12,222	27,084	39,306
2007	6,569	22,933	29,502
2008	3,459	22,319	25,778
2009	--	15,424	15,424
2010-2014	--	54,120	54,120
2015-2019	--	14,715	14,715
Total	$ 43,057	$ 184,558	$ 227,615

Total rent expenditures for operating leases incurred for FY 2003-04 was $48,312.

Capital Leases

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

Land	$ 13,810
Equipment	4,437
Less: Accumulated Depreciation	(1,541)
Structures and Improvements	73,291
Less: Accumulated Depreciation	(10,936)
Total	$ 79,061

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, 2004:

Fiscal Year Ending June 30	
2005	$ 10,520
2006	10,670
2007	10,059
2008	10,169
2009	10,327
2010-2014	35,169
2015-2019	23,199
2020-2024	13,936
2025-2027	1,910
Total minimum lease payments	125,959
Less: amount representing interest	(54,247)
Present value of net minimum lease payments	$ 71,712

(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, 2004 are reserved for the following purposes:

	General Fund	Roads	Public Library	Refunding Bonds & Recovery COPs and Debt Prepayment	Flood Control District	Harbors, Beaches, and Parks	Other Govern-mental Funds	Fiduciary Funds
Assets Not Available for Appropriations:								
Encumbrances	$ 67,548	$ 36,091	$ 690	$ --	$ 17,788	$ 10,750	$ 16,035	$ --
Long-term Receivables	1,719	--	--	--	--	--	13,870	--
Imprest Cash Funds	1,247	--	53	--	--	--	13	--
Employee's Retirement	--	--	--	--	--	--	--	9,653
Inventory of Materials and Supplies	295	91	--	--	210	106	400	--
Prepaid Costs	52	--	--	--	--	--	1,031	--
Land and Improvements Held for Resale	--	--	--	--	--	--	1,703	--
Debt Service	--	--	--	146,503	--	--	358,104	--
Private Purpose Trust	--	--	--	--	--	--	--	47,404
External Investment Pools	--	--	--	--	--	--	--	2,502,837
Fund Balances Reserved by Board of Supervisors for a Future Purpose:								
Equipment Replacement	--	10,144	--	--	484	1,757	--	--
Equipment Purchase (New)	--	--	--	--	--	--	1,413	--
Administration Fees	--	--	--	--	--	--	6,046	--
Loans	100	--	--	--	--	1,453	18,085	--
Land Purchase	--	--	--	--	17,946	70	--	--
Operations	200	--	--	--	--	--	21,245	--
Future Road Projects	--	57,667	--	--	--	--	--	--
Library Contingencies	--	--	2,017	--	--	--	--	--
Capital Projects	--	--	--	--	104,042	8,807	932	--
General Reserves	--	42	--	--	12,609	7,204	15,281	--
Cash Difference Funds	9	--	--	--	--	--	--	--
Contingencies	18,000	--	--	--	--	--	11,325	--
Revitalization Projects	--	--	--	--	--	3	12,250	--
Operations - Strategic Priorities	90,016	--	--	--	--	--	--	--
Reserved Fund Balances/ Net Assets	$ 179,186	$ 104,035	$ 2,760	$ 146,503	$ 153,079	$ 30,150	$ 477,733	$ 2,559,894

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 CLOSURE AND POSTCLOSURE CARE COSTS

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

IWMD owns or operates the following waste disposal sites:

- Frank R. Bowerman (FRB) (Irvine – Active)
- Olinda Alpha (Brea – Active)
- Prima Deshecha (San Juan Capistrano – Active)
- Santiago Canyon (Orange – Closed 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 in return the Irvine Company donated the landfill valued at $1,400 to the County of Orange. Coyote Canyon is owned by the Irvine Company and is under lease.

The total landfill closure and postclosure care liability at June 30, 2004 was $172,657, 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 (35.60%), 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 $160,306 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 2004 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, 2004, $170,478 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, 2004, 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		
Juvenile Hall (60 bed expansion construction costs)	$	4,735
Juvenile Hall (Replacement of three existing housing units)		15,009
Sheriff-Coroner – Euro Helicopter Model AS350 B-2		2,289
Subtotal		22,033
Roads		
Foothill Circulation Phasing Plan		
-Alton-Irvine Boulevard to Foothill Transportation Corridor		1,624
Laguna Canyon Road		
-State Route 73 to Interstate 405		18,721
Subtotal		20,345
Flood Control District		
Huntington Beach Channel		
- Indianapolis to Adams		5,739
- Atlanta to Indianapolis		2,309
Subtotal		8,048
Other Governmental Funds		
Theo Lacy Jail Construction		1,172
Sewer Improvements		2,733
Vehicles - Public Protection		1,311
Subtotal		5,216

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

Project Title		Remaining Commitments
Business-type Activities:		
Airport		
Fire Station #33 Remodel		6,730
Electric Generation Plant		2,461
Airport Rescue & Fire Fighting Vehicle		1,024
	Subtotal	10,215
Integrated Waste Management		
Frank R. Bowerman Phase VIIA Construction - Equipment Maintenance Facility		3,427
Linda Lower East Drainage Channel Construction		1,396
Prima Zone 1 & 4 Permits Design Master Plan Update		1,329
	Subtotal	6,152
	Total	$ 72,009

In addition, The County is involved in the Santa Ana River (SAR) Mainstem Project. The SAR Mainstem Project is a major flood control project implemented and funded by the Federal Government - U.S. Army ("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 Government and OCFCD only through a separate project cooperation agreement (PCA). The purpose of the SAR Mainstem and 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 in terms of impacts to the population and property. The Project involves a combination of flood channel improvements and the constructing of 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.

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, relocation (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction. As of June 2004, the OCFCD has expended about $232,000 on the Project. The construction of Seven Oaks Dam and most of the 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 and preservation projects are underway in all three counties. All property rights acquisition for the Seven Oaks Dam, 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.

14. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Continued)

The Project has been authorized by the State Legislature for reimbursement of up to 70 percent 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 $25,000 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 percent of the eligible expenditures can be paid if funds are available, with the remaining 10 percent paid after an audit by the State Controller's Office. The County does not accrue these claim amounts as revenue due to the uncertainty of DWR eligibility approval and due to the typical lengthy review and audit completion time periods after claim submission.

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 due to relocations and mitigation expenses that were not initially or fully contemplated in the COE's estimates. Therefore, reimbursements on past expenses through the State Flood Control 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.

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

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

15. SELF-INSURANCE (Continued)

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

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

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 2002-03	71,705	21,453	11,581	104,739
Claims and Changes in Estimates	36,917	3,348	53,454	93,719
Claim Payments	(25,382)	(8,045)	(52,890)	(86,317)
Unpaid Claims, End of FY 2002-03	$ 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

The workers' compensation costs continue to increase due to mandated indemnity benefits, the impact of legislative and regulatory changes, and a trend in rising medical costs. In April 2004 Workers' Compensation reform legislation was approved to assist in reducing costs. Many of the measures within the legislation will not be implemented by the state until the early part of 2005, at which time costs should level or be reduced.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS

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

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

- Sparkes Pit/Rains Disposal Station #18,City of Anaheim – Potential Litigation
- Coyote Canyon Landfill, The Irvine Company – Pending 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

Barratt American Incorporated, et al., v. County of Orange (Orange County Superior Court Case No. 814037) Plaintiff alleges the County overcharged for building permit and inspection fees from 1999 through 2001 (and continuing) and impermissibly accumulated a surplus in Fund 113, the Building and Safety special revenue fund, which is used to account for building and safety permit fees, much of which plaintiff alleges was subsequently spent on impermissible items. Plaintiff seeks a variety of forms of relief, including injunctive, declaratory and monetary damages.

A second phase of trial took place on August 17, 2001. The court ruled that plaintiffs cannot challenge in state court an approximately $2,500 allocation of investment pool loss approved by the United States Bankruptcy Court in the Orange County Bankruptcy proceedings. The court further ruled against the plaintiffs on their claim that the Office of Management and Budget A-87 controls the County's discretion on how to disperse the surplus. The court also ruled against the plaintiffs on their claim that the County cannot maintain a reserve balance in the surplus funds. At this time, it is not possible to reasonably estimate the likely outcome of the matter.

