NEW ISSUE—BOOK-ENTRY ONLY

In the opinion of Willkie Farr & Gallagher, Special Counsel, assuming (among other things) continuing compliance by the County of Orange, California, with certain covenants relating to requirements contained in the Internal Revenue Code of 1986, as amended, interest evidenced and represented by the Series A Certificates is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions, and interest evidenced and represented by the Series A Certificates is not an "item of tax preference" for the purposes of the Federal individual and corporate alternative minimum taxes and the Federal corporate environmental tax. See "TAX MATTERS" herein for a discussion of certain Federal taxes applicable to corporate owners of the Series A Certificates and certain other Federal income tax consequences arising from the ownership of the Series A Certificates. In the opinion of Special Counsel, interest evidenced and represented by the Series A Certificates is exempt from personal income taxes imposed by the State of California.

$760,800,000
County of Orange, California
1996 Recovery Certificates of Participation, Series A

Dated: June 1, 1996 **Due: July 1, as shown inside**

The County of Orange, California, 1996 Recovery Certificates of Participation, Series A (the "Series A Certificates") will be executed and delivered as fully registered Certificates in book-entry form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), security depository for the Series A Certificates. The Series A Certificates will be executed and delivered in denominations of $5,000 or any integral multiple thereof. Interest evidenced and represented by the Series A Certificates is payable on January 1 and July 1 of each year, commencing January 1, 1997.

Individual purchases of the Series A Certificates will be made exclusively in book-entry form. Purchasers of the Series A Certificates will not receive physical certificates representing their interests in the Series A Certificates purchased. The principal and interest evidenced and represented by the Series A Certificates are payable directly to DTC by Wells Fargo Bank, N.A., as trustee (the "Trustee"). Upon receipt of payments of such principal and interest, DTC will in turn remit such principal and interest to the participants in DTC (as described herein) for subsequent disbursement to the beneficial owners of the Series A Certificates. See APPENDIX D—"BOOK-ENTRY SYSTEM."

The Series A Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of June 1, 1996, as supplemented by a First Supplemental Trust Agreement, dated as of June 1, 1996 (collectively, the "Trust Agreement"), by and between the County of Orange, California (the "County") and the Trustee. The Series A Certificates evidence and represent the interests in the rights of the registered owners thereof in base rental payments (the "Base Rental Payments") to be made by the County under a Master Lease (the "Lease") between the County and the Orange County Public Facilities Corporation (the "Corporation") for the right of use and occupancy by the County of certain real property, together with all buildings and other improvements, if any, from time to time located thereon (collectively, the "Leased Facilities"). The Series A Certificates are being executed and delivered to 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), the maturities of which were extended to June 30, 1996, and certain other claims and uses approved by the Bankruptcy Court, to refund certain outstanding certificates of participation of the County, to fund the Certificate Reserve Account and two months of capitalized interest, and to pay costs associated with the delivery of the Series A Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Series A Certificates are subject to extraordinary, optional and mandatory sinking fund account prepayment prior to their respective final Certificate Payment Dates, as described herein. See "THE SERIES A CERTIFICATES—Prepayment Provisions."

The scheduled payment of principal and interest evidenced and represented by the Series A Certificates will be insured by a financial guaranty insurance policy to be issued simultaneously with delivery of the Series A Certificates by MBIA Insurance Corporation (the "Certificate Insurer").

MBIA

Certain risks are associated with the purchase of the Series A Certificates. See "RISK FACTORS" herein.

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY AND ARE SECURED BY A PLEDGE OF CERTAIN SALES TAX REVENUES AND MOTOR VEHICLE LICENSE FEES DEPOSITED WITH THE TRUSTEE PURSUANT TO THE STATE INTERCEPT PROGRAM (DESCRIBED HEREIN). THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE SERIES A CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE SERIES A CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

This cover page contains information for quick reference only. It is *not* a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series A Certificates are offered when, as and if executed, delivered and received by the Underwriters, subject to the approval of validity of the Lease by Willkie Farr & Gallagher, New York, New York, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe, San Francisco, California. Certain legal matters will be passed upon for the Certificate Insurer by Kutak Rock, Omaha, Nebraska. Certain legal matters will be passed upon for the County and for the Corporation by the Office of County Counsel. Salomon Brothers Inc and Metropolitan West Securities, Inc. have served as Financial Advisors to the County in connection with the execution and delivery of the Series A Certificates. It is expected that the Series A Certificates will be available for delivery through the facilities of DTC in New York, New York, on or about June 12, 1996.

Goldman, Sachs & Co. **A.G. Edwards & Sons, Inc.**

Dated: June 6, 1996.

SERIES A CERTIFICATE PAYMENT SCHEDULE

$376,520,000 Serial Certificates

Final Certificate Payment Date (July 1)	Principal Amount	Interest Rate	Price or Yield	Final Certificate Payment Date (July 1)	Principal Amount	Interest Rate	Price or Yield
1997	$16,095,000	4¼ %	4.10%	2004	$26,965,000	5.20%	5.30%
1998	20,355,000	4.20	4.30	2005	28,370,000	5¼	5.40
1999	21,210,000	4½	4.55	2006	29,860,000	6	5½
2000	22,165,000	4.70	4.80	2007	31,650,000	6	5.60
2001	23,205,000	4.80	4.95	2008	33,550,000	6	5.70
2002	24,320,000	5½	5.10	2009	35,560,000	5.60	5.80
2003	25,660,000	5.10	5.20	2010	37,555,000	5.70	5.90

$81,115,000 5.80% Term Certificates due July 1, 2016, Price to Yield 6.13%
$73,355,000 5⅞% Term Certificates due July 1, 2019, Price to Yield 6.18%
$229,810,000 6% Term Certificates due July 1, 2026, Price to Yield 6.23%

(plus accrued interest from June 1, 1996)

COUNTY OF ORANGE

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

Board of Supervisors

Roger R. Stanton (First District), *Chairman*
William G. Steiner (Fourth District), *Vice Chairman*
James W. Silva (Second District)
Donald J. Saltarelli (Third District)
Marian Bergeson (Fifth District)

County Officials

Janice M. Mittermeier, Chief Executive Officer
John M.W. Moorlach, County Treasurer-Tax Collector
Steven E. Lewis, County Auditor-Controller
Laurence M. Watson, Esq., Acting County Counsel

SPECIAL SERVICES

Special Counsel

Willkie Farr & Gallagher
New York, New York

Financial Advisors

Salomon Brothers Inc
New York, New York

Metropolitan West Securities, Inc.
Sacramento, California

Certain of the information set forth herein has been obtained from the County, the Corporation, the Certificate Insurer and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. 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 Series A Certificates 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, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

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 Series A Certificates 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, the Certificate Insurer or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series A Certificates. Statements contained in this Official Statement which 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 SERIES A CERTIFICATES, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES A CERTIFICATES 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. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES A CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

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$760,800,000
COUNTY OF ORANGE, CALIFORNIA
1996 RECOVERY CERTIFICATES OF PARTICIPATION, SERIES A

INTRODUCTION

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 sale by the County of $760,800,000 1996 Recovery Certificates of Participation, Series A (the "Series A Certificates" and, together with any additional certificates executed and delivered pursuant to the Trust Agreement referred to below, the "Certificates"). Unless otherwise defined herein, all capitalized terms used herein shall have the definitions set forth in the Trust Agreement or the Lease referred to below. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--Definitions of Certain Terms."

The Series A Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of June 1, 1996, as supplemented by a First Supplemental Trust Agreement, dated as of June 1, 1996 (collectively, the "Trust Agreement"), by and between the County and Wells Fargo Bank, N.A., as trustee (the "Trustee"), and will evidence and represent the interests of the registered owners thereof (the "Owners") in base rental payments (the "Base Rental Payments") to be made by the County for the right of use and occupancy by the County of the Leased Facilities (as described herein). See "THE LEASED FACILITIES." The Leased Facilities will be leased by the County to the Orange County Public Facilities Corporation (the "Corporation") pursuant to a Site Lease, dated as of June 1, 1996 (the "Site Lease"), and leased back to the County pursuant to the Master Lease (Various Capital Facilities), dated as of June 1, 1996 (the "Lease"). Pursuant to the Assignment Agreement, dated as of June 1, 1996 (the "Assignment Agreement"), the Corporation will assign to the Trustee for the benefit of the Owners all its rights, title and interest in the Site Lease and the Lease, including its right to receive the Base Rental Payments under the Lease and its rights to enforce the payment of amounts when due in the event of a default by the County or otherwise to protect the interests of the Owners, and the Trustee will assume all the duties and obligations of the Corporation. The Base Rental Payments will be payable from the general fund of the County (the "County General Fund") and will be secured by a pledge of and statutory lien on certain Sales Tax Revenues (as hereinafter described) to be collected and allocated to the County by the State Board of Equalization (the "SBOE") and a pledge of and statutory lien on certain Motor Vehicle License Fees (as hereinafter described) credited to the Motor Vehicle License Fee Account in the State Transportation Tax Fund to which the County is entitled. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Sales Tax Revenues" and "--Motor Vehicle License Fees." The County has elected to further secure the payment of the Base Rental Payments by participating in a statutory intercept program (the "State Intercept Program") by which the Controller of the State of California (the "State Controller") will pay the amount of the Base Rental Payments directly to the Trustee from the Sales Tax Revenues and Motor Vehicle License Fees. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--State Intercept Program."

On December 6, 1994, the County and the Orange County Investment Pools (collectively, the "Pool") filed for protection under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") as a result of substantial losses to investments in the Pool. See "COUNTY

OF ORANGE BANKRUPTCY." The Pool experienced losses of approximately $1.6 billion. Of that amount, on a pro rata basis, approximately $600 million was attributable to the County's accounts, with substantially all of the remainder attributable to accounts of non-County governmental participants in the Pool, such as cities, school districts and special districts. As a result of the Pool investment losses, the County General Fund suffered a shortfall of budgeted revenue for Fiscal Year 1994-95 of approximately $200 million, including approximately $162 million of interest income.

In response to the bankruptcy, the County prepared a comprehensive recovery plan to address, among other things, the County's budget deficit and Pool losses. The plan incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds, including, but not limited to, the implementation of a half-cent sales tax increase. The proposed sales tax increase was rejected by County voters, forcing the County to reevaluate its alternatives and revise its recovery plan. See "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan." The revised recovery plan, including the Plan of Adjustment (the "Plan of Adjustment"), was submitted to the Bankruptcy Court and was confirmed by an order of the Bankruptcy Court entered on May 16, 1996 (the "Confirmation Order"). See "COUNTY OF ORANGE BANKRUPTCY--Plan of Adjustment."

The Plan of Adjustment contemplates, among other things, the execution and delivery of the Series A Certificates and the issuance of a series of bonds (the "Series 1996A Pension Bonds") to refund the County's Taxable Pension Obligation Bonds, Series 1994B. See "PLAN OF FINANCING." The execution and delivery of the Series A Certificates and the issuance of the Series 1996A Pension Bonds have been authorized by the Bankruptcy Court in the Confirmation Order and in separate orders entered on May 24, 1996 (the order approving the execution and delivery of the Series A Certificates being the "Financing Order") and are conditions to the effectiveness of the Plan of Adjustment. Effectiveness of the Plan of Adjustment is subject to several further conditions, some of which may be waived by the County. See "COUNTY OF ORANGE BANKRUPTCY--Plan of Adjustment--Conditions to the Effective Date of the Plan."

The Series A Certificates are being executed and delivered to (i) 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, (ii) refund certain outstanding certificates of participation executed and delivered on behalf of the County, (iii) fund the Certificate Reserve Account and two months of capitalized interest, and (iv) pay costs associated with the delivery of the Series A Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS."

THE SERIES A CERTIFICATES

General

The Series A Certificates will be executed and delivered in an aggregate principal amount of $760,800,000, will be dated June 1, 1996, and will evidence and represent principal components and interest components of the Base Rental Payments, from the date of the Series A Certificates to their respective final Certificate Payment Dates or prior prepayment dates, in amounts and at the rates set forth on the inside cover page of this Official Statement. The Series A Certificates will be executed and delivered as fully registered certificates without coupons, in denominations of $5,000 or any integral multiple thereof.

Interest represented by the Series A Certificates will be payable semiannually on January 1 and July 1 of each year (each, an "Interest Payment Date"), commencing January 1, 1997, and will be calculated based on a 360-day year of twelve 30-day months. Interest represented by the Series A Certificates will be payable by check mailed by first class mail to the respective Owners thereof at their respective addresses, as they appear on the books required to be kept by the Trustee, at the close of business on the fifteenth day of the month next preceding each Interest Payment Date, except that in the case of an Owner of $1,000,000 or more in aggregate principal amount of Outstanding Series A Certificates such payment may, at such Owner's option, be made by wire transfer of immediately available funds in accordance with instructions to the Trustee provided by such Owner prior to the applicable fifteenth day of the month next preceding such Interest Payment Date. See APPENDIX D -- "BOOK-ENTRY SYSTEM."

The principal and any prepayment premium evidenced and represented by the Series A Certificates will be payable by check on the respective final Certificate Payment Dates or on prepayment prior thereto upon surrender of the Series A Certificates at the corporate trust office of the Trustee in Los Angeles, California.

Prepayment Provisions

Extraordinary Mandatory Prepayment from Eminent Domain and Insurance Proceeds. Except as provided in the following sentence, the Series A Certificates are subject to extraordinary prepayment on any date prior to their respective final Certificate Payment Dates, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each final Certificate Payment Date, in authorized denominations, from prepayments made, under the circumstances described in the Trust Agreement and the Lease, from the net proceeds collected from (i) a taking of Leased Facilities or portions thereof under the power of eminent domain, or (ii) insurance covering damage to or destruction of Leased Facilities or a title defect relating to the Leased Facilities that impairs the County's use of such Facilities, at a prepayment price (the "Prepayment Price") equal to the principal amount evidenced and represented by the Series A Certificates to be prepaid or, in the case of the Premium Certificates (defined below), the Unamortized Value (defined below) thereof, as applicable, plus in each case accrued interest represented by the Series A Certificates to be prepaid to the date of prepayment. Pursuant to State law, proceeds from eminent domain proceedings, with respect to County parks or parklands, must be applied to the purchase of new, or the improvement of existing, County parks or parklands. If less than all Certificates are to be prepaid on any one date, the Trustee shall select such Certificates to be prepaid so that the aggregate annual Base Rental Payments evidenced and represented by the Certificates payable after such prepayment date will be as nearly proportional as practicable to the aggregate annual Base

Rental Payments evidenced and represented by the Certificates Outstanding prior to such prepayment date.

For the purposes of calculating the Prepayment Price of the Series A Certificates having final Certificate Payment Dates on July 1, 1997, July 1, 2002 and July 1, 2006 through July 1, 2008, inclusive (the "Premium Certificates"), "Unamortized Value" shall mean the value as of any given date obtained by (1) dividing the difference between the principal that is evidenced and represented by such Certificate and the initial selling price (the "Initial Selling Price") to the public of such Certificate pursuant to the original offering as stated on the inside cover page of this Official Statement (determined without regard to accrued interest) by the number of days from the Delivery Date to the related final Certificate Payment Date of such Certificate and (2) multiplying the amount so calculated by the number of days having passed from such Delivery Date and (3) deducting the product thus obtained from the Initial Selling Price.

Optional Prepayment. The Series A Certificates with final Certificate Payment Dates on or before July 1, 2008 are not subject to optional prepayment prior to their respective final Certificate Payment Dates. The Series A Certificates with final Certificate Payment Dates on or after July 1, 2009 are subject to optional prepayment prior to their respective final Certificate Payment Dates on or after July 1, 2006, at the option of the County, as a whole or in part on any date, from amounts deposited with the Trustee, at the prepayment prices (expressed as percentages of the principal amount of the Certificates to be prepaid) set forth in the table below, together with the accrued interest represented thereby to the prepayment date:

Prepayment Period (Dates Inclusive)	**Prepayment Price**
July 1, 2006 through June 30, 2007	102%
July 1, 2007 through June 30, 2008	101
July 1, 2008 and thereafter	100

Mandatory Sinking Fund Prepayment. The Series A Certificates with a final Certificate Payment Date of July 1, 2016 are subject to mandatory prepayment in part, by lot, prior to their final Certificate Payment Date on July 1, 2011 and on each July 1 thereafter, to and including July 1, 2016 from Sinking Fund Installments made pursuant to the Trust Agreement, at the principal amount to be prepaid, without premium, plus accrued interest represented thereby to the prepayment date, in the amounts and on the dates set forth below:

Final Certificate Payment Date July 1, 2016

Year	Amount
2011	$39,695,000
2012	4,495,000
2013	4,760,000
2014	5,035,000
2015	5,325,000
2016	21,805,000

The Series A Certificates with a final Certificate Payment Date of July 1, 2019 are subject to mandatory prepayment in part, by lot, prior to their final Certificate Payment Date on July 1, 2017 and on each July 1 thereafter, to and including July 1, 2019 from Sinking Fund Installments made pursuant to the Trust Agreement, at the principal amount to be prepaid, without premium, plus accrued interest represented thereby to the prepayment date, in the amounts and on the dates set forth below:

Final Certificate Payment Date July 1, 2019

Year	Amount
2017	$23,070,000
2018	24,425,000
2019	25,860,000

The Series A Certificates with a final Certificate Payment Date of July 1, 2026 are subject to mandatory prepayment in part, by lot, prior to their final Certificate Payment Date on July 1, 2020 and on each July 1 thereafter, to and including July 1, 2026 from Sinking Fund Installments made pursuant to the Trust Agreement, at the principal amount to be prepaid, without premium, plus accrued interest represented thereby to the prepayment date, in the amounts and on the dates set forth below:

Final Certificate Payment Date July 1, 2026

Year	Amount
2020	$27,380,000
2021	29,020,000
2022	30,760,000
2023	32,610,000
2024	34,565,000
2025	36,640,000
2026	38,835,000

All Series A Certificates that are prepaid and canceled pursuant to the optional prepayment provisions described above or purchased by the County at public or private sale shall be credited at par against the next sinking fund payments to become due with respect to the Series A Certificates in whole or in part (rounded to amounts of $5,000) unless the County shall direct the Trustee to use a different method of crediting such sinking fund payments.

Selection of Series A Certificates for Prepayment

If less than all of the Series A Certificates having the same final Certificate Payment Date are to be prepaid on any one date, the particular Series A Certificates to be prepaid shall be selected by the Trustee by lot in any manner that the Trustee deems fair.

Notice of Prepayment

Notice of prepayment will be delivered by first class mail to respective Owners of any Series A Certificates designated for prepayment at their addresses as they appear on the books of the Trustee, mailed not less than 30 nor more than 60 days prior to the prepayment date. Such notice will set forth, among other things, the prepayment date, the place of prepayment and the Prepayment Price and will state that the interest represented by the Series A Certificates designated for prepayment shall cease to accrue from and after such prepayment date. Notice of prepayment shall also be given to the Certificate Insurer, the Municipal Securities Rulemaking Board and certain securities depositories and information services. Any notice mailed as provided in the Trust Agreement shall be conclusively presumed to have been given, whether or not such Owner receives the notice. Failure to receive notice of prepayment by an Owner or other person to whom notice is required to be given will not affect the validity of such prepayment.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Series A Certificates. The Series A Certificates shall initially be issued exclusively in book-entry form and will be registered in the name of Cede & Co., DTC's partnership nominee. One fully registered certificate will be executed and delivered for each final Certificate Payment Date, in the aggregate principal amount applicable to that Certificate Payment Date. So long as Cede & Co. is the registered owner of the Series A Certificates (except as otherwise specified herein), as nominee of DTC, references herein to the Owners of the Series A Certificates shall mean Cede & Co. and shall not mean the actual purchasers of the Series A Certificates (except as otherwise specified herein). See APPENDIX D -- "BOOK-ENTRY SYSTEM."

THE CORPORATION

The Corporation was organized on September 25, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code). The Corporation's principal place of business is Santa Ana, California.

The purpose of the Corporation is to render financial assistance to the County by acquiring, constructing and financing various public facilities, and acquiring and leasing real property and equipment for the use, benefit and enjoyment of the public.

Under its Articles of Incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California with the limitation that the Corporation shall never engage in any activity other than such activities as may be incidental to the purpose of carrying out the public purpose for which the Corporation was formed.

The business of the Corporation is conducted by a five-member Board of Directors, each member being appointed by the Board of Supervisors. The Corporation has no employees. All staff work is performed by the County.

The Corporation has acted as lessor in previous certificates of participation financings for the benefit of the County.

THE LEASED FACILITIES

The following is a listing of the Leased Facilities.

TABLE 1

Property	Address
OFFICE FACILITIES:	
Sheriff/Forensic Annex Offices	16 Civic Center Plaza, Santa Ana
Sheriff-Coroner Administration Headquarters	40 Civic Center Plaza, Santa Ana
Hall of Administration	10 Civic Center Plaza, Santa Ana
H. George Osborne EMA	300 N. Flower Street, Santa Ana
Sheriff-Coroner Forensic	320 N. Flower Street, Santa Ana
Manchester Office Building	301 The City Drive, Orange
General Services Administrative Offices	14 Civic Center Plaza, Santa Ana
Engineering/Finance Complex	12 Civic Center Plaza, Santa Ana
Probation Headquarters Building	909 N. Main Street, Santa Ana
COURTS FACILITIES:	
North Orange Justice Facilities	1725 North Berkeley, Ave., Fullerton
South Orange Justice Facilities	30143 Crown Valley Parkway, Laguna Niguel
Harbor Courts Facilities	4601 Jamboree Road, Newport Beach
Westminster Court Complex	8141 13th Street, Westminster
Central Courts Tower	30 Civic Center Plaza, Santa Ana
SPECIALIZED USE FACILITIES:	
Peaceofficers' Firing Range*	1900 W. Katella Avenue, Orange
Sheriff-Coroner Department Forensic Science	1071 Santa Ana Boulevard, Santa Ana
Santa Ana 17th Street Health Facility	1725-29 W. 17th Street, Santa Ana
Walnut Avenue County Health and Social Services	2000/2020 W. Walnut Avenue, Santa Ana
Chestnut Avenue Records Center and Surplus	1119 E. Chestnut Avenue, Santa Ana

Grand Avenue Operations Center	1300 S. Grand Avenue, Santa Ana
Grand Avenue Operations Center	1400 S. Grand Avenue, Santa Ana
GSA Transportation Garage	445 Civic Center Drive, Santa Ana
Fruit Street EMA Construction Maintenance Yard	1140 E. Fruit Street, Santa Ana
Fruit Street GSA/Operations Maintenance Facility	1143-1145 E. Fruit Street, Santa Ana
Fruit Street GSA/Transportation and Storage Facility	1102 E. Fruit Street, Santa Ana
Loma Ridge Emergency Operation Center*	West of Santiago Canyon Road, Loma Ridge

JAIL & DETENTION FACILITIES:

Intake Release Center*	505 N. Flower Street, Santa Ana
Men's Central Jail*	505 N. Flower Street, Santa Ana
Theo Lacy Men's Branch Jail*	501 The City Drive, Orange
Women's Central Jail*	44 Civic Center Plaza, Santa Ana
Youth Guidance Center*	3030 N. Hesperian Street, Orange
Musick Branch Jail*	13502 Honor Farm Road, Irvine
Juvenile Hall*	331 The City Drive, Orange
South County Sheriff Substation	11 Journey, Aliso Viejo

LIBRARIES:

Crown Valley Parkway Branch	30341 Crown Valley Parkway, Laguna Niguel
Dana Niguel Branch	33841 Niguel Road, Dana Point
Lake Forest-El Toro Branch	24672 Raymond Way, Lake Forest
Los Alamitos-Rossmoor Branch	12700 Montecito Drive, Seal Beach
Irvine-University Park Branch*	4512 Sandburg Way, Irvine
Rancho Santa Margarita Library	30921 La Promesa, Rancho Santa Margarita

PARKS:

Aliso and Wood Canyons Regional Park*	Alicia Parkway/Aliso Creek Road, Aliso-Viejo
Caspers Regional Park*	33401 Ortega Highway (Unincorporated Area)
Whiting Ranch Regional Park*	South of Santiago Canyon Road, Santiago Canyon/Portola Hills (Unincorporated Area)

Riley Regional Park*	Oso Parkway/Coto de Caza Drive (Unincorporated Area)
Weir Canyon Regional Park*	Canyon Rim Road/Serrano Avenue, Anaheim Hills
Modjeska Nature Preserve*	Modjeska Canyon Road off of Santiago Canyon Road (Unincorporated Area)
Peters Canyon Regional Park*	Jamboree Road and Canyon View Road, Orange and Tustin
VACANT PROPERTY:	
Westminster Civic Center Parcel	8180 13th Street, Westminster

**Restricted Property*

Prior to the execution and delivery of the Series A Certificates, the County may include additional property to, or substitute property on, the list of Leased Facilities. In addition, during the term of the Lease the County is permitted, subject to certain conditions, to substitute other properties for the Leased Facilities and, under certain circumstances, to withdraw a portion of the Leased Facilities from the Lease while the Certificates remain Outstanding, pursuant to the terms and conditions of the Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Substitution or Withdrawal of Leased Facilities."