On March 26, 2001 and on July 1, 2003, plaintiff filed two new complaints (Orange County Superior Court Cases No. 01CC04025 and No. 03CC00235 respectively) against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaints are similar to the former complaint except that the new complaints challenge the enactment of a fee reduction ordinance enacted by the County early in 2001 and 2003. The County denies the allegations and intends to defend itself in court against the complaint. For Case No. 01CC04025, refer to Note 20, Subsequent Events. No trial date has been set for Case No. 03CC00235.

16. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Continued)

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

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

On December 27, 2001, the Superior Court ruled that the County Assessor used an illegal assessment method in recapturing Proposition 13 values. The Court of Appeals reversed that ruling and held that the recapturing methodology was lawful. The California Supreme Court refused to hear the case. The appellate court ruling is now final.

Bezaire/Pool.,et al.v. County of Orange On March 26, 2004, the Court of Appeal reversed the Superior Court ruling and held that the Assessor's reading of Proposition 13 was correct. The Court of Appeal agreed that declines in assessed values do not create new assessment base years for Proposition 13 purposes. Under Proposition 8's 1978 amendments to Proposition 13, assessors have reduced taxable values for real property where the property's market value is below its Proposition 13 value. Once the property's market value exceeds the Proposition 13 value, the Proposition 13 value again becomes the taxable value for the property. Renee M. Bezaire and Robert A. Pool, wife and husband, requested the Supreme Court to review the case, but on July 21, 2004, the Supreme Court denied the request for review and ruled in favor of the County. The case has been finalized.

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 Court of Appeal reversed the trial court's ruling, which the County initially prevailed upon demurrer at the trial court level. The Court of Appeal held that the County is required to give notice under 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 County's attorneys are currently in settlement discussions with plaintiff, and will be presenting a settlement proposal to the Board of Supervisors in the near future. An estimated \$2,000 liability has been accrued in the government-wide financial statements. The class settlement has been approved by the court and a claims administrator has been retained to handle claims.

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 OCFA, of which the County is a party, the County agreed to indemnify OCFA for certain claims and liabilities arising prior to OCFA formation.

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

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

17. OTHER CONTINGENCIES

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

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

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

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 ("OIG"). 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.

17. OTHER CONTINGENCIES (Continued)

HCA is currently engaged in settlement discussions with the federal government, which are ongoing. 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.

18. RETIREMENT PLANS

Orange County Employees Retirement System (OCERS)

Plan Description Substantially all County employees participate in the Orange County Employees Retirement System ("OCERS," or the "System"), a cost-sharing multiple-employer public employee retirement system established in 1945 by the voters of Orange County under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the System and account for approximately 17% of the active and retired System membership. All together there are 16 employers in the System.

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

OCERS is governed by a Board of Retirement consisting of nine regular and one alternate member. Four Retirement 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. OCERS issues a stand-alone annual financial report each year ending December 31. OCERS' annual financial report can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701 or by calling (714) 558-6200.

Funding Policy In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. For FY 2003-04, employer's contributions, as a percentage of covered payrolls, were 9.15% for General members, 37.87% for Safety-Law Enforcement members and 8.57% for Safety-Probation members. Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members.

(Dollar Amounts in Thousands)

18. RETIREMENT PLANS (Continued)

Orange County Employees Retirement System (OCERS) (Continued)

Funding Policy (Continued)
For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. Effective June 28, 2002, for Tier I and II Safety members, the rate of contribution is calculated to provide an annuity equal to 3/100 of the member's "final compensation" for each year of service rendered at age 50. Probation Services employees were granted safety retirement status by the Board of Supervisors as of June 28, 2002 and will earn benefits under a 2/100 at 50 formula for service after that date. On or after June 10, 2005, Probation Service employees will earn benefits under a 3/100 at 50 benefits formula. Refer to Note 20 (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.

According to OCERS' financial report for the year ended December 31, 2003, the County's 2003 contribution represented 83% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued $320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to fund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account ("Investment Account") with the POB proceeds in the amount of $318,300. For FY 1995-96 the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and the amortization of the Unfunded Actuarial Accrued Liability (UAAL) portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The 1996 agreement provided for the Investment Account to be used to fund the County's entire employer contribution in a decreasing percentage each year. In August 2002, the System Retirement Board and the Board of Supervisors approved a new agreement that gives the County complete discretion, subject to a notice requirement, over how much of the total annual retirement contribution will be paid from the Investment Account. The balance of the Investment Account on June 30, 2004, after draws of $33,309 in 2003-04 to pay for part of the County's annual retirement contribution and credits for market returns, was $146,753.

Because of a large increase in the Unfunded Actuarial Accrued Liability, the County's cash contribution was $114,847, approximately 78% of the total required. The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

Year Ended	County Cash Contribution	OCERS Investment Account Contribution	Total Annual Required Contribution	Percentage Contributed
06/30/02	$ --	$ 38,322	$ 38,322	100%
06/30/03	59,801	37,804	97,605	100%
06/30/04	114,847	33,309	148,156	100%

18. RETIREMENT PLANS (Continued)

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, including 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, 2004, the plan has 704 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, 2004, were $1,035 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, 2004, the value of plan assets was $3,182.

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 Deferred Compensation Plan replaced the Defined Benefit Retirement Plan and was effective for new employees hired on or after March 1, 2002.

Defined Benefit Retirement Plan

Plan Description The plan is a single-employer defined benefit retirement plan for employees performing services based on less than half-time or as extra-help. The normal retirement benefits for a participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th 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, 2004, the plan consists of 331 active plan participants, 1,653 terminated plan participants entitled to but not yet receiving benefits, and 15 retirees receiving benefits.

18. RETIREMENT PLANS (Continued)

Defined Benefit Retirement Plan (Continued)

Plan Description (Continued)
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, there have been no County contributions. The annual required contribution is equal to:

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

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

Annual Pension Cost GASB Statement No. 27 requires the County to have an actuarial valuation performed at least biennially to determine the plan's annual pension cost. For this June 30, 2004 disclosure, the plan's annual pension cost was calculated using the data and assets as of June 30, 2004 and the methodologies set forth in the July 1, 2004 actuarial valuation report.

The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the County's annual required contribution is the total of (a) normal cost, (b) minus employee contribution, (c) plus 30-year amortization of the unfunded actuarial liability. Based on the July 1, 2003, interest on the net pension obligation is $24.

18. RETIREMENT PLANS (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

For the fiscal year ended June 30, 2004, the County's annual required contribution was $336. The required contribution was determined as part of the July 2003 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%

**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%*

Schedule of Employer Contributions

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2000	$ 2	0%	$ 28
2001	$ 73	0%	$ 101
2002	$ 65	0%	$ 166
2003	$ 275	0%	$ 441
2004	$ 330	0%	$ 771

(Dollar Amounts in Thousands)

18. RETIREMENT PLANS (Continued)

Defined Benefit Retirement Plan (Continued)

Annual Pension Cost (Continued)

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

	06/30/03	06/30/04
Annual required contribution	$ 277	$ 336
Interest on net pension obligation	9	24
Adjustment to annual required contribution	(11)	(30)
Annual pension cost	275	330
Contributions made	--	--
Increase in net pension obligation	275	330
Net pension obligation, beginning of year	166	441
Net pension obligation, end of year	441	771

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

Extra Help Deferred Compensation Plan

Plan Description On March 1, 2002, the County adopted a Defined Contribution Plan, the Extra Help Employees Deferred Compensation 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, 2004 there were 1,175 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.

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. (formerly BenefitsCorp 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, 2004, were $680 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.

19. POST EMPLOYMENT HEALTH CARE BENEFITS

Plan Description Eligible retired County employees receive a monthly grant which offsets the cost of monthly health plan premiums. The grant amount is determined by a formula which multiples a set base number by the number of years of County employment (up to a maximum of 25 years) resulting in a monthly grant amount. The set base number for calendar year 2004 is $14.92 (in absolute dollar amount). Therefore, the maximum monthly grant amount for calendar year 2004 is $373 (in absolute dollar amount). The set base number is adjusted annually based on a medical inflation index, with a maximum increase of five percent. Retired employees pay for health plan premiums which exceed their grant amount, if any. For FY 2003-2004, the Plan contributed $14,180 in Retiree Medical Grants for retiree health premium costs.

The County of Orange Board of Supervisors approved the post employment health care benefits on August 1, 1993 for retired employees meeting the eligibility requirements set forth within the Retiree Medical Plan Document (the Plan).

Funding Policy The Plan is currently funded by a combination of current employees' 1% payroll deduction and funds set aside and identified within the Orange County Employees Retirement System (OCERS). The source of the funds within OCERS is investment earnings that exceed the assumed actuarial rate of return. Currently, there are no direct County contributions toward this plan. 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 Plan, the Retiree Member Benefit Reserve (RMBR), is being used for that purpose.

Revised Agreement In August 2004, the County of Orange Board of Supervisors and the OCERS Board approved an amended and restated Additional Retiree Benefit Account (ARBA) agreement (the Agreement) which, among other things, revised the funding of the Plan in cases when excess reserves from OCERS are not available. Under the new 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 retirement rates to the lesser of the amount required to bring RMBR to a two year funding level or one percent of General Fund payroll.

Actuarial Valuation In August 2004, the County received an actuarial valuation for Post Employment Medical Benefits ("the Report") from an outside consultant. Information contained in the Report was not intended to be used for financial reporting under the provisions of GASB Statement No. 45, as different actuarial assumptions and or methods may be appropriate (Refer to Note 1.P for additional information on GASB Statement No. 45). One of the assumptions of the Report was that there would never be excess earnings in OCERS which would offset the cost of the Plan. Also, included in the liabilities for retiree medical benefits is the value of the subsidy provided to retirees by extending medical benefits to retirees at the same rate charged to active employees. The estimate is that retiree premiums would be 43% higher if retirees were not in the County group medical coverage plans. The total estimated actuarial liability is $1,300,000.

(Dollar Amounts in Thousands)

19. POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

Retiree Medical Benefit Liabilities are as follows:

	Number	Actuarial Liability for Past Service
Current Retirees	5,205	$ 452,023
Actives Eligible to Retire	3,943	435,385
Other Actives	14,155	441,591
Total	23,303	$ 1,328,999

	Severance Benefit	Retire Medical Benefit	Total Retiree Medical Program
Actuarial Liability for Past Service	$ 15,095	$ 1,328,999	$ 1,344,094
Plan Assets	15,095	87,162	102,257
Unfunded Liability for Past Service	$ -	$ 1,241,837	$ 1,241,837
Total Annual Cost	$ 2,167	$ 99,941	$ 102,108
-As level percent of pay over 30 years			

County Plans For the Future In August 2004, the Board of Supervisors directed County staff to form a Retiree Medical Insurance Panel to address the variety of issues concerning the Plan, including the current structure of the program and associated costs. For the immediate future, the County intends to fund the Plan on a pay-as-you-go basis.

20. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 2004:

State of California Budget Impact on County of Orange

The Governor signed the FY 2004-05 State Budget on July 31, 2004. The spending plan addresses budget shortfalls through program savings, borrowing, funding shifts, and local government contributions. The State's combined FY 2002-03 and FY 2003-04 year-end deficits will be paid for beginning in FY 2004-05 by a sales tax-property tax swap known as the "triple flip." The State sales tax will be raised by one-quarter cent dedicated to paying off the State's Economic Recovery Bonds, authorized for a total of $15,000,000, which were issued to pay off the State's debt. This increase will be offset by repealing the one-quarter cent portion of the sales tax dedicated to local government. The lost sales tax to local government will be replaced 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, Assembly Bill 296 (Chapter 757, Statues of 2003) 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.

20. SUBSEQUENT EVENTS (Continued)

State of California Budget Impact on County of Orange (Continued)

Other legislation passed as part of the State Budget process, along with Proposition 1A, an initiative State Constitutional amendment passed by the voters on November 2, 2004, provides for the following local government financing impacts:

- A reduction in the VLF rate from 2.00% to 0.65%.
- A swap of 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 on cities and counties. 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 was included in the legislation. (See Note 9, Long Term Obligations).
- 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. The estimated impact on the Orange County General Fund from this tax shift is around $27,731 for each of the fiscal years 2004-05 and 2005-06. The County has incorporated this revenue decrease, as well as shift amounts for the County's redevelopment agencies and dependent special districts, in the final budget for fiscal year 2004-05.
- 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.

A. With regard to other revenue and program spending impacts, the County adopted the impacts of the State's final adopted FY 2004-05 budget.

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

On October 1, 2004, Barratt American Incorporated filed a new complaint (Orange County Superior Court Case No. 04CC001664) against the County claiming that the County overcharged and continues to overcharge on its building permits and inspection services since 1992. The new complaint is similar to the former complaints reported in Note 16, Estimated Liability for Other Litigation and Claims, except that the new complaint challenges the enactment of a fee ordinance enacted by the County in 2004. The County denies the allegation and intends to defend itself against the complaint in court. At this time, it is not possible to reasonably estimate the likely outcome of the matter. The Court has not yet set a trial date.

On November 19, 2004, trial concluded for Cases No. 814037 and No. 01CC04025. The County is awaiting the trial court's decision, and at this time, it is not possible to reasonably estimate the likely outcome of the matter. For more information, refer to Note 16.

Retirement

On August 24, 2004, the Board of Supervisors adopted a change in retirement benefits for the general members of the Orange County Employees Retirement System (OCERS), excluding those employees represented by the American Federation of State, County and Municipal Employees (AFSCME).

20. SUBSEQUENT EVENTS (Continued)

Retirement (Continued)

The benefit, which will become effective July 1, 2005, is funded through ongoing employee payroll deductions (beginning June 24, 2005) and an offset to County expenses in the form of significant health care changes, which result in higher costs to the employee and lower costs to the County. The health care benefits are effective January 1, 2005. Additionally, the Attorney Unit will reduce the amount of the Attorney Optional Benefit Plan amount beginning January 2005 and the employer contribution to the Attorneys 401(a) plan will cease in June 2005.

The amount of contribution for employees in each bargaining unit and for the unrepresented employees varies, as set forth in the Memorandum of Understanding (MOU) and the Personnel and Salary Resolution (PSR) Amendments. The percentage of pay contributions by bargaining unit, combined with Health Plan savings, cover the annual costs of implementing retirement formula changes.

In addition, the MOUs set forth the intent of the parties that the change is without additional cost to the County. The MOUs confirm that payments continue on past the expiration date of the contracts and are intended to cover the 30-year amortization period. Annual review of the benefit and its associated costs and consideration of future contribution levels are also part of the agreements. Refer to Note 18 for more information on the County's retirement plans.

21. EVENTS (UNAUDITED) SUBSEQUENT TO THE DATE OF THE INDEPENDENT AUDITOR'S REPORT

Proposition 172 Measure

An initiative measure that reallocates a portion of the County's Proposition 172 Funds from the County Sheriff-Coroner and District Attorney to the Orange County Fire Authority has qualified for the November 2005 special election ballot. Currently, the County's share is allocated to the County Sheriff-Coroner (80%) and to the District Attorney (20%). In Fiscal Year 2005-06 this funding is budgeted to provide $211.3 million in revenue to the Sheriff and $52.8 million in revenue to the District Attorney. If approved by the voters, the initiative would allocate 50% of any increase over a base year amount in Fiscal Year 2004-05 to the Orange County Fire Authority, subject to a maximum allocation of 10% of the County's annual Proposition 172 revenue. If the initiative is approved by the voters, the County projects that the impact in Fiscal Year 2005-06 would be approximately $7.4 million, with an ultimate impact of approximately $30 million when the 10% allocation is met. The County has assumed no change in Proposition 172 revenues in its 2005-2006 budget.

OCERS December 31, 2004 Actuarial Valuation

In 2004, OCERS retained the Segal Company as its actuary to complete an actuarial valuation of OCERS (the "Valuation") as of December 31, 2004. The Valuation calculated the system-wide UAAL as of December 31, 2004 to be $2.34 billion. The 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 average aggregate employer contribution rate for the County in the Valuation increased from 18.89% of payroll beginning July 1, 2005 to 30.33% beginning July 1, 2006, and employee rates, some of which are contributed by the County under existing bargaining agreements also increased. The $1.032 billion increase in UAAL was attributable to a number of factors including the following: (a) differences between the Segal Valuation and the prior actuary's valuation system and procedures ($107 million); (b) changes in assumptions, including salary scale, withdrawal and retirement assumptions, based upon the December 31, 2004 triennial experience study of the County ($580 million); and (c) benefit changes including 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 ($365 million). OCERS has multiple employers. The County's share is approximately 80% of these amounts.