Certain deed, legal and other restrictions and limitations exist with respect to the use of certain of the Leased Facilities identified by an asterisk above (the "Restricted Properties") that affect the enforcement of certain remedies with respect to such Restricted Properties, which are otherwise available with respect to the balance of the Leased Facilities. See "RISK FACTORS--Limitation on Remedies."

For a discussion of insurance required to be maintained on the Leased Facilities, see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Insurance."

PLAN OF FINANCING

In order to enable the County to meet its financial obligations in a manner that would enable it to implement a plan of adjustment and emerge from bankruptcy with a balanced budget, after the defeat of the proposed sales tax (Measure R) in June, 1995 (see "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan--Defeat of Measure R"), the County formulated a revised recovery plan that included, among other things, legislation that would provide new sources of revenue to the County and delivery of the Series A Certificates in order to pay certain claims.

Legislation sought by the County as part of its recovery plan was passed by the State Legislature on October 9, 1995 and signed by the Governor the following day, and consists of Chapters 745, 746, 747 and 748 of the 1995 Statutes (the "Recovery Statutes"). The Recovery Statutes provide, among other things, for:

1. 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 from July 1, 1996 until July 1, 2011.

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. The OCDA may not incur any indebtedness in addition to approximately $86,672,000 of bonds currently outstanding, which would impair its ability to make these transfers or cause the transfers to violate Article XVI, Section 16 of the State Constitution. Funds allocated to low and moderate income housing may not be used for this purpose.

3. Reduction in the amount of property tax revenue allocated to the Orange County Flood Control District and to the Harbors, Beaches and Parks Fund by $4,000,000 each, thereby increasing the amount of property tax allocated to the County for deposit to the County General Fund by $8,000,000 for each of fiscal years 1997-98 to 2015-16.

4. Restriction on the use of County revenues in the amount of revenues allocated, transferred to or deposited with the County pursuant to the provisions of the Recovery Statutes (as described in paragraphs 1, 2 and 3 above) to the satisfaction of the County's obligations pursuant to a confirmed plan of adjustment.

5. A pledge (see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Sales Tax Revenues--Pledge of Sales and Use Tax") and intercept (see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--State Intercept Program") of certain sales and use taxes (including those referred to in paragraph 1 above), and a pledge (see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Motor Vehicle License Fees--Pledge of Motor Vehicle License Fees") and intercept (see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--State Intercept Program") of certain motor vehicle license fees, in each case for the benefit of the Owners of the Certificates and any additional certificates of participation or lease revenue bonds of the County contemplated by the respective Recovery Statutes.

The County's recovery plan, which became part of the Plan of Adjustment (see "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan"), also provided for the restructuring of the County's Integrated Waste Management Department in order to generate additional revenues for the County (see "COUNTY OF ORANGE BANKRUPTCY--Recovery Plan--Restructuring of the Integrated Waste Management Department"), and the execution and delivery of the Series A Certificates in order to provide funds which, together with other sources, will be sufficient to meet certain obligations under the Plan of Adjustment, including:

1. Claims of holders of $169 million of 1994-95 County of Orange, California Tax and Revenue Anticipation Notes, Series A (the "Series A TRANs").

2. Claims of holders of $31 million of 1994-95 County of Orange, California Tax and Revenue Anticipation Notes, Series B (the "Series B TRANs").

3. Claims of holders of $600 million of 1994-95 County of Orange, California Taxable Notes (the "Taxable Notes"), except as described below.

4. Claims of holders referred to in 1, 2 and 3 above for additional interest on such Notes as a result of extensions of their respective maturities to the Effective Date, amounting to approximately $19 million.

5. Vendor claims amounting to approximately $44 million.

6. A litigation fund in the amount of $50 million.

7. Schedule 1 County Administered Accounts, consisting of approximately 36 accounts totalling $50 million.

8. Labor claims of approximately $35 million.

9. Administrative claims of approximately $25 million.

10. Replenishment of draws aggregating approximately $4.6 million on reserve funds pertaining to outstanding certificates of participation delivered on behalf of the County.

11. Option B cash settlement of $7.5 million.

In addition to the proceeds of the Series A Certificates (see "ESTIMATED SOURCES AND USES OF FUNDS"), funds for the foregoing purposes will be provided from the Series A TRANS Repayment Account ($27 million), the Taxable Notes Repayment Account ($433 million), and other moneys provided by the County (approximately $61 million).

Approximately $127 million of the proceeds of the Series A Certificates is being used to refund the County's outstanding Certificates of Participation (Civic Center Expansion Project) in the aggregate principal amount of $81,740,000, its Certificates of Participation (Loma Ridge/Data Center Project) in the aggregate principal amount of $29,460,000 and its Certificates of Participation (Office and Courthouse Project) in the aggregate principal amount of $13,500,000 (collectively, the "Refunded COPs"), which will permit the leased property subject to the Refunded COPs to be included in the Leased Facilities.

Proceeds of the Series A Certificates will also be used to fund the Certificate Reserve Account and two months of capitalized interest and to pay costs associated with the delivery of the Series A Certificates (see "ESTIMATED SOURCES AND USES OF FUNDS").

The Base Rental Payments represented by the Series A Certificates are a general fund obligation of the County. The Series A Certificates will be secured by statutory liens created by certain of the Recovery Statutes and will be paid from Sales Tax Revenues and Motor Vehicle License Fees intercepted pursuant to authority created by certain of the Recovery Statutes as more fully described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES." The additional revenues allocated or transferred to, or deposited in, the County General Fund pursuant to the Recovery Statutes, except for the intercepted Sales Tax Revenues, will replace the Sales Tax Revenues and Motor Vehicle License Fees that would have gone into the County General Fund but for the State Intercept Program and will enable the County to meet its obligations under the Plan of Adjustment.

In furtherance of the Recovery Plan, the County will also issue $121,680,326.21 County of Orange, California, Taxable Refunding Pension Obligation Bonds, Series 1996A (the "Series 1996A Pension Bonds") to refund $110,200,000 outstanding County of Orange, California Taxable Pension Obligation Bonds, Series 1994B (the "Series 1994B Pension Bonds"), which were subject to tender, at the option of the holders, to the Pool but which tenders have not been honored due to lack of liquidity in the Pool and the County's bankruptcy. See "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy--Defaults on Outstanding Debt Obligations."

Upon the application of the proceeds from the Series A Certificates, the Series 1996A Pension Bonds and the other sources described above and the effectiveness of the Plan of Adjustment, all defaults on any of the County's outstanding notes, bonds and certificates of participation (see "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy--Defaults on Outstanding Debt Obligations") will be cured (or the obligations paid) and claims satisfied, except claims filed by actual or potential defendants (or their successors in interest) in litigation initiated by the County in connection with the Pool, representing approximately $90 million in Taxable Notes, for which moneys will be held by the County in a disputed claims reserve pending outcome of the litigation (see "LITIGATION AND GOVERNMENTAL ACTIONS--Actions Brought By County").

ESTIMATED SOURCES AND USES OF FUNDS

The estimated proceeds of the Series A Certificates and related amounts, excluding accrued interest, and their uses are as follows:

Sources	
Principal amount evidenced and represented by Series A Certificates	$760,800,000.00
Less Original Issue Discount	(11,689,181.35)
Fund balances from Refunded COPs	7,648,286.95
Total	$756,759,105.60
Uses	
Payment for claims to be paid from proceeds [1]	$518,055,859.34
Deposit to Escrow Funds for Certain Outstanding Certificates of Participation	127,402,795.89
Deposit to Interest Account [2]	5,829,003.08
Deposit to Certificate Reserve Account [3]	61,931,447.29
Costs of Issuance [4]	43,540,000.00
Total	$756,759,105.60

(1) See "PLAN OF FINANCING" for other sources to be applied to payment of claims.
(2) Represents two months of capitalized interest.
(3) Equals the Certificate Reserve Account Requirement.
(4) Includes amounts to reimburse the County for certain expenses, pay legal fees, financial advisory fees and other issuance costs, including the underwriters' discount and premium for the Certificate Insurance Policy.

SERIES A CERTIFICATE PAYMENT SCHEDULE

The following is the payment schedule for the Series A Certificates (assuming no prepayment of Base Rental Payments other than mandatory sinking fund prepayments).

TABLE 2

Period Ending July 1	Principal Component	Interest Component	Annual Base Rental Payment
1997	$16,095,000.00	$46,394,106.15	$62,489,106.15
1998	20,355,000.00	42,141,291.26	62,496,291.26
1999	21,210,000.00	41,286,381.26	62,496,381.26
2000	22,165,000.00	40,331,931.26	62,496,931.26
2001	23,205,000.00	39,290,176.26	62,495,176.26
2002	24,320,000.00	38,176,336.26	62,496,336.26
2003	25,660,000.00	36,838,736.26	62,498,736.26
2004	26,965,000.00	35,530,076.26	62,495,076.26
2005	28,370,000.00	34,127,896.26	62,497,896.26
2006	29,860,000.00	32,638,471.26	62,498,471.26
2007	31,650,000.00	30,846,871.26	62,496,871.26
2008	33,550,000.00	28,947,871.26	62,497,871.26
2009	33,560,000.00	26,934,871.26	62,494,871.26
2010	37,555,000.00	24,943,511.26	62,498,511.26
2011	39,695,000.00	22,802,876.26	62,497,876.26
2012	4,495,000.00	20,500,566.26	24,995,566.26
2013	4,760,000.00	20,239,856.26	24,999,856.26
2014	5,035,000.00	19,963,776.26	24,998,776.26
2015	5,325,000.00	19,671,746.26	24,996,746.26
2016	21,805,000.00	19,362,896.26	41,167,896.26
2017	23,070,000.00	18,098,206.26	41,168,206.26
2018	24,425,000.00	16,742,843.76	41,167,843.76
2019	25,860,000.00	15,307,875.00	41,167,875.00
2020	27,380,000.00	13,788,600.00	41,168,600.00
2021	29,020,000.00	12,145,800.00	41,165,800.00
2022	30,760,000.00	10,404,600.00	41,164,600.00
2023	32,610,000.00	8,559,000.00	41,169,000.00
2024	34,565,000.00	6,602,400.00	41,167,400.00
2025	36,640,000.00	4,528,500.00	41,168,500.00
2026	38,835,000.00	2,330,100.00	41,165,100.00

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Base Rental Payments

Pursuant to the Lease, the Corporation will lease the Leased Facilities to the County. As rental for the use and occupancy of the Leased Facilities, the County agrees to pay Base Rental Payments to the Trustee. Base Rental Payments are calculated on an annual basis, for twelve-month periods commencing on July 1 and ending on the last day of June (except that the first period will commence on the date the Series A Certificates are executed and delivered and end on June 30, 1997), payable monthly. The Base Rental Payments are composed of principal and interest components represented by the Certificates.