The OCERS Board of Retirement has yet to adopt the Valuation. If the Segal recommendations are adopted, the County may be given the option to phase in increased contribution requirements over a three year period, beginning in Fiscal Year 2006-07. Under the phase-in plan, if offered by OCERS and applied by the County, the employer contribution rate will increase by 3.81% per year for 3 years beginning in Fiscal Year 2006-07. If the Segal Valuation is adopted by the OCERS Board of Retirement, the County contribution rates will take effect on July 1, 2006.

Retirement Contribution Prepayment

On June 28, 2005, the Board of Supervisors approved the prepayment of 50% of the County's Fiscal Year 2005/06 OCERS contribution. The $87.7 million was paid to OCERS from the General Fund on July 13, 2005 and represents a $3.3 million discount from the contribution which would have been paid by the County if payment was made in installments during the County's Fiscal Year. The remaining $91 million contribution will be paid to OCERS over the 26 pay periods during the 2005/06 Fiscal Year.

Post Employment Health Care Benefits

The County has hired Bartell Associates, LLC to conduct a GASB 45 compliant actuarial valuation of the Retiree Medical Plan and the retiree subsidy. The new GASB 45 compliant actuarial valuation will be as of June 30, 2005. Although the valuation has not been completed, the County believes that the GASB 45 compliant actuarial valuation will result in an unfunded liability between $1.3 billion and $2.6 billion depending upon the assumptions utilized in the valuation. Given the preliminary nature of the work to date, the County is unable to provide a more definitive estimate. A County working group is currently studying plan revisions that would reduce the liability and annual cost.

Estimated Liability for Litigation and Other Claims

Barratt American, Inc. et al. v. County of Orange, OCSC Consolidated cases 814037 and 01CC04025. Plaintiff alleges the County over-charged for building permit and inspection fees from 1999 through 2001 (and continuing) and impermissibly accumulated a surplus in Fund 113, much of which was subsequently spent on impermissible items. Plaintiff seeks a variety of forms of relief, including injunctive, declaratory and money damages.

The trial court ruled that the County failed to meet its burden of proof that $4.5 million of $18 million 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 plaintiff $1.2 million in attorney fees. The judgment is now final and the County has filed a notice of appeal. The plaintiff has also appealed portions of the judgment.

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 County 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 County 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 County 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 County, 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 County 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 County 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 Trust Agreement.

The County 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 County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

The County 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 County 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 County 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 County fails to select a qualified securities depository to replace DTC, the County 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 County. 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 County. 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 Trust Agreement 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; (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 in whole or in part from and after the day of mailing of a notice of redemption of such Bond 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 by wire transfer in immediately available funds; and (f) all payments of principal on the Bonds, will be made upon surrender thereof at the corporate trust office of the Trustee specified in the Trust Agreement.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement, as heretofore supplemented and as supplemented by the Third Supplemental Trust Agreement 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.

Definitions of Certain Terms

The following are summaries of certain definitions contained in the Trust Agreement, as heretofore supplemented and as supplemented by the Third Supplemental Trust Agreement.

Definitions. Unless the content shall clearly indicate some other meaning or may otherwise require, the terms herein shall, for all purposes of the Trust Agreement and the Third Supplemental Trust Agreement, have the meanings therein specified.

"Additional Refunding Bonds" shall mean one or more series of bonds issued pursuant to the Trust Agreement for the purpose of refunding the Outstanding Bonds.

"Arbitrage and Tax Matters Certificate" shall mean the Arbitrage and Tax Matters Certificate of the County that is to be executed in connection with the issuance of the Bonds.

"Authorized Officer" when used with reference to the County shall mean the Chairman of the Board of Supervisors, the County Executive Officer, the County Chief Financial Officer, the County Public Finance Manager, or such other officer designated by the County to perform the act of signing the document in question.

"Bankruptcy Code" shall mean Title 11 of the United States Code, 11 U.S.C. Sections 101 et seq., as in effect on December 6, 1994, together with all amendments, modifications and replacements as the same shall exist on any relevant date to the extent applicable to the Cases.

"Board" shall mean the Board of Supervisors of the County, or such other board, body, commission or agency succeeding to the functions thereof.

"Bondholder", or **"owner",** or **"Holder"** or words of similar import shall mean, when used with reference to a Bond, the Person in whose name the Bond is registered, or such owners' duly authorized attorney in fact, representative or assigns.

"Bonds" shall mean any bond or bonds authenticated and delivered under and pursuant to the Trust Agreement.

"Cases" shall mean the Debtors' jointly administered cases under Chapter 9 of the Bankruptcy Code, numbers SA94-22272-JR and 94-22273-JR.

"Certificate" shall mean, as the context indicates, a signed document attesting to or acknowledging the matters therein stated or setting forth matters to be determined pursuant to the Trust Agreement.

"Code" means the Internal Revenue Code of 1986, as amended and supplemented from time to time, and the applicable temporary, proposed, or final regulations promulgated by the United States Treasury Department thereunder or under the Internal Revenue Code of 1954, as amended.

"Costs" shall mean all the costs of preparation, sale, executing and delivering the Bonds and other costs related to the financing provided thereby, including, but not limited to, all printing and document preparation expenses in connection with this Trust Agreement and with the sale of the Bonds; legal fees and expenses of counsel with respect to the issuance of the Bonds; any computer and other expenses incurred in connection with the Bonds; the initial fees and expenses of the Trustee and its counsel; municipal bond insurance premiums; and other fees and expenses incurred in connection with the execution and delivery of the Bonds or the implementation of the financing, to the extent such fees and expenses are approved by the County.

"County" shall mean the County of Orange, California.

"Debtors" shall mean the County and the Pool.

"Defeasance Obligations" shall mean any of the obligations described in clause (i) of the definition of Investment Securities which are noncallable and Refunded Municipal Obligations.

"DTC" shall mean The Depository Trust Company and its successors and assigns.

"Event of Default" means any of the events set forth in the Trust Agreement under "Events of Default".

"Investment Securities" shall mean any of the investments set forth below, if and to the extent that the same are legal for the investment of funds of the County:

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, and CATS and TGRS) 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. U.S. Export-Import Bank (Eximbank) -- Direct obligations or fully guaranteed certificates of beneficial ownership

   b. Farmers Home Administration (FmHA) -- Certificates of beneficial ownership

   c. Federal Financing Bank

   d. Federal Housing Administration Debentures (FHA)

   e. General Services Administration -- Participation certificates

   f. Government National Mortgage Association (GNMA or "Ginnie Mae")
      GNMA - guaranteed mortgage-backed bonds
      GNMA - guaranteed pass-through obligations

   g. U.S. Maritime Administration -- Guaranteed Title XI financing

   h. U.S. Department of Housing and Urban Development (HUD)

      Project Notes
      Local Authority Bonds
      New Communities Debentures - U.S. government guaranteed debentures
      U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

3. Bonds, 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

b. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")

Participation Certificates
Senior debt obligations

c. Federal National Mortgage Association (FNMA or "Fannie Mae") -- Mortgage-backed securities and senior debt obligations

d. Student Loan Marketing Association (SLMA or "Sallie Mae") -- Senior debt obligations

e. Resolution Funding Corp. (REFCORP) obligations

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 Standard & Poor's of AAAm-G; AAAm; or AAm. Such funds may include funds for which the Trustee, its affiliates or subsidiaries provide investment or other management services.

5. Certificates of deposit secured at all times by collateral described in (i) and/or (ii) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

7. Investment Agreements, including GIC's, with providers rated "A3" or better by Moody's and "A" or better by Standard & Poor's.

8. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's.

9. Bonds or notes issued by any state or municipality which are rated by Moody's and Standard & Poor's 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 which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by Standard & Poor's.

11. Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria.

A. Repurchase Agreements must be between the municipal entity and a dealer bank or securities firm.

(1) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's and Moody's, or

(2) Banks rated "A" or above by Standard & Poor's and Moody's.

B. The written repurchase agreements must include the following:

(1) Securities which are acceptable for transfer are:

(a) Direct U.S. governments, or

(b) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)

(2) The term of the repurchase agreements may be up to 30 days.

(3) The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(4) Valuation of Collateral

The securities must be valued weekly, marked-to-market at current market price plus accrued interest.

The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by the municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

C. Legal opinion which must be delivered to the County:

Repurchase Agreements meet guidelines under state law for legal investment of public funds.

12. Any other investment approved by the 2005 Series A Bond Insurer.

"Outstanding" or **"outstanding"** shall mean, as of any date, when used with reference to Bonds, all Bonds issued or authorized pursuant to the Trust Agreement, except: (i) any Bonds paid in full, surrendered for cancellation or canceled at or prior to such date; and (ii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated or delivered pursuant to the Trust Agreement; and (iii) Bonds deemed to be no longer outstanding hereunder as provided in the Trust Agreement provisions regarding defeasance.

"Paying Agent" shall mean any bank or trust company appointed as Paying Agent pursuant to the Trust Agreement, and any successor or successors.

"Pool" shall mean the Orange County Investment Pools.

"Principal Installment" shall mean (a) the principal amount of Bonds scheduled to mature on a certain future date for which no Sinking Fund Installments have been established, or (b) the unsatisfied balance of Sinking Fund Installments scheduled to be paid on a certain future date for Bonds.

"Redemption Price" shall mean, when used with respect to a Bond or portion thereof to be redeemed, the unpaid principal amount thereof plus the applicable premium, if any, payable upon either optional or mandatory redemption (other than by Sinking Fund Installments) thereof pursuant to the Trust Agreement.

"Refunded Municipal Obligations" shall mean obligations of any state, the District of Columbia or possession of the United States of America or any political subdivision thereof which obligations are rated in the highest rating category by Moody's and S&P and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of, or obligations guaranteed by, the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

"Registrar" shall mean the Trustee, and its successor or successors, and any other corporation which may at any time be substituted in its place pursuant to the Trust Agreement.

"Revenues" shall mean taxes, income, revenue, cash receipts, fees and other moneys which are legally available for the payment of expenses and other obligations of the County.

"Sinking Fund Installment" shall mean each amount of principal scheduled to be paid other than at maturity which is established pursuant to the Trust Agreement.

"State" shall mean the State of California.

"Tax Requirements" shall mean those provisions of the Code and the temporary, proposed, or final regulations promulgated thereunder by the United States Treasury Department which are applicable to the Bonds and which must be complied with in order that the interest on the Bonds not be, and continue not to be, includable in the gross income of the owners thereof for federal income tax purposes.

"Term Bonds" shall mean Bonds the retirement or the redemption of which shall be provided for from Sinking Fund Installments.

"Third Supplemental Trust Agreement" shall mean the Third Supplemental Trust Agreement, dated as of August 1, 2005, by and between the County and The Bank of New York Trust Company, N.A., as successor trustee.

"Trust Agreement" shall mean the Trust Agreement executed in connection with the Bonds and from time to time amended or supplemented by one or more Supplemental Trust Agreements.

"2005 Series A Bond Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, or any successor thereto or assignee thereof.

"2005 Series A Bonds" means the County of Orange, California Refunding Recovery Bonds, 2005 Series A authorized by and at any time Outstanding pursuant to and executed, issued and delivered in accordance with the Trust Agreement and the Third Supplemental Trust Agreement.

"2005 Series A Tax Certificate" means the certificate signed by the County relating to the 2005 Series A Bonds and the requirements of Section 148 of the Code.

"Validation Judgment" shall mean the judgment validating the issuance of the Bonds and all related proceedings entered by the Superior Court of the State of California for the County of Orange on June 5, 1995 (Case No. 74-55-37).

Trust Agreement to Constitute Contract

In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of the Trust Agreement shall be a part of the contract of the County with the owners of the Bonds and shall be deemed to be and shall constitute a contract between the County and the owners from time to time of the Bonds. The pledge made thereby and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the County will be for the equal benefit, protection and security of the owners of any and all such Bonds, each of which, regardless of time or times of maturity or due dates, will be of equal rank without preference, priority or distinction over any other thereof except as otherwise expressly provided by the Trust Agreement.

Pledge and Related Matters

The Bonds are payable solely from the Revenues. The County pledges to the Trustee, individually and on behalf of the owners from time to time of the Bonds, as security for the payment of the Bonds in accordance with their terms, the Debt Service Fund including the investments, if any, therein.

The obligations of the County under and in connection with the Bonds, including the obligation to make all payments of interest and principal and premium, if any, thereon when due are obligations of the County imposed by law not limited as to payment from any special source of funds and are absolute and unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation for which the County is obligated or permitted to levy or pledge any form of taxation. The Bonds do not constitute an indebtedness of the County or the State or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Delivery of Additional Refunding Bonds

The County reserves the right to issue one or more series of Additional Refunding Bonds pursuant to terms of the Trust Agreement at any time to refund any Outstanding Bonds. On the date of issuance of any such Additional Refunding Bonds, such Additional Refunding Bonds shall be treated as Bonds as defined in the Trust Agreement.

All Additional Refunding Bonds issued under the Trust Agreement to refund Outstanding Bonds shall be executed by the County for issuance and delivered to the Trustee and thereupon shall be authenticated by the Trustee and delivered to the County or upon its order, but only upon the receipt by the Trustee (in addition to an opinion of Bond Counsel and certain documents required by the Trust Agreement) of:

(i) irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be redeemed on a redemption date or dates specified in such instructions;

(ii) if the Bonds to be refunded are not to be redeemed within the next succeeding 90 days, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of any refunding of such Bonds on a specified date prior to their maturity, as provided in the Trust Agreement;

(iii) either (A) moneys (which may include all or a portion of the proceeds of the Additional Refunding Bonds to be issued) in an amount sufficient to effect payment of the Principal Installments or Redemption Price of the Bonds to be refunded, together with accrued interest on such Bonds to the maturity or redemption date thereof, as the case may be, or (B) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise have such terms and qualifications and any moneys, as shall be necessary to comply with the defeasance provisions of the Trust Agreement, which Defeasance Obligations and moneys shall be held in trust and used only as provided in the Trust Agreement; and

(iv) such further documents and moneys as are required by the provisions of the Trust Agreement or any Supplemental Trust Agreement authorizing such Additional Refunding Bonds.

Establishment of Funds

The Trustee will deposit into the Debt Service Fund from the Revenues, as and when required, the amounts required to be deposited in the Interest Account, Principal Account and Bond Retirement Account.

Interest Account. Not later than the 25th day of each calendar month, the Trustee will pay or cause to be paid into the Debt Service Fund to the credit of the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on the 25th day of each succeeding calendar month thereafter and prior to the next date upon which an installment of interest falls due on the Bonds, the aggregate of the amounts so paid and credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Bonds then Outstanding. In computing the amount required to be deposited into the Interest Account there shall be taken into consideration, (i) any amounts paid or to be paid into the Debt Service Fund and credited to the Interest Account representing accrued interest received on the sale of the Bonds, (ii) earnings which actually have been received on investments or reinvestments of the funds on deposit in the Interest Account, and (iii) any of the amounts required by the Trust Agreement to be deposited in the Interest Account. Any amount in excess of the amount required for the payment of interest on the Bonds on any Interest Payment Date which is on deposit to the credit of the Interest Account shall be paid by the Trustee to the County on each Interest Payment Date, without further authorization or direction by the County and shall be free and clear of the lien of the Trust Agreement.

Principal Account. Not later than the 25th day of each calendar month, the Trustee will pay, or cause to be paid, into the Debt Service Fund to the credit of the Principal Account an amount such that, if the same amount were so paid and credited to the Principal Account on the 25th day of each succeeding calendar month thereafter and prior to the next date upon which an installment of principal falls due on the Serial Bonds, the aggregate of the amounts so paid and credited to the Principal Account, together with any moneys which actually have been received in such Account resulting from investment or reinvestment of the moneys in such Account, would on such date be equal to the installment of principal then falling due. Any amount in excess of the amount required for the payment of a Principal Installment on the Bonds on the date upon which a Principal Installment is required to be made shall be paid by the Trustee to the County on each date upon which a Principal Installment is required to be made, without further authorization or direction by the County and shall be free and clear of the lien of the Trust Agreement.