The County covenants in the Lease to make the necessary annual appropriations for all Base Rental Payments in its annual budgets. The Corporation, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Owners all its rights, title and interest in the Site Lease and the Lease, including its rights to receive and enforce payment of the Base Rental Payments, and the Trustee agrees to assume the duties and obligations of the Corporation. In addition, the County has agreed to indemnify and reimburse the Corporation for all of its costs and expenses incurred in connection with the Lease and the Site Lease pursuant to an Indemnification and Reimbursement Agreement, dated as of June 1, 1996.

The Trustee, as assignee of the Corporation, will receive such Base Rental Payments for the benefit of the Owners. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--The Assignment Agreement." The County must pay or cause to be paid to the Trustee, by the 15th day of each month, Base Rental Payments (to the extent required under the Lease), which together with other Base Rental Payments paid or to be paid pursuant to the Lease will be sufficient to pay, when due, the interest and principal represented by the Certificates on the next succeeding Interest Payment Date or Certificate Payment Date, as the case may be. In addition, the County will be required to pay (or cause to be paid) to the Trustee by January 1, 1997 an amount equal to the Interest Account Requirement and by July 1, 1997 an amount equal to the Principal Account Requirement. The Interest Account Requirement shall equal one-sixth of the maximum interest payable on any Interest Payment Date during the remaining term of the Lease. The Principal Account Requirement shall equal one-twelfth of the maximum annual Principal Component payable with respect to the Certificates during the remaining term of the Lease.

Pursuant to the Trust Agreement, the Base Rental Payments are held in trust for the benefit of the Owners and will be used for the punctual payment of the interest and principal evidenced and represented by the Certificates and will not be used for any other purpose while any of the Certificates remain Outstanding.

Except to the extent of amounts held by the Trustee in the Base Rental Payment Fund, the Certificate Reserve Account and amounts received as proceeds from rental interruption insurance or otherwise available to the Trustee for payments in respect of the Certificates, the Base Rental Payments shall be abated during any period in which, by reason of any damage to or destruction or condemnation of any of the Leased Facilities, there is substantial interference with the use and occupancy of any of the Leased Facilities by the County, if and to the extent that the aggregate fair rental value of the portion of the Leased Facilities not damaged, destroyed or condemned is less than the corresponding Base Rental Payments due under the Lease for the twelve consecutive month period following such damage, destruction or condemnation. Such abatement shall continue for the

period commencing with such damage, destruction or condemnation and ending with the substantial completion of the repair, reconstruction or replacement. In the event of any such damage, destruction or condemnation, the Lease shall continue in full force and effect and the County waives any right to terminate the Lease by virtue of any such damage, destruction or condemnation. See "RISK FACTORS--Abatement."

Should the County default under the Lease, the Trustee, as assignee of the Corporation, may, with the prior written consent of the Certificate Insurer, and shall at the direction of the Certificate Insurer, except with respect to the Restricted Properties, (i) terminate the Lease and relet the Leased Facilities (without any right to damages with respect to any period following termination), (ii) retain the Lease and hold the County liable for each installment of Base Rental Payments as it becomes due, or (iii) retain the Lease, relet the Leased Facilities and sue the County for the difference between the rental received on reletting and the Base Rental Payments. Only the remedy described in clause (ii) above is available with respect to the Restricted Properties (except in the event changes in law or other changes occur in the future as more fully described in APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--The Lease--Defaults and Remedies").

In no event shall Base Rental Payments and Additional Payments, if any, be accelerated. Further, deed, legal or other restrictions and limitations exist with respect to the use of the Leased Facilities that may limit the effectiveness of remedies available to the Trustee in the event of a default. See "RISK FACTORS--Limitation on Remedies."

County's Obligation to Pay

General Fund. The obligation of the County to pay Base Rental Payments when due is a current expense of the County, payable from the County General Fund. The full faith and credit of the County has not been pledged to the payment of the Base Rental Payments. The Series A Certificates are secured by statutory and Trust Agreement pledges of certain Sales Tax Revenues and Motor Vehicle License Fees, and by the County's election to participate in the State Intercept Programs by which the State Controller will pay the amount of the Base Rental Payments directly to the Trustee from such Sales Tax Revenues and Motor Vehicle License Fees. See "--Sales Tax Revenues," "--Motor Vehicle License Fees" and "--State Intercept Program" below.

Triple Net Lease. The Lease is a "triple net lease" and the County agrees that the rents will be an absolute net return to the Corporation free and clear of any expenses, charges or set-offs whatsoever.

Under the Lease, the County agrees to pay Additional Payments as defined in the Lease, such as the costs of operating, maintaining and managing the Leased Facilities, certain taxes and certain other costs related to the Leased Facilities during the term of the Lease.

Sales Taxes Revenues

Pledge of Sales and Use Tax. California Government Code Sections 25350.8 and 25350.10 (collectively, the "Sales Tax Pledge Statute") create a pledge of certain Sales Tax Revenues. "Sales Tax Revenues" are certain sales and use taxes imposed by the County (the "County Sales Tax") and collected by the State pursuant to Part 1.5 (commencing with Section 7200) of Division 2 of the California Revenue and Taxation Code (the "Bradley-Burns Act") derived from

(1) the portion of the County Sales Tax in excess of one percent (1%) that is generally deposited in the Orange County Local Transportation Agency Fund (the "OCLTA Fund"), but which has been reallocated to the County General Fund for a period of fifteen (15) years pursuant to California Government Code Section 29530.5 (see "PLAN OF FINANCING"), and (2) the portion of the County Sales Tax derived from the unincorporated area of the County and credited to the County General Fund, other than the portion described in clause (1) above.

The Sales Tax Pledge Statute automatically pledges moneys collected by the State and credited to the County General Fund to all certificates of participation or lease revenue bonds issued during the years 1996 and 1997, including obligations issued before 2010 to refund such certificates of participation or lease revenue bonds, to finance or refinance the lease or lease purchase of property of the County, including the Series A Certificates. Pursuant to the Sales Tax Pledge Statute, the amount so pledged with respect to any fiscal year shall not exceed the amounts to be paid in that fiscal year on the Series A Certificates and any other certificates or lease revenue bonds secured thereby. In the Financing Order, the Bankruptcy Court has determined that the lien created by the Sales Tax Pledge Statute, upon execution and delivery of the Series A Certificates, will constitute a "statutory lien" within the meaning of the Bankruptcy Code on Sales Tax Revenues pledged to the Series A Certificates. In the opinion of Willkie Farr & Gallagher ("Special Counsel"), the lien created by the Sales Tax Pledge Statute will not be subject to termination under Section 552(a) of the Bankruptcy Code in the event that the County files a subsequent bankruptcy petition to the extent that such lien constitutes a "statutory lien."

Pursuant to the Sales Tax Pledge Statute, the State has covenanted with the Owners of the Series A Certificates that, so long as any of the Series A Certificates are Outstanding, the State will not repeal Section 7202 of the Bradley-Burns Act, which authorizes imposition of the County Sales Tax, or, prior to July 1, 2011, repeal Section 29530.5(a) of the California Government Code, which authorizes the portion of Sales Tax Revenues generally deposited to the OCLTA Fund to be reallocated to the County General Fund, nor will the State alter or amend either statutory section in any other manner that would adversely affect the security of, or the ability of the County to make, the Base Rental Payments. However, nothing in the Sales Tax Pledge Statute precludes such an alteration or amendment if adequate provision has been made by law for the protection from impairment of the contract represented by the Series A Certificates.

The Sales Tax Revenues automatically pledged by the Sales Tax Pledge Statute are also pledged by the County pursuant to Section 25536(c) of the California Government Code under the Trust Agreement to the payment of Base Rental Payments.

As further security for the Series A Certificates, the County, upon the sale of the Series A Certificates, will elect to participate in a "state intercept program" whereby the Sales Tax Revenues, in an amount necessary to make, but not exceed, monthly Base Rental Payments, will be paid directly by the State Controller to the Trustee. See "State Intercept Program" below.

Collection and Allocation of Sales Tax Revenues. The Bradley-Burns Act was enacted to provide a uniform, integrated system of city and county sales and use taxes, and authorizes, among other things, the County to impose a retail transactions and use tax. In general, the statewide sales tax applies to the gross receipts of retailers from the sale of tangible personal property, and the statewide use tax is imposed on the storage, use or other consumption in the State of property purchased from a retailer for such storage, use or other consumption. Since the use tax does not apply to cases where the sale of the property is subject to the sales tax, the application of

the use tax generally is to purchases made outside of the State for use within the State. The County Sales Tax is generally imposed upon the same transactions and items subject to the sales and use tax levied statewide by the State that occur within the County, with generally the same exceptions.

Many categories of transactions are exempt from the statewide sales and use tax and the County Sales Tax. The most important are: sales of food products for home consumption, prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water when delivered to consumers through mains, lines and pipes. Though most food products are exempt, the exemption does not apply to liquor or to restaurant meals. "Occasional sales" (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the statewide sales and use tax; however, the "occasional sales" exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business.

The State legislature could change the transactions and items upon which the statewide sales and use tax and the County Sales Tax are imposed. In addition, other voter initiative measures could be adopted, further affecting the receipt of Sales Tax Revenues. For example, a voter initiative approved in 1992 eliminated taxation for candy, gum, bottled water and confectionery, and in 1993, certain types of transactions subject to the statewide sales and use tax (and consequently the County Sales Tax) were eliminated through repeal of legislation. Such changes or amendments could have either an adverse or beneficial effect on the level of Sales Tax Revenues. The County is currently not aware of any proposed legislative change which would have a material adverse effect on Sales Tax Revenues. The portion of the County Sales Tax attributable to the unincorporated areas of the County could be adversely affected by the incorporation of such areas into cities. The County anticipates that portions of the unincorporated areas will be incorporated while the Series A Certificates remain Outstanding. See "RISK FACTORS--Sales Tax Revenues" and "--Changes in Law."

The County Sales Tax is imposed at the rate of one and one-quarter percent of gross retail transactions in the County, and is in addition to the six percent sales and use tax levied statewide by the State and the one-half percent sales and use tax levied by the Orange County Transportation Authority ("OCTA") pursuant to Measure M, approved by a majority of County voters on November 6, 1990. The County Sales Tax collected in excess of one percent, less state collection and administrative costs, is deposited in the OCLTA Fund for expenditure at the direction of the OCTA, with the exception of the portion of such funds which has been reallocated to the County General Fund. See "PLAN OF FINANCING." In addition, cities are also authorized by the Bradley-Burns Act to impose sales and use taxes at a rate not to exceed one percent, which taxes are credited against the County's one and one-quarter percent. The remaining portion of the County Sales Tax is collected from the unincorporated areas of the County and is credited to the County General Fund.

Collection of the County Sales Tax is administered by the SBOE, which imposes a charge based on the actual cost of administration. The amount payable to the SBOE is based on the total local entity cost reflected in the annual budget of the State, and includes direct, shared and central agency costs incurred by the SBOE. Each fiscal year, the amount charged by the SBOE will be adjusted to account for the difference between the SBOE's recovered costs and the actual costs incurred by the SBOE during the prior two fiscal years. The SBOE's fee for fiscal year 1994-95 totalled approximately 1.08% of County Sales Tax receipts. The County has assumed that such

SBOE fee will increase by three percent each year thereafter, although the SBOE is not bound by this assumption and can change the fee at its discretion in the future.