Bond Retirement Account. On or before the 25th day of each calendar month, the Trustee will pay, or cause to be paid, into the Debt Service Fund to the credit of the Bond Retirement Account for the purpose of retiring Term Bonds, an amount such that, if the same amount were so set aside and credited to the Bond Retirement Account for such purpose on the 25th day of each calendar month thereafter and prior to the next date upon which a Sinking Fund Installment falls due, the aggregate of the amounts so paid and credited to the Bond Retirement Account for the purpose of retiring the Term Bonds would be sufficient to redeem such Term Bonds. In computing the amount required to be deposited into the Bond Retirement Account, earnings which actually have been received on investments or reinvestments of the funds on deposit in the Bond Retirement Account shall be taken into consideration and allowed for.

The accrued interest payable on the Term Bonds redeemed with moneys credited to the Bond Retirement Account in the Debt Service Fund for the purpose of meeting the specified Sinking Fund Installment requirements of the Term Bonds shall be paid from moneys credited to the Interest Account therein. Any amount in excess of the amount required for the payment of a Sinking Fund Installment on any date upon which a Sinking Fund Installment is required to be made shall be paid by the Trustee to the County on each date upon which a Sinking Fund Installment is required to be made, without further authorization or direction by the County and shall be free and clear of the lien of the Trust Agreement.

From amounts on deposit in the Bond Retirement Account, the County may, prior to the forty-fifth day preceding the due date of any Sinking Fund Installment purchase Bonds at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Bonds when such Bonds are redeemable by application of such Sinking Fund Installment plus unpaid interest accrued to the date of purchase, such purchases to be made by the Trustee as directed in writing by an Authorized Officer of the County.

Upon the purchase or redemption (other than by application of Sinking Fund Installments) of any Bond, an amount equal to the principal amount of the Bond so purchased or redeemed shall be credited toward the Sinking Fund Installments thereafter to become due as directed in writing by an Authorized Officer of the County.

At the option of the County, the County may, in lieu of depositing all or any part of the Sinking Fund Installments into the Bond Retirement Account of the Debt Service Fund, (i) furnish the Trustee with a Certificate of an Authorized Officer stating that the County has purchased for cancellation such Term Bonds in the principal amount, and bearing the numbers, specified therein, and that said Term Bonds have not been previously included in any such Certificate and (ii) where such Term Bonds are not held in book entry form, deliver such Term Bonds to the Trustee, or where such Term Bonds are held in book entry form, instruct the Trustee to arrange for the delivery of such Term Bonds accordingly; and thereupon the Sinking Fund Installments with respect to the Term Bonds may be reduced by the principal amount of such Term Bonds cancelled, as provided by such Certificate.

As soon as practicable after the forty-fifth day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, on such due date, the Bonds for which such Sinking Fund Installment was established in such amount as shall be necessary to complete the retirement of the principal amount specified for such Sinking Fund Installment of the Bonds. The Trustee shall so call such Bonds for redemption from moneys in the Bond Retirement Account of the Debt Service Fund. The Trustee shall apply to the redemption of the Bonds on each such redemption date, the amount required for the redemption of such Bonds.

Investment of Funds

Except as otherwise provided in the Trust Agreement, moneys in the Debt Service Fund and the Bond Proceeds Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Trustee, upon the direction of an Authorized Officer (promptly confirmed in writing), solely in Investment Securities which shall mature or be subject to redemption at the option of the owner thereof on or prior to the respective dates when the moneys therein will be required for the purposes intended. In the absence of such direction from the County, the Trustee shall invest such monies in securities listed in section (4) of the definition of Investment Securities until the Trustee receives other directions from the County. The Trustee shall not be liable for any depreciation in value of any such investments.

Valuation or Sale of Investments

Investment Securities in any Fund or Account created under the provisions of the Trust Agreement shall be deemed at all times to be part of such Fund or Account and any profit realized from the liquidation of such investment shall be credited to such Fund or Account and any loss resulting from liquidation of such investment shall be charged to such Fund or Account. Any net profits remaining after accumulating the sum of all profits realized and losses suffered from the liquidation of such investments in any Fund or Account shall be retained in the Debt Service Fund.

In computing the amount in any Fund or Account, Investment Securities therein shall be valued at the lower of cost or, if purchased at a premium or discount, at their Amortized Value which such amount shall be calculated by the County and provided to the Trustee. Any such computation shall include accrued interest on the Investment Securities paid as part of the purchase price thereof and not repaid. Such computation shall be made annually on June 30th for all Funds and Accounts established pursuant to the Trust Agreement and at such other times as the County shall determine or as may be required by the Trust Agreement.

Except as otherwise provided in the Trust Agreement, the Trustee, as directed by an Authorized Officer of the County (promptly confirmed in writing), shall use its best efforts to sell at the best price obtainable, or present for redemption, any Investment Securities held by the Trustee in any Fund or Account whenever it shall be necessary, and upon oral request (promptly confirmed in writing) from an Authorized Officer of the County in order to provide moneys to meet any payment or transfer from such Fund or Account. The Trustee shall not be liable or responsible for any loss resulting from any such investment, sale, liquidation or presentation for investment made in the manner provided in the Trust Agreement.

Moneys held by the Trustee under the Trust Agreement may be pooled in order to make any purchase of Investment Securities or deposit of moneys held under the Trust Agreement, which purchases or deposits are otherwise permitted hereunder; provided, however, that the Trustee shall at all times keep accurate and complete records of the Investment Securities so purchased and deposits so made in sufficient detail as will permit the application of such Investment Securities and deposits, and the proceeds thereof, solely for the purposes, at the times and in the manner provided in the Trust Agreement.

Certain Covenants

The County represents, covenants and agrees with the Trustee, the purchasers and owners of all Bonds issued pursuant to the Trust Agreement, as follows:

Protection of Security. The County is duly authorized under all applicable laws to create and issue the Bonds, to execute and deliver the Trust Agreement and to pledge the moneys, securities and funds purported to be pledged by the Trust Agreement in the manner and to the extent provided in the Trust Agreement. The Bonds and the provisions of the Trust Agreement are and will be valid and legally enforceable obligations of the County in accordance with their terms and the terms of the Trust Agreement.

The County shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the moneys, securities and funds pledged under the Trust Agreement and all the rights of the Bondholders under the Trust Agreement against all claims and demands of all Persons whomsoever.

Issuance of Other Obligations. Nothing contained in the Trust Agreement shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the County from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness or entering into any lease obligations payable from or secured by a pledge or lien on Revenues

Additional Tax Covenants. The County covenants with the holders from time to time of the Bonds that it will comply with the Tax Requirements. The Authorized Officer is authorized to execute all certificates, agreements and other documents necessary or desirable to evidence compliance with such covenant including, without limitation, the Arbitrage and Tax Matters Certificate of the County that is to be executed in connection with the issuance of the Bonds. The Authorized Officer is further authorized and directed to make all investments of moneys held under the Trust Agreement and otherwise held by or on behalf of the County in accordance with the covenants and agreements of the County that are contained in such Arbitrage and Tax Matters Certificate and in such other certificates, agreements and other documents.

In connection with, and in furtherance of, the foregoing covenant, the Authorized Officer is authorized and directed to pay to the United States Treasury Department at such time or times and in such amounts as shall be required by the Treasury Department all amounts required under Section 148 of the Code to be rebated, including without limitation, (i) as of and within 60 days after the fifth and tenth anniversaries of June 1, 1995, an amount equal to the amount required under Section 148(f) of the Code to be rebated on such dates and (ii) as of and within 60 days after the date on which all of the Bonds have been retired, an amount equal to the balance of all rebatable amounts. Such payments shall be made to the Internal Revenue Service at the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255. Each such payment shall be accompanied by Internal Revenue Service Form 8038-T (or any successor or other applicable form).