The SBOE, after deducting its administration charge, payments of refunds, and amounts used by the State for interfund borrowing in the event that the State's general fund is exhausted, is required to remit the balance of the County Sales Tax collected to the County as promptly as feasible, and no less than twice each calendar quarter. The portion of the Sales Tax Revenues reallocated to the County General Fund from the OCLTA Fund will be deposited in the County General Fund on a monthly basis in an amount equal to $3,166,667, except to the extent transferred to the Trustee under the State Intercept Program. See "State Intercept Program" below.

Taxable Sales. The following table presents total taxable sales within the County and their growth rate for each of the fiscal years 1990-91 through 1994-95.

TABLE 3

COUNTY OF ORANGE
TOTAL TAXABLE SALES
FISCAL YEARS 1990-91 THROUGH 1994-95
(Amounts in Thousands)

Fiscal Year	Taxable Sales	Increase (Decrease) From Prior Year
1990-91	$26,923,073	(3.77)%
1991-92	26,597,222	(1.21)
1992-93	26,516,842	(0.30)
1993-94	27,394,349	3.31
1994-95	29,213,707	6.64

Source: State Board of Equalization.

The following table presents taxable sales and Sales Tax Revenues collected within the unincorporated areas of the County and their growth rate for each of the fiscal years 1990-91 through 1994-95.

TABLE 4

UNINCORPORATED AREAS OF THE COUNTY OF ORANGE
TAXABLE SALES AND SALES TAX REVENUES
FISCAL YEARS 1990-91 THROUGH 1994-95
(Amounts in Thousands)

Fiscal Year	Taxable Sales	Sales Tax Revenues[1]	Sales Tax Revenues Increase (Decrease) From Prior Year
1990-91	$1,238,409	$14,649	(8.8)%
1991-92	898,789	11,710	(20.1)[2]
1992-93	531,636	5,989	(48.9)[2]
1993-94	548,350	6,291	5.1
1994-95	658,057	7,216	14.7[3]

(1) *The amount of Sales Tax Revenue reported is net of the administrative charge assessed by the SBOE.*
(2) *Decrease due to incorporation of new south County cities and the recession.*
(3) *Increase due to economic growth and a sales tax audit which increased the County's share of sales tax dollars allocated by the SBOE.*

Source: State Board of Equalization; County of Orange Final Budgets.

The amount of Sales Tax Revenues collected at any one time is dependent in part upon the general level of economic activity in the County. For further discussion of the factors influencing Sales Tax Revenues growth and the County's general economy, see APPENDIX A -- "THE COUNTY OF ORANGE DEMOGRAPHIC AND ECONOMIC OVERVIEW."

The following table presents a forecast of taxable sales for each of the calendar years 1995 through 2000.

TABLE 5

COUNTY OF ORANGE
FORECAST OF TAXABLE SALES
CALENDAR YEARS 1995 THROUGH 2000
(Amounts in Thousands)

Calendar Year	Taxable Sales	Increase From Prior Year
1995	$29,833,721	5.5%
1996	31,407,523	5.3
1997	33,252,114	5.9
1998	35,460,988	6.6
1999	37,088,390	4.6
2000	39,106,525	5.4

Source: *Chapman University Economic and Business Review, dated December, 1995.*

The following table presents information on a fiscal year basis concerning projected Sales Tax Revenues available to pay the Certificates.

TABLE 6

PROJECTED SALES TAX REVENUES
FISCAL YEARS 1995-96 THROUGH 1999-2000
(Amounts in Thousands)

	1995-96	1996-97	1997-98	1998-99	1999-00
Reallocated Sales Tax[1]	$38,000	$38,000	$38,000	$38,000	$38,000
Projected Sales Tax from Unincorporated Areas[2]	7,700	8,100	8,600	9,100	9,500
Total Projected Sales Tax Revenues Available for payment of the Certificates[3]	$45,700	$46,100	$46,600	$47,100	$47,500

(1) Reallocated Sales Tax Revenues of $38 million a year will not be available after Fiscal Year 2011 under the applicable Recovery Statute (See "PLAN OF FINANCING" and "--Sales Tax Revenues").

(2) Sales Tax Revenues projected are net of the administrative charge collected by the SBOE. These amounts may be also affected by the incorporation of areas into cities. See "RISK FACTORS--Sales Tax Revenues."

(3) Excludes investment earnings and losses. The projected levels of Sales Tax Revenues are not dependent on the County's investment earnings or losses.

Source: *Orange County Auditor-Controller Department (1995-96); Chapman University Economic and Business Review, dated December 1995 (1996-97 through 1999-00).*

Motor Vehicle License Fees

Pledge of Motor Vehicle License Fees. California Government Code Section 25350.6 (the "MVLF Pledge Statute") creates a statutory pledge of Motor Vehicle License Fees to all certificates of participation or lease revenue bonds issued during calendar years 1996 and 1997, including obligations issued before 2010 to refund such certificates of participation or lease revenue bonds, to finance or refinance the lease or lease purchase of property of the County, including the Series A Certificates. "Motor Vehicle License Fees" are generally all moneys credited to the Motor Vehicle License Fee Account in the Transportation Tax Fund of the State to which the County is entitled under Chapter 5 (commencing with Section 11001) of Part 5 of Division 2 of the California Revenue and Taxation Code. Motor Vehicle License Fees are collected by the State and distributed to cities and counties according to a formula established by law as described below.

Pursuant to the MVLF Pledge Statute, the amount so pledged with respect to any fiscal year shall not exceed the amounts to be paid in that fiscal year on the Series A Certificates and any other certificates or lease revenue bonds secured thereby. In the Financing Order, the Bankruptcy Court has determined that the lien created by the MVLF Pledge Statute, upon execution and delivery of the Series A Certificates, will constitute a "statutory lien" within the meaning of the Bankruptcy Code on Motor Vehicle License Fees pledged to the Series A Certificates. In the opinion of Special Counsel, the lien created by the MVLF Pledge Statute will not be subject to termination under Section 552(a) of the Bankruptcy Code in the event that the County files a subsequent bankruptcy petition to the extent that such lien constitutes a "statutory lien."

Article XI, Section 15 of the California Constitution requires that vehicle license fees be allocated to cities and counties. Pursuant to the MVLF Pledge Statute, the State has covenanted with the holders of the Series A Certificates that so long as any of the Certificates are Outstanding the State will not alter or amend the deposit of moneys into, or the allocation of moneys credited to, the MVLF Account in any manner that would adversely affect the security for, or the ability of the County to make, the Base Rental Payments. However, nothing in the MVLF Pledge Statute precludes such alteration or amendment if adequate provision has been made by law for the protection from impairment of the contract represented by the Certificates.

The Motor Vehicle License Fees automatically pledged by the MVLF Pledge Statute are also pledged by the County pursuant to Section 25536(c) of the California Government Code under the Trust Agreement to the payment of Base Rental Payments.

As further security for the Series A Certificates, the County, upon the sale of the Series A Certificates, will elect to participate in a "state intercept program" whereby the Motor Vehicle License Fees, in an amount necessary to make, but not exceed, monthly Base Rental Payments, will be paid directly by the State Controller to the Trustee. See "State Intercept Program" below.

The County's Refunding Recovery Bonds, 1995 Series A (the "1995 Recovery Bonds") and any refunding bonds issued pursuant to the 1995 Trust Agreement (as hereinafter defined) (collectively, the "Recovery Bonds") are also secured by a pledge and intercept of Motor Vehicle License Fees, which under most circumstances will be senior to the pledge and intercept of Motor Vehicle License Fees for the Certificates. See "1995 Recovery Bonds" below.

Collection and Allocation of Motor Vehicle License Fees. Motor Vehicle License Fees are imposed for the operation of vehicles on state highways pursuant to California Revenue and Taxation Code Section 10701 *et seq.* (the "Vehicle License Fee Law"), enacted in 1941, and are collected by the State Department of Motor Vehicles (the "DMV"). Certain of these license fees are deposited monthly in the State Treasury to the credit of the Motor Vehicle License Fee Account (the "MVLF Account") in the Transportation Tax Fund. Other amounts collected pursuant to the Vehicle License Fee Law are deposited into other State accounts; namely, certain levies on trailer coaches are deposited in the State's general fund and 24.33% of the moneys collected under the Vehicle License Fee Law is deposited in the State Treasury to the credit of the Local Revenue Fund (established for the benefit of counties pursuant to Section 17600 of the California Welfare and Institutions Code). In 1993, the Legislature amended the Vehicle License Fee Law to provide that net funds collected as a result of improved compliance procedures with vehicle license fee laws would also be deposited to the credit of the Local Revenue Fund. Such net funds in excess of fourteen million dollars in any fiscal year are allocated to cities and counties in the same manner as license fees deposited in the MVLF Account, but are not pledged under the MVLF Pledge Statute and are not subject to the intercept program.

Before any moneys in the MVLF Account are paid to cities and counties, a number of deductions are made, including deductions for the payment of refunds, expenses for the enforcement of the Vehicle License Fee Law, amounts used by the State for interfund borrowing in the event that the State's general fund is exhausted, and expenses chargeable to each city, city and county or county for expenses incurred by the DMV and the California Highway Patrol in executing warrants and costs incurred by the State Fire Marshall for the inspection of high-rise buildings located in such city or county. The amount of Motor Vehicle License Fees paid to the County may also be affected by the number and value of vehicles registered in the State each year, by increases or decreases in the actual fees charged by the State for vehicle registration, or by future legislation or voter initiatives that could create disincentives to register vehicles. See "RISK FACTORS--Motor Vehicle License Fees."

Pursuant to California Revenue and Taxation Code Sections 11001-11005 (the "Vehicle License Fee Allocation Statute"), moneys in the MVLF Account are statutorily appropriated to cities and counties in accordance with a formula provided in the California Government Code, which is generally based upon population. The following table presents amounts the County received in the last five fiscal years as its share of Motor Vehicle License Fees from the MVLF Account in accordance with the Vehicle License Fee Allocation Statute:

TABLE 7

COUNTY OF ORANGE
MOTOR VEHICLE LICENSE FEES
FISCAL YEARS 1990-91 THROUGH 1994-95
(Amounts in Thousands)

Fiscal Year	Motor Vehicle License Fees Available from MVLF Account	Increase (Decrease) From Prior Year
1990-91	$ 92,145	2.29 %
1991-92	101,884	10.57[1]
1992-93	99,467	(2.37)[2]
1993-94	97,946	(1.52)
1994-95	99,883	1.97

(1) Increase was due to a change by the State in accrual in June of certain July receipts.
(2) Decrease was a result of the general down-turn in the State economy.

Source: Orange County Auditor-Controller Department

The following table presents projected Motor Vehicle License Fees to be available to the County for the payment of Certificates for each of the fiscal years 1995-96 through 1999-2000.

TABLE 8

COUNTY OF ORANGE
PROJECTED MOTOR VEHICLE LICENSE FEES
AVAILABLE FOR CERTIFICATES
FISCAL YEARS 1995-96 THROUGH 1999-2000
(Amounts in Thousands)

	1995-96	1996-97	1997-98	1998-99	1999-00
Projected Motor Vehicle License Fees Available for Payment of Certificates	$102,200	$104,300	$109,700	$114,500	$118,400
Debt Service on Outstanding 1995 Recovery Bonds	16,078	16,078	16,078	16,078	16,078[1]
Total Projected Motor Vehicle License Fees Available for Certificates	$86,122	$88,222	$93,622	$98,422	$102,322

(1) Beginning Fiscal Year 2000-01, annual debt service on the 1995 Recovery Bonds becomes approximately $28 million per year.

Source: Chapman University Economic and Business Review, dated December 1995.

Total Revenues Pledged

The following table shows the projected Sales Tax Revenues and Motor Vehicle License Fees available for payment of the Series A Certificates for fiscal years 1995-96 through 1999-2000.