Events of Default

Each of the following events is defined as and shall constitute an “Event of Default” whether or not the Trustee has knowledge of such:

(i) if payment of a Principal Installment or the Redemption Price of any Bond shall not punctually be made when due and payable, whether at the stated maturity thereof, upon redemption or otherwise or if the monthly deposits required to be made pursuant to the Trust Agreement are not made when due;

(ii) if payment of the interest on any Bond shall not punctually be made when due or if the monthly deposits required to be made pursuant to the Trust Agreement are not made when due;

(iii) if the County shall default in the performance or observance of any covenant contained in the sections of the Trust Agreement regarding protection of security or issuance of other obligations;

(iv) if the County shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Trust Agreement or in the Bonds, on the part of the County to be performed, and such failure shall continue for forty-five (45) days after written notice thereof from the Trustee or the owners of not less than twenty-five percent (25%) in principal amount of the Bonds then Outstanding; provided that, if such failure shall be such that it cannot be corrected within such forty-five (45) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(v) if, other than in connection with the Cases, an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of the County, or if such order, judgment or decree, having been entered without the consent or acquiescence of the County, shall not be vacated or set aside or discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within forty-five (45) days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged: (A) appointing a receiver, trustee or liquidator for the County; or (B) assuming custody or control of the whole or any substantial part of the assets of the County under the provisions of any law for the relief or aid of Debtors; or (C) approving a petition filed against the County under the provisions of the Bankruptcy Code; or (D) granting relief to the County under any amendment to the Bankruptcy Code, or under any other applicable bankruptcy act, which shall give relief substantially similar to that afforded by Chapter 9 thereof;

(vi) if, other than in connection with the Cases, the County shall (A) admit in writing its inability to pay its debts generally as they become due; or (B) file a petition in bankruptcy or seeking a composition of indebtedness; or (C) make an assignment for the benefit of its creditors; or (D) file a petition or any answer seeking relief under the Bankruptcy Code, or under any amendment thereto, or under any other applicable bankruptcy act which shall give relief substantially the same as that afforded by Chapter 9 of said Code; or (E) consent to the appointment of a receiver of the whole or any substantial part of the assets of the County; or (F) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief or aid of Debtors of custody or control of the County;

(vii) if an application for any of the orders described in clause (vii) above shall be made by a Person other than the Debtors and such application is not contested by either Debtor in good faith and the relief requested is granted in an order that is not stayed pending appeal; and

(viii) if an order shall be entered by a California court of competent jurisdiction revoking, reversing, staying, modifying, supplementing or amending the Validation Judgment.

Upon the occurrence and during the continuance of any Event of Default, the Trustee may upon the written request of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding affected by such Event of Default and receipt of indemnity to its reasonable satisfaction, in its own name and as the Trustee of an express trust:

(a) by mandamus, suit, action or proceeding, compel the County and its officers, agents or employees to perform each and every term, provision and covenant contained in the Trust Agreement and the Bonds, and require the carrying out of any or all such covenants and agreements of the County and the fulfillment of all duties imposed upon it by the Act and any other applicable law;

(b) by suit, action or proceeding in equity, enjoin any acts or things which are unlawful or in the violation of any of the rights of the owners of the Bonds; or

(c) by suit, action or proceeding in any court of competent jurisdiction, require the County and its officers to account as if it and they were the trustees of an express trust.

Notice to Bondholders of an Event of Default

The Trustee, within twenty-five (25) days after the Trustee has taken knowledge of the occurrence of an Event of Default, shall give to the Bondholders, in the manner provided in the Trust Agreement, notice of all defaults known to the Trustee, and shall give prompt written notice thereof to the County, unless such defaults shall have been cured before the giving of such notice (the term "default" or "defaults" for the purpose of this section being defined to be any Event or Events of Default specified in the Trust Agreement).

Payment of Funds to the Trustee; Application of Revenues in an Event of Default

If an Event of Default shall occur and be continuing, all Revenues of the County and other moneys received or collected for the benefit or for the account of owners of the Bonds by the Trustee shall be applied as follows:

> First, to the payment of all fees and expenses reasonably necessary and proper to carry out the Trustee's duties hereunder and to the payment of the reasonable charges of the Trustee (including reasonable fees and disbursements of its counsel) incurred by the Trustee in exercising its powers and duties hereunder;
>
> Second, to the payment to the Persons entitled thereto of all installments of interest then due on the Bonds (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and
>
> Third, to the payment to the Persons entitled thereto of the principal and premium, if any, due and unpaid upon the Bonds at the time of such payment without preference or priority of any Bond over any other Bond, and if the amounts available therefor shall not be sufficient to pay in full any principal and premium, if any, due and unpaid upon the Bonds at such time, then to the payment thereof, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference.

Whenever moneys are to be applied as above, such moneys shall be applied by the Trustee, at such times, and from time to time, as it in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future.

If and whenever all overdue installments of interest on all Bonds together with the reasonable and proper charges, expenses, and liabilities of the owners of the Bonds, their respective agents and attorneys, and all other sums payable by the County under the Trust Agreement including the Principal Installments or Redemption Price of all Bonds which shall then be payable, shall either be paid in full by or for the account of the County or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Trust Agreement or the Bonds shall be made good and secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate therefor, the County and the Trustee shall be restored to their former positions and rights under the Trust Agreement, and all Revenues shall thereafter be applied as provided in Article V of the Trust Agreement. The resumption of the application of Revenues as provided in Article V of the Trust Agreement shall not extend to or affect any subsequent default under the Trust Agreement or impair any right consequent thereon.

Certain Powers and Rights of Trustee

In addition to rights granted the Trustee pursuant to the Trust Agreement, if an Event of Default shall happen and shall not have been remedied then, and in every such case, the Trustee, either in its own name or as Trustee of an express trust, or as attorney-in-fact for the owners of the Bonds, or in any one or more of such capacities, by its agents and attorneys, shall be entitled and empowered to proceed forthwith to institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce its rights and the rights of the owners of the Bonds under the Trust Agreement for the specific performance of any covenant contained in the Trust Agreement, or in aid of the execution of any power granted in the Trust Agreement, or for an accounting against the County as trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights, or to perform any of its duties under the Trust Agreement. The Trustee shall be entitled and empowered either in its own name or as a Trustee of an express trust, or as attorney-in-fact for the owners of the Bonds or in any one or more of such capacities, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Trustee and of the owners of the Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings. For this purpose the Trustee is hereby irrevocably appointed the true and lawful attorney-in-fact of the respective owners of the Bonds (and the successive owners of the Bonds by taking and holding the same shall be conclusively deemed to have so appointed the Trustee) with authority to make and file in the respective name of the owners of the Bonds any such proof of debt, amendment of proof of debt, claim, petition or other document in any such proceedings, and to receive payment of any sums becoming distributable on account thereof, and to execute any such other papers and documents and to do and perform any and all acts and things for and on behalf of the owners of the Bonds as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Trustee and the owners of the Bonds allowed in any such proceeding and to receive payment of and on account of such claims; provided, however, that nothing contained in the Trust Agreement shall be deemed to give the Trustee any right to accept or consent to any plan of reorganization or compromise or otherwise take any action of any character in any such proceedings to receive or change in any way any right of any owner of Bonds. The Trustee shall be entitled to seek the direction of the Bondholders prior to taking any action not expressly required or authorized under the Trust Agreement and shall be entitled to act in accordance with such directions.

All rights of action under the Trust Agreement may be enforced by the Trustee without the possession of any of the Bonds or the production thereof at the trial or other proceedings.

Supplemental Trust Agreements Effective Without Consent of Owners of Bonds

The Trust Agreement and the rights and obligations of the County, the Trustee and the owners of the Bonds may be modified or amended from time to time and at any time by a trust agreement or trust agreements supplemental thereto (defined and referred to as a "Supplemental Trust Agreement"), which the County and the Trustee may enter into without the consent of any Bond owner (i) to appoint an additional Bond Registrar or Paying Agent pursuant to Article VI of the Trust Agreement; or (ii) if the provisions of such Supplemental Trust Agreement shall not adversely affect the rights of the owners of the Bonds then outstanding, for any one or more of the following purposes:

(1) to issue one or more series of Additional Refunding Bonds for the purpose of refunding any Bonds Outstanding;

(2) to make any changes or corrections in the Trust Agreement as to which the County shall have been advised by counsel that the same are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or omission or mistake or manifest error contained in the Trust Agreement, or to insert in the Trust Agreement such provisions clarifying matters or questions arising under the Trust Agreement as are necessary or desirable;

(3) to add additional covenants and agreements of the County for the purpose of further securing the payment of the Bonds;

(4) to surrender any right, power or privilege reserved to or conferred upon the County by the terms of the Trust Agreement;

(5) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Trust Agreement;

(6) to grant or to confer upon the owners of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them, or to grant to or to confer upon the Trustee for the benefit of the owners of the Bonds any additional rights, duties, remedies, powers, authority or security;

(7) to make any appointment or to add any provision, in either case, required or permitted by the Trust Agreement to be so made or added pursuant to a Supplemental Trust Agreement; and

(8) to make any other change which the County deems necessary or desirable and which does not adversely affect the rights of the Bondholders.