TABLE 9

COUNTY OF ORANGE
PROJECTED COVERAGE FROM SALES TAX REVENUES
AND MOTOR VEHICLE LICENSE FEES
FISCAL YEARS 1996-97 THROUGH 1999-2000
(Amounts in Thousands)

	1996-97	1997-98	1998-99	1999-00
Sales Tax Revenues Available for payment of the Certificates[1]	$ 46,100	$ 46,600	$ 47,100	$ 47,500
Motor Vehicle License Fees Available for payment of the Certificates[2]	88,222	93,622	98,422	102,322
TOTAL	$134,322	$140,222	$145,522	$149,822
Principal and interest evidenced and represented by the Series A Certificates[3]	62,489	62,496	62,496	62,497
COVERAGE	2.15	2.24	2.33	2.40

(1) See Table 6. Reallocated Sales Tax Revenues of $38 million a year will not be available after Fiscal Year 2011 under the applicable Recovery Statute (See "PLAN OF FINANCING" and "--Sales Tax Revenues").

(2) Motor Vehicle License Fees Available are net of debt service on the 1995 Recovery Bonds, which becomes approximately $28 million (from approximately $16 million) per year for Fiscal Year 2000-01 and thereafter. See Table 8.

(3) Principal and interest evidenced and represented by the Series A Certificates decrease to approximately $25 million for Fiscal Years 2012 to 2015 and increase to approximately $41 million thereafter.

State Intercept Program

Pursuant to the provisions of Sections 25350.7, 25350.9 and 25350.55 of the California Government Code, the County will further secure the payment of the principal and interest evidenced and represented by the Certificates by electing to participate in the State Intercept Program, whereby the State Controller will pay directly to the Trustee the amount of the Base Rental Payments from the Sales Tax Revenues and Motor Vehicle License Fees.

Under the provisions of the State Intercept Program, the Board of Supervisors will notify the State Controller of the election upon the execution and delivery of the Series A Certificates, which will include a schedule of monthly Base Rental Payments and the designation of the Trustee appointed for the purpose of implementing the payment procedures. Immediately upon such notification, the State Controller is requested to make such apportionment to the Trustee first from the Sales Tax Revenues and, if such revenues are insufficient to make the Base Rental Payments, then from Motor Vehicle License Fees. In the case of an insufficiency in Motor Vehicle

License Fees to make the Base Rental Payments and payments on the Recovery Bonds, the State Controller will first transfer to the trustee for the Recovery Bonds the amount necessary to pay such bonds and will then transfer to the Trustee any remaining amount necessary for payment of the Certificates. See "1995 Recovery Bonds" below. The State Controller will thereupon reduce, by the amount so transferred, the subsequent allocation or allocations to which the County would otherwise be entitled.

The intercept of Sales Tax Revenues and Motor Vehicle License Fees is subject to any abatement of the obligation of the County to make Base Rental Payments. See "RISK FACTORS–Abatement."

1995 Recovery Bonds

On June 16, 1995, the County issued $278,790,000 Refunding Recovery Bonds, 1995 Series A (the "1995 Recovery Bonds"), pursuant to a Trust Agreement, dated as of June 1, 1995 (as amended and supplemented, the "1995 Trust Agreement"), by and between the County and Wells Fargo Bank, N.A., as successor trustee. Pursuant to the 1995 Trust Agreement, the County has pledged Motor Vehicle License Fees to secure the repayment of the 1995 Recovery Bonds. This pledge is senior to and has priority over the pledge created by the MVLF Pledge Statute securing the Certificates, but may not be a statutory pledge for bankruptcy purposes and may therefore not survive a subsequent County bankruptcy. The 1995 Recovery Bonds are further secured by an intercept of Motor Vehicle License Fees pursuant to a state intercept program virtually identical to the State Intercept Program. The intercept of Motor Vehicle License Fees for payment of the 1995 Recovery Bonds will be given priority over the intercept of Motor Vehicle License Fees for payment of the Certificates. The 1995 Recovery Bonds are not secured by a pledge or intercept of Sales Tax Revenues. In addition to the 1995 Recovery Bonds, the only bonds that may be issued under the 1995 Trust Agreement are bonds issued to refund the 1995 Recovery Bonds or prior refunding bonds.

Additional Obligations

In addition to the Certificates, the County may, in accordance with the terms of the Trust Agreement, provide for the execution and delivery of additional Series of Certificates, which need not be insured. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--Trust Agreement--Conditions Precedent to Execution and Delivery of Certificates."

The County may issue additional bonds, notes and other indebtedness, including additional Series of Certificates pursuant to the Trust Agreement, secured by a pledge and/or intercept of Sales Tax Revenues and/or Motor Vehicle License Fees, but has covenanted in the Trust Agreement, among other things, not to do so unless it has received the consent of the Certificate Insurer and the Motor Vehicle License Fees and Sales Tax Revenues and any additional amounts (which are permitted to be used in the calculation by the Certificate Insurer that are the subject of a pledge or lien in favor of the Owners and subject to an intercept program) for any twelve consecutive months ended not more than six months prior to the date of delivery of the additional obligations have been at least 1.25 times the sum of (i) the maximum annual amount of interest components and the principal components of all Certificates, (ii) the maximum annual debt service on the Recovery Bonds, and (iii) the maximum annual amount due on all other bonds, certificates of participation or other obligations secured on a parity with the Certificates, after taking into account

the maximum annual amount due on all obligations proposed to be delivered, in each case, to be paid in any single twelve-month period ending on June 30, during which any Certificate is expected to be Outstanding. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--Trust Agreement--Conditions Precedent to Execution and Delivery of Certificates." The conditions precedent to the issuance of additional debt set forth in the Trust Agreement do not apply to the execution and delivery of additional Series of Certificates to refund all or a portion of the Certificates or to obligations secured by Pledged Revenues on a basis subordinate to the Series A Certificates.

Certificate Reserve Account

The Trust Agreement establishes a Certificate Reserve Account to be initially funded with Certificate proceeds in the amount of the Certificate Reserve Account Requirement. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--Definitions of Certain Terms."

In the event that there shall be a deficiency in the Interest Account or the Principal Account, the Trustee shall promptly make up such deficiency from the Certificate Reserve Account. There is no provision for replenishment of withdrawals from the Certificate Reserve Account due to an abatement of Base Rental Payments or provision to increase Base Rental Payments to make up any decrease in the value of Investment Securities in the Certificate Reserve Account.

If the moneys and value of Investment Securities in the Certificate Reserve Account, calculated on each Interest Payment Date in accordance with the provisions of the Trust Agreement, shall exceed the amount of moneys and value of Investment Securities then required to be maintained therein, the amount of such excess shall be transferred to the trustee (the "Pension Trustee") for the Series 1996A Pension Bonds for payment of the debt service on the Series 1996A Pension Bonds. See "--Trust Funds and Accounts; Release of Surplus Amounts" below. Under the Trust Agreement, moneys in the Certificate Reserve Account are required to be invested in Investment Securities that (i) are subject to redemption at the option of the owner within 5 years from the date of investment, (ii) have maturities not exceeding five years, or (iii) constitute certain investment agreements approved by the Certificate Insurer.

Trust Funds and Accounts; Release of Surplus Amounts

The Trust Agreement provides that the Base Rental Payments and all amounts from time to time deposited in the funds and accounts created under the Trust Agreement, including insurance proceeds and other payments of any kind, shall be held by the Trustee for the benefit of the Owners, subject to their application in accordance with the provisions of the Trust Agreement. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--Trust Agreement--Creation of Funds and Accounts."

Any amount on deposit in the Interest Account or the Principal Account in excess of the amount required for payment of interest or the Principal Component evidenced and represented by the Series A Certificates on any Interest Payment Date or Certificate Payment Date, as the case may be, plus the Interest Account Requirement and the Principal Account Requirement, respectively, shall be transferred by the Trustee not later than fifteen days following such dates to the Certificate Reserve Account, if the amount in such account is less than the Certificate Reserve Account Requirement, and if not required for such purpose, to the Pension Trustee. Any amount in excess

of the Certificate Reserve Account Requirement after valuation of such amount pursuant to the Trust Agreement, will be transferred by the Trustee not later than 15 days following each Interest Payment Date to the Pension Trustee for payment of the debt service on the Series 1996A Pension Bonds in accordance with the related trust agreement. The surplus amounts will be transferred to the Pension Trustee free and clear of any lien imposed by the Trust Agreement.

Insurance

The Lease requires that the County maintain, or cause to be maintained, insurance against loss or damage to any structures constituting any part of the Leased Facilities by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. The extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance may be in the form of a blanket policy covering all property of the County (not just the Leased Facilities) and shall be in an amount not less than $200,000,000 per hazard occurrence. The Lease additionally requires that the County maintain or cause to be maintained rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from the use of the Leased Facilities as the result of any of the hazards covered by the fire and extended coverage insurance described above, in an amount sufficient to pay the Base Rental Payments for a period of at least two years (but never to exceed $120,000,000) and permits the County to combine the fire and extended coverage insurance policy with the rental interruption or use and occupancy insurance policy in a single policy with a single combined limit per hazard.

Under the Lease, the County is required to maintain earthquake insurance on the Leased Facilities only if such insurance is available on the open market from reputable insurance companies at reasonable cost (subject to a reasonable deductible). The County currently has a blanket earthquake policy in the approximate amount of $27.5 million (with a deductible of 5% per unit of value with a minimum of $250,000) covering all County properties (other than the John Wayne Airport which is separately insured); however, such insurance may not be available at all times during the term of the Lease. The County has determined that additional earthquake insurance is not currently available.

The County will obtain title insurance covering the Leased Facilities in accordance with the terms of the Lease. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--The Lease--Insurance."

Substitution or Withdrawal of Leased Facilities

The County is permitted under the terms of the Lease to withdraw Leased Facilities from the Lease or to substitute new facilities for Leased Facilities if it has provided to the Trustee (i) the written consent of the Certificate Insurer, which shall not be unreasonably withheld or delayed if the following conditions are met, (ii) a certificate of a California licensed real estate appraiser with at least five years experience selected by the County setting forth that (A) after taking into account the substitutions, the fair rental value of the new property equals or exceeds the fair rental value of the replaced sites, or, after taking into account the withdrawals, the fair rental value of the Leased Facilities satisfies the Property Ratio Requirement, and (B) the useful life of the new property will be at least equal to the remaining useful life of the replaced properties, (iii) certificates of insurance applicable to the Leased Facilities as required by the Lease, and (iv) an opinion of Special Counsel

to the effect that such substitution or withdrawal is permitted under the Lease and will not have an adverse effect on the validity of the obligation of the County to make Base Rental Payments or the interest component of the Base Rental Payments for federal income tax purposes. See APPENDIX C -- "SUMMARY OF CERTAIN PRINCIPAL LEGAL DOCUMENTS--The Lease--Substitutions, Withdrawals and Additions of Leased Facilities."

SERIES A CERTIFICATE INSURANCE

The following information has been furnished by MBIA Insurance Corporation (the "Certificate Insurer") for use in this Official Statement. The following is a description of the Certificate Insurer's Policy. For the precise wording of the Policy see "Appendix G -- Specimen Certificate Insurance Policy."

The Certificate Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made to the Trustee or its successor of an amount equal to (i) the principal (either on the applicable final Certificate Payment Date or by prepayment pursuant to a mandatory sinking fund installment) and interest evidenced and represented by the Series A Certificates 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 prepayment or otherwise, other than any prepayment pursuant to a mandatory sinking fund installment, the payments guaranteed by the Certificate Insurer'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 prepayment); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series A Certificates pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

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

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 Certificate Insurer from the Trustee or any owner of a Series A Certificate the payment of an insured amount for which is then due, that such required payment has not been made, the Certificate 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 State Street Bank and Trust Company, N.A., 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 Series A Certificates or presentment of such other proof of ownership of the Series A Certificates, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series A Certificates as are paid by the Certificate Insurer, and appropriate

instruments to effect the appointment of the Certificate Insurer as agent for such owners of the Series A Certificates in any legal proceeding related to payment of insured amounts on the Series A Certificates, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Series A Certificates, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Certificate Insurer, formerly known as Municipal Bond Investors Assurance Corporation, is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Certificate Insurer. The Certificate Insurer is domiciled in the State of New York and licensed to do business in 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. The Certificate Insurer has one European branch in the Republic of France.