Any such Supplemental Trust Agreement shall become effective in accordance with its terms upon the date thereof or upon such other date specific in the Trust Agreement.

Supplemental Trust Agreements Effective With Consent of Bondholders

The Trust Agreement and the rights and obligations of the County and of the owners of the Bond may also be modified or amended from time to time and at any time by a Supplemental Trust Agreement, which the County and the Trustee may enter into with the consent of the Bondholders in accordance with and subject to the provisions of Article X of the Trust Agreement.

Powers of Amendment

Other than with respect to amendments or supplements made by a Supplemental Trust Agreement without consent of the owners of Bonds pursuant to the Trust Agreement, any modification or amendment of the Trust Agreement or of the rights and obligations of the County, the Trustee and of the owner of the Bonds under the Trust Agreement, in any particular, may be made by a Supplemental Trust Agreement with the written consent given as provided the Trust Agreement, of the owners of not less than a majority in principal amount of the Bonds Outstanding at the time such consent is given; except that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified maturity remain Outstanding, the consent of the owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under the powers of amendment section of the Trust Agreement. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the owner of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the owners of which is required to effect any such modification or amendment, or permit a preference or priority of any Bond over any other or shall change or modify any of the rights or obligations of any fiduciary without its written assent thereto. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular maturity would be affected by any modification or amendment of the Trust Agreement and any such determination shall be binding and conclusive on the County and all owners of Bonds. For the purposes of the powers of amendment section of the Trust Agreement, the owners of the Bonds may include the initial owners thereof, regardless of whether such Bonds are being held for immediate resale.

Discharge of Bonds; Bonds No Longer Outstanding and Deemed to be Paid under the Trust Agreement

The Trust Agreement and all of the covenants, agreements and obligations of the County thereunder and the liens, pledges, charges, trusts, covenants and agreements in the Trust Agreement made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be outstanding thereunder,

> (i) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Trustee from moneys held under the Trust Agreement; or
>
> (ii) as to any Bond not cancelled or surrendered for cancellation or subject to cancellation or so purchased, when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (A) shall have been made or caused to be made in accordance with the terms thereof, or (B) shall have been provided for by irrevocably depositing with the Trustee or a Paying Agent for such Bond, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Defeasance Obligations maturing, or redeemable at the option of the owner thereof, as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, or a combination thereof, whichever the County deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Trustee and the Paying Agent pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee and said Paying Agent.

At such time as a Bond shall be deemed to be no longer outstanding under the Trust Agreement, as aforesaid, such Bond shall no longer be secured by or entitled to the benefits of the Trust Agreement, except for the purposes of any payment from such moneys or Defeasance Obligations.

Notwithstanding the foregoing, in the case of a Bond which is to be redeemed or otherwise prepaid prior to its stated maturity, no deposit under clause (B) of subparagraph (ii) above shall constitute such payment, discharge and satisfaction as aforesaid until such Bond shall have been irrevocably designated for redemption or prepayment and proper notice of such redemption or prepayment shall have been previously published in accordance with the notice of redemption section of the Trust Agreement or provision satisfactory to the Trustee shall have been irrevocably made for the giving of such notice and the County shall have obtained a verification report from a nationally recognized accountant and an opinion of a nationally recognized bond counsel addressed to the Trustee.

Any such moneys so deposited with the Trustee or Paying Agents for the Bonds as provided in the defeasance section of the Trust Agreement may at the direction of the County also be invested and reinvested in Defeasance Obligations, maturing in the amounts and times as hereinbefore set forth. All income from all Defeasance Obligations in the hands of the Trustee or Paying Agents pursuant to the defeasance section of the Trust Agreement which is not required for the payment of the Bonds and interest and premium thereon with respect to which such moneys shall have been so deposited, shall be paid to the County. Likewise, whenever all of the Bonds shall be deemed to be no longer Outstanding under the Trust Agreement, as aforesaid, the amounts, if any, remaining on deposit to the credit of the Debt Service Fund, shall be paid to the County after provisions are made for payment of fees and expenses of the Trustee, if any, remaining due pursuant to the Trust Agreement

Notwithstanding any provision of any other section of the Trust Agreement which may be contrary to the provision of the defeasance section of the Trust Agreement, all moneys and Defeasance Obligations set aside and held in trust pursuant to the provisions of the defeasance section of the Trust Agreement for the payment of Bonds shall be applied to and used solely for the payment of the particular Bond with respect to which such moneys and Defeasance Obligations have been so set aside in trust.

Anything in Article IX of the Trust Agreement to the contrary notwithstanding, if moneys or Defeasance Obligations have been deposited or set aside with the Trustee or a Paying Agent pursuant to the defeasance section of the Trust Agreement for the payment of a specific Bond and such Bond shall be deemed to have been paid and to be no longer Outstanding under the Trust Agreement as provided in the defeasance section of the Trust Agreement, but such Bond shall not have in fact been actually paid in full, no amendment to the provisions of Article XI of the Trust Agreement shall be made without the consent of the owner of each Bond affected thereby.

The County shall at any time surrender to the Trustee for cancellation by it any Bonds previously executed and delivered, which the County may have acquired in any manner whatever, and such Bonds upon such surrender for cancellation shall be deemed to be paid and no longer Outstanding under the Trust Agreement.

2005 Series A Bond Insurance

While the 2005 Series A Bond Insurance Policy is in effect, the County and the Trustee agree to comply with the following provisions:

(1) Anything in the Trust Agreement to the contrary notwithstanding, the 2005 Series A Bond Insurer shall at all times be deemed to be the registered owner of the 2005 Series A Bonds insured by it for the purpose of exercising all rights and privileges and the institution of any suit, action, or proceeding at law or in equity.

(2) Upon the occurrence and continuance of an Event of Default, the 2005 Series A Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners of the 2005 Series A Bonds insured by it or to the Trustee for the benefit of such Owners. Any acceleration of principal payments shall be subject to the 2005 Series A Bond Insurer's prior written consent.

(3) Any amendments or supplements to the Trust Agreement which require consent of the Owners of the 2005 Series A Bonds insured by the 2005 Series A Bond Insurer shall also require the 2005 Series A Bond Insurer's consent. The 2005 Series A Bond Insurer shall receive advance written notice of all amendments or supplements that do not require consent of the Owners of the 2005 Series A Bonds insured by it. In connection with the issuance of additional bonds, the County shall deliver to the 2005 Series A Bond Insurer a copy of the disclosure document, if any, circulated with respect to such additional bonds. Copies of any amendments or supplements which are consented to by the 2005 Series A Bond Insurer shall be sent to Standard & Poor's.

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION

[Closing Date]

County of Orange
Santa Ana, California

County of Orange, California
Refunding Recovery Bonds, 2005 Series A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County of Orange, California (the "Issuer") of $146,005,000 aggregate principal amount of County of Orange, California Refunding Recovery Bonds, 2005 Series A (the "Bonds"), issued pursuant to the provisions of Articles 10 and 11, Chapter 3, Division 2 of Title 5 of the California Government Code, and a Trust Agreement, dated as of June 1, 1995, as heretofore supplemented and as supplemented and amended by the Third Supplemental Trust Agreement (collectively, the "Trust Agreement"), between the Issuer and The Bank of New York Trust Company, N.A., as successor trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Tax Certificate of the Issuer relating to the Bonds (the "Tax Certificate"), opinions of counsel to the Issuer and the Trustee, certificates of the Issuer, 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 Trust Agreement, 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. 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 Trust Agreement 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 Trust Agreement 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 counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, waiver or severability provisions contained in the foregoing documents. 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 the default judgment rendered on June 5, 1995, by the Superior Court of the County of Orange in the action entitled <u>County of Orange</u> v. <u>All Persons Interested</u>, etc., Case No. 74-55-37, 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 Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Trust Agreement creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement.

3. 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

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 $146,005,000 aggregate principal amount of the County of Orange, California, Refunding Recovery Bonds, 2005 Series A (the "Bonds"). The Bonds are being issued pursuant to a Trust Agreement, as amended and supplemented, including as amended and supplemented by the Third Supplemental Trust Agreement, dated as of August 1, 2005 (as amended and supplemented, the "Trust Agreement"), between the County and The Bank of New York Trust Company, N.A., 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 2004-05, 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: ______________, 2005

COUNTY OF ORANGE, CALIFORNIA

By ____
Public Finance Manager

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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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