As of December 31, 1995, the Certificate Insurer had admitted assets of $3.8 billion (audited), total liabilities of $2.5 billion (audited), and total capital and surplus of $1.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 1996 the Certificate Insurer had admitted assets of $4.0 billion (unaudited), total liabilities of $2.7 billion (unaudited), and total capital and surplus of $1.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. All information regarding the Certificate Insurer, a wholly owned subsidiary of MBIA Inc., including the financial statements of the Certificate Insurer for the year ended December 31, 1995, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 1995, is hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof. Any statement contained in a document incorporated by reference herein shall 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 incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Furthermore, copies of the Certificate Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Certificate Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Certificate Insurer or the Securities and Exchange Commission. The address of the Certificate Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service, Inc. (Moody's) rates the claims paying ability of the Certificate Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P), rates the claims paying ability of the Certificate Insurer "AAA."

Fitch Investors Service, L.P. (Fitch) rates the claims paying ability of the Certificate Insurer "AAA."

Each rating of the Certificate Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Certificate

Insurer 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 Series A Certificates, 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 Series A Certificates. The Certificate Insurer does not guaranty the market price of the Series A Certificates nor does it guaranty that the ratings on the Series A Certificates will not be revised or withdrawn.

In the event the Certificate 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.

RISK FACTORS

The following section describes certain risk factors affecting the payment of and security for the Series A Certificates. The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Series A Certificates 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 Series A Certificates. There can be no assurance that other risk factors will not become material in the future.

Limited Obligation

THE BASE RENTAL PAYMENTS ARE PAYABLE FROM THE GENERAL FUND OF THE COUNTY AND ARE SECURED BY A PLEDGE OF CERTAIN SALES TAX REVENUES AND MOTOR VEHICLE LICENSE FEES DEPOSITED WITH THE TRUSTEE PURSUANT TO THE STATE INTERCEPT PROGRAM. THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE SERIES A CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA. THE SERIES A CERTIFICATES DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE CORPORATION.

Abatement

The County's obligation to make Base Rental Payments will be abated during any period in which, by reason of any damage to or destruction or condemnation of any of the Leased Facilities, there is substantial interference with the use and occupancy of any of the Leased Facilities, if and to the extent that the aggregate fair rental value of the portion of Leased Facilities not damaged, destroyed or condemned is less than the corresponding Base Rental Payments due under the Lease for the twelve consecutive month period following such damage, destruction or

condemnation. In the case of any such damage, destruction or condemnation, such abatement will continue for the period commencing with such damage, destruction or condemnation and ending with the substantial completion of repair or reconstruction or replacement. In the event of any such damage, destruction or condemnation, the Lease continues in full force and effect and the County waives any right to terminate the Lease by virtue of any such damage, destruction or condemnation. In the event that casualty insurance proceeds are unavailable because there is no coverage for the hazard or are insufficient in amount to provide for complete repair or reconstruction or replacement of the Leased Facilities, or in the event the Leased Facilities are not repaired or replaced during the period of time that proceeds of the County's rental interruption insurance may be available in lieu of Base Rental Payments (a period of approximately two years under the insurance currently maintained by the County, but subject to limits in a blanket policy combined with hazard insurance, and except with respect to interference caused by an earthquake or other hazard for which there is no coverage, see "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Insurance") and the period for which funds are available from the Certificate Reserve Account, the Base Rental Payments may be insufficient to cover payment to Owners of Certificates. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--The Lease--Base Rental Payments; Use of Proceeds" herein. The intercept of Motor Vehicle License Fees and Sales Tax Revenues is subject to any abatement of the obligation of the County to make Base Rental Payments.

Sales Tax Revenues

The level of Sales Tax Revenues collected at any one time is dependent in part upon the level of retail sales within the County, which level of retail sales is, in turn, dependent in part upon the level of retail sales within the State generally. As a result, any substantial deterioration in the level of economic activity in the County or in the State could have a material adverse impact upon the level of Sales Tax Revenues. In addition, the State legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the statewide sales tax and the County Sales Tax are imposed. Any such change or limitations could also have an adverse impact on the Sales Tax Revenues. Further, the portion of the Sales Tax Revenues attributable to the unincorporated areas of the County could be adversely affected by the incorporation of such areas into cities. The County anticipates that portions of the unincorporated areas will be incorporated during the term of the Series A Certificates. The amount and timing of payment of the Sales Tax Revenues are not within the control of the County. The portion of Sales Tax Revenues reallocated to the County from the OCLTA Fund is available to the County only through July 1, 2011, a period less than the term of the Series A Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Sales Tax Revenues."

Motor Vehicle License Fees

The amount of Motor Vehicle License Fees paid to the County may also be affected by the number and value of vehicles registered in the State each year, by increases or decreases in the actual fees charged by the State for vehicle registration, or by future legislation or voter initiatives that could create disincentives to register vehicles. The amount and timing of payment of Motor Vehicle License Fees and balances in the MVLF Account are not within the control of the County. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Motor Vehicle License Fees."

The 1995 Recovery Bonds are also secured by a pledge and intercept of Motor Vehicle License Fees, which under most circumstances will be senior to the pledge created by the MVLF Pledge Statute and participation in the State Intercept Program. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--1995 Recovery Bonds."

Limitation on Sources of Revenues

There are limitations on the ability of the County to increase revenues payable to the County 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 which attempts to limit the imposition of new or higher taxes by local agencies, including the County. 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 be imposed by legislation or initiative. A second major source of income to counties has been motor vehicle license fees, the amount of which is not controlled by the counties. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Motor Vehicle License Fees." Similarly, there is relatively little that a county can do to increase the amount of its sales and use tax revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Sales Tax Revenues." In some prior years, the County derived as much as one-third of its discretionary income from investment income, but anticipates relatively little investment income in the foreseeable future. See "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy."

At the same time as 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. The annual increase in mandated expenditures has exceeded the annual increase in County revenues. In the event the County's revenue sources are less than its total obligations, the County could choose (other than with respect to pledged Motor Vehicle License Fees and Sales Tax Revenues) or be required by federal or State law to fund other municipal services before Base Rental Payments.

Constrained General Fund Budget

As discussed below under "BUDGET INFORMATION RELATING TO THE COUNTY," the County's discretionary General Fund budget from which Base Rental Payments are required to be paid has been significantly reduced by the loss of interest income. The County does not expect its discretionary General Fund budget revenue sources to grow substantially for the foreseeable future. Additionally, the County has reduced its contingency budget to $5 million for Fiscal Year 1995-96 from $20 million for Fiscal Year 1994-95. As a result, the General Fund Budget for the foreseeable future will be especially vulnerable to unexpected expenses, such as decreases in federal or state revenue transfers or reimbursements, unfunded mandates, major litigation, earthquakes and other unexpected events and emergencies.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the Base Rental Payments due over the term of the Lease, and the Trustee is not empowered to sell the Leased Facilities and use the proceeds of such sale to prepay the Certificates or pay principal and interest evidenced and represented by the Certificates. See APPENDIX C -- "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS--The Lease--Defaults and Remedies."

Limitation on Remedies

The remedies provided for in the Lease include, in addition to all other remedies provided at law, the following (except for the Restricted Properties): (i) terminating of the Lease and reletting the Leased Facilities (without any right to damages with respect to any period following termination), (ii) retaining the Lease and holding the County liable for each installment of Base Rental Payments as it becomes due, or (iii) retaining the Lease, reletting the Leased Facilities and suing the County for the difference between the rental received on reletting and the Base Rental Payments. With respect to the Restricted Properties only the remedy described in clause (ii) is available (except in the event changes in law or certain other changes occur in the future as more fully described in APPENDIX C -- "The Lease--Defaults and Remedies").

The enforcement of any remedies provided in the Lease and Trust Agreement may be limited by law (including limitations on a lessor's rights under real property leases and limitations on the rights of real property secured creditors) or could prove both expensive and time consuming. Although the Lease provides (except with respect to the Restricted Properties) that if the County defaults the Trustee may reenter the Leased Facilities and relet them, portions of the Leased Facilities may not be easily recoverable and, even if recovered, could be of little value to others because of their specialized nature (such as courts), regulatory conditions, restrictions in deeds, dedications or grants, limitations related to maintaining tax-exempt status of interest on the Series A Certificates and/or obligations issued by the State of California to fund a portion of the cost of the Leased Facilities, existing subleases, or other legal limitations on how and by whom the Leased Facilities can be used. Furthermore, due to the essential governmental nature and use of the Leased Facilities, it is not certain whether a court would permit the exercise of a remedy of removing the County. The remedies available with respect to Restricted Properties are limited to the Trustee suing for Base Rental Payment as each installment becomes due or such other remedy that does not permit any party other than the County to use, maintain, own, occupy, encumber or sell any Restricted Property.

Any appraisals, estimates or evaluations conducted for purposes of establishing the definition of Fair Rental Value and Property Ratio Requirement contained in the Lease were for technical legal purposes and may not reflect the true rental or other values of such properties either as of the date of this Official Statement or any future date. Such future values may also be adversely affected by deferred maintenance and underutilization as a result of the downsizing of County staff and a variety of other factors, including market factors.

Leased Facilities may be withdrawn or substituted as more fully described in APPENDIX C -- "SUMMARY OF CERTAIN PRINCIPAL LEGAL DOCUMENTS--The Lease--Substitutions, Withdrawals and Additions of Leased Facilities."

In addition to limitations on real property lessors or secured creditors, any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation to the annual difference between rental received on reletting the Leased Facilities and the Base Rental Payments for that year and a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, the enforceability of the rights and remedies of the Owners, and the obligations of the County under the Lease, may become subject to the following: the United States Bankruptcy Code (see "A Subsequent Bankruptcy" below) and applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose.

A Subsequent Bankruptcy

Characterization of Transaction. The consequences of any subsequent bankruptcy of the County on the Owners would vary depending on whether the transactions contemplated by the Trust Agreement and Lease were characterized for bankruptcy purposes as an extension of credit to the County or as a true lease by the County to the Corporation and a true lease by the Corporation back to the County.

Extension of Credit. If the transactions were characterized as an extension of credit, the Trustee and the Owners may be prohibited from taking any action against the County, any official of the County, or any property of the County to enforce the terms of the Certificates, the Trust Agreement, the Site Lease, the Lease, the Plan of Adjustment, the Confirmation Order or the Financing Order, unless the consent of the Bankruptcy Court is first obtained. The Bankruptcy Court is not required to give its consent. This prohibition on action may even prohibit the Trustee from using funds in its possession, or funds that are paid to it by the State Controller pursuant to the State Intercept Program to make payments with respect to the Certificates. The State Controller may be prohibited from paying money to the Trustee. As a result, the Trustee may experience delays in the receipt of Base Rental Payments for the payment of the principal and interest evidenced and represented by the Certificates.

In addition, if the pledge of the moneys credited to the MVLF Account of the State created by Section 25350.6 of the California Government Code and the pledge of Sales Tax Revenues created by Sections 25350.8 and 25350.10 of California Government Code are not statutory liens within the meaning of the Bankruptcy Code, then the Owners may not have a lien on any such moneys received by the County after the commencement of a subsequent bankruptcy case by the County. The Bankruptcy Court has determined in the Financing Order that these pledges are statutory liens under the Bankruptcy Code. There can be no assurance, however, that the Financing Order would be followed in a subsequent bankruptcy case of the County.

In a subsequent bankruptcy case, a plan of adjustment for the County could be confirmed that would alter the priority, interest rate, payment amount and terms, maturity dates, payment sources, covenants, collateral, and other terms or provisions of the Certificates, the Trust Agreement, the Site Lease, the Lease, the Financing Order, the Plan of Adjustment, or the

Confirmation Order. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent.

True Lease. If the transactions contemplated by the Trust Agreement constitute true leases and the County should commence a subsequent bankruptcy case, then, if the County chooses not to perform under the Lease, the claim of the Owners could be substantially limited. An allowable claim could be substantially less than the amount still owing on the Certificates, and thus the Owners could suffer a substantial loss. If the obligation to pay Base Rental Payments is so limited, the statutory lien of Section 25350.6 of the California Government Code on Motor Vehicle License Fees and the statutory lien of Sections 25350.8 and 25350.10 of the California Government Code on Sales Tax Revenues would not apply to the amount of Base Rental Payments which exceed the limit. Moreover, if the obligation to pay Base Rental Payments were to be rejected in the subsequent bankruptcy case, the statutory liens might be of no further value to the Owners.

In addition, if the Corporation were to become a debtor in a bankruptcy case, and the assignment of payments by the County under the Lease to the Trustee pursuant to the Assignment Agreement were determined to be other than an absolute assignment, delays or reductions in payment to Owners could result. The Bankruptcy Court has determined in the Financing Order that the assignment of payments by the County under the Lease to the Trustee is an absolute assignment. There can be no assurance, however, that the Financing Order would be followed in a subsequent bankruptcy case of the County.

The description under "Extension of Credit" above would also apply to the rights of the Owners if the transactions are characterized as true leases.

Changes in Law

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of moneys securing or available to pay Base Rental Payments. Similarly, the California electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution which could have the effect of reducing moneys available to pay Base Rental Payments. The State has pledged, so long as the Certificates remain Outstanding, not to make changes to the allocation of moneys to the MVLF Account prior to the year 2011 or to repeal or amend the provisions of the Bradley-Burns Act that authorize imposition of the County Sales Tax in any manner that would adversely affect the security for, or the ability of the County to pay, the Certificates. However, the State may do so if adequate provision has been made by law for the protection from impairment of the contract represented by the Certificates. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--Motor Vehicle License Fees" and "--Sales Tax Revenues."

THE COUNTY

The County is the third most populous county in California with a population of over 2.6 million residents.

The County is a general law county divided into five supervisorial districts on the basis of registered voters and population. The County is governed by a five-member Board of

Supervisors with each Supervisor serving a four-year term. The chairman is elected by and from members of the Board.

County administration consists of fourteen 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/Guardian, Sheriff-Coroner and the Treasurer-Tax Collector (the "Treasurer"). The Chief Executive Officer (the "CEO"), County Counsel, Public Defender, 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.

The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial institutions (including 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 thirty-one 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 choose. Services are provided at cost.

See APPENDIX A -- "THE COUNTY OF ORANGE DEMOGRAPHIC AND ECONOMIC OVERVIEW" for more information regarding the County.

COUNTY OF ORANGE BANKRUPTCY

Background of Bankruptcy

On December 6, 1994, the County and the Orange County Investment Pools (collectively, the "Pool") filed for protection under Chapter 9 of the United States Bankruptcy Code following losses that were eventually realized at approximately $1.6 billion in the market value of the Pool's investment portfolio. County funds and funds of more than 200 non-County governmental agencies within the State were invested in the Pool. The non-County pool investors are herein referred to as the "Pool Participants."

State law generally requires that all moneys of a county and its school districts be deposited with the county treasurer. Additionally, other public agencies, such as cities and special districts, are allowed by California Government Code Section 53684 and other statutory provisions to deposit and/or invest certain moneys in the county treasury.

As of November 30, 1994, the Pool accounts reflected assets of approximately $20.6 billion, of which $13 billion was borrowed through repurchase contracts and reverse purchase contracts. The remaining $7.6 billion included $2.7 billion deposited by the County and $4.9 billion deposited by local agencies other than the County.

Although Pool Participants were entitled to withdraw moneys on relatively short notice, the Pool was invested in securities with an average duration of approximately four years in order to enhance returns. To further enhance yield, some Pool moneys were also invested in a variety of structured instruments, such as inverse floaters and step-up callable notes, which were highly sensitive to changes in market interest rates. Reverse repurchase agreements were used to obtain loans from broker/dealers to further enhance returns by leveraging. Such borrowings exposed the County to cash collateral calls in the event of losses in market value of the collateral. These long dated and structured securities together with leverage caused the Pool's portfolio to generate high rates of return while the interest rate yield curve was steep from late 1991 through 1993. However, these same factors limited the Pool's liquidity and resulted in substantial loses of market value when market interest rates increased and the yield curve flattened through most of 1994.

The immediate goal of the County following the bankruptcy filings was to eliminate exposure to further losses in the illiquid, volatile portfolio. In mid-December, the County commenced the orderly auction and sale of the existing portfolio. As a result of the liquidation of the portfolio, which was completed on January 20, 1995, the Pool realized a loss of approximately $1.6 billion. As a result of the auction and restructuring process, the volatility of the portfolio was substantially reduced, its duration shortened to less than one year and its liquidity restored.

On May 23, 1995, the Bankruptcy Court determined that the Pool was not eligible for bankruptcy relief because it does not constitute a "municipality" that was "specifically authorized" under State law to file for bankruptcy protection. Accordingly, the Bankruptcy Court subsequently entered an order dismissing the Pool's bankruptcy case. In so doing, however, the Bankruptcy Court ordered that most orders and judgments entered in the bankruptcy case "will remain in full force and effect," that the Bankruptcy Court would "retain jurisdiction to enforce" those orders and judgments, and that the assets accounted for by the Pool "shall remain vested in accordance with the Comprehensive Settlement Agreement."

Defaults on Outstanding Debt Obligations. During, and as a result of, the bankruptcy, the County has been in default under the terms of a number of its debt obligations. The County drew on the reserve accounts for various outstanding certificates of participation financings in order to meet current principal and interest payments. These withdrawals, which totaled approximately $8.7 million, were not replenished as required by the terms of the documents pursuant to which the certificates of participation were issued.

The County was in default on its obligations under the Series A TRANs and Series B TRANs to set aside pledged amounts in advance to pay principal and interest at maturity. The County's position on this matter was that the pledge was a consensual, as distinguished from a statutory lien and, consequently, did not survive bankruptcy. This position was upheld by the Bankruptcy Court, but appealed to the District Court which held that the pledge was a statutory lien. Following the appeal by the County of the District Court's ruling, a settlement was reached with the noteholders providing, among other things, that the maturity on the Series A TRANs and Series B TRANs would be extended and that the noteholders would receive security interests in certain County properties, the aggregate value of which was $163,400,000 (the amount of the scheduled post petition set-asides not made by the County). The security interests received by holders of the Series A TRANs and Series B TRANs will be released upon the execution and delivery of the Series A Certificates. The holders of less than 1% of the Series A TRANs did not agree to the extension of maturity and were not paid at maturity. The maturity of the Taxable Notes was also extended by agreement. See "--County Short-Term Notes" below.

The County also postponed deposits required to be made in advance of debt service becoming due on other County obligations, including the Series 1994B Pension Bonds and the Taxable Pension Obligation Bonds, Series 1994A issued in conjunction with the Series 1994B Pension Bonds.[1/] In addition, the County has been in default in connection with the failure to honor tenders of the Series 1994B Pension Bonds, which were to have been paid from the Pool. See "PLAN OF FINANCING."

The County has also been in technical default under the terms of various financing documents as a result of the bankruptcy filing and/or other related conditions.

In addition, the County expressly reserved in the bankruptcy proceedings any rights it may have to reject leases or to challenge them as disguised loans, including County leases with respect to which certificates of participation are outstanding; to challenge the validity of the Taxable Notes; to challenge various security interests and reserve requirements with respect to outstanding County notes; and to challenge, object to, seek or contend various other matters with respect to outstanding County obligations -- none of which challenges are included in the Recovery Plan implemented by the Plan of Adjustment.

Upon effectiveness of the Plan of Adjustment and application of the proceeds of the Series A Certificates and Series 1996A Pension Bonds, all of the foregoing defaults on debt obligations will be cured or the obligations paid, except claims filed by actual or potential defendants (or their successors in interest) in litigation initiated by the County in connection with the Pool, for which moneys will be held by the County in a disputed claims reserve pending the outcome of litigation (see "LITIGATION AND GOVERNMENTAL ACTIONS--Actions Brought by the County" and "PLAN OF FINANCING").

Recovery Plan

Effect on County Finances and Services. The County's financial health was closely tied to the Pool both because of its dependence on the Pool for interest income and because essentially all of the County's liquid assets were invested in the Pool. While the adopted County Operating Budget (the "County Operating Budget") for Fiscal Year 1994-95 equaled $3.7 billion and the County General Fund Budget (the "General Fund Budget") represented $1.6 billion of that amount, the discretionary portion of the General Fund Budget (the "Discretionary Budget") was $462.5 million. The largest portion ($162.5 million) of that amount was expected to come from investment income on County funds in the Pool. Instead, as a result of investment losses in the Pool, actual investment income for Fiscal Year 1994-95 was approximately $10 million. The County projected $10 million of investment income for Fiscal Year 1995-96 General Fund Budget, and through April 30, 1996 actually earned $7.5 million.

The County provides numerous health, welfare and public safety services which are funded from federal and/or state grants, matching funds, funds restricted as to use or which require maintenance of efforts payments by the County, and which account for most of the differences

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[1/] In connection with the Series 1994A Pension Bonds, the County entered into an interest rate swap agreement with Credit Suisse Financial Products, which terminated upon the filing of bankruptcy by the County. The County has not paid the termination payment specified in the swap agreement and will not have paid such termination payment upon effectiveness of the Plan of Adjustment.

between the County Operating Budget and the Discretionary Budget. In order to preserve these revenues and continue provision of these mandated services, the Discretionary Budget of $462.5 million was the portion from which expenditures were reduced for Fiscal Years 1994-95 and 1995-96. In an effort to achieve a balanced budget for Fiscal Year 1995-96, the Discretionary Budget was reduced to $275 million.

The reductions to the Fiscal Year 1995-96 budget cover all County departments. Total budgeted positions as of December 6, 1994 were reduced in the Fiscal Year 1995-96 budget by 2,893. This includes 846 layoffs, 993 vacant position deletions, 123 early retirements, and 931 transfers of positions to the new Fire Protection Joint Powers Authority (with which the County contracts for fire protection services). Moreover, these reductions resulted in the elimination or reduction of many County programs. The County believes, however, that the $275 million Discretionary Budget allows it to provide for the essential health, safety, and welfare of its residents without further deepening its financial crisis.

For a discussion of the proposed 1996-97 General Fund Budget, see "BUDGET INFORMATION RELATING TO THE COUNTY--Proposed Budget for Fiscal Year 1996-97."

Administrative Reorganization. Among the first organizational actions taken by the Board of Supervisors was a restructuring of the County Administrative Office. The position of the CEO was created in February 1995. The CEO was given authority over all aspects of the County's daily operations, including the budgeting process and the ability to hire and fire County employees. The concentration of power in the CEO office combined with the necessity of a three-fifths Supervisor vote for CEO removal were designed to facilitate efficient County response to the financial crisis.

The County studied various other proposals for reorganization, including becoming a charter county, which was placed before County voters on March 26, 1996 and defeated, and is currently considering a major reorganization of County staff.

By resolution of the Board of Supervisors, the County has adopted policies and procedures for consideration and approval of proposed public financings, establishing, among other things, a Public Financing Advisory Committee (the "PFAC") consisting of the CEO, the Auditor-Controller and three public members appointed by the Board of Supervisors. In general, the PFAC considers proposals that the County issue bonds or certificates of participation recommended by the public financing staff of the CEO's Office, selects financing professionals (usually from eligible lists established by the Board of Supervisors) and presents its written recommendation for approval by the Board of Supervisors.

The Settlement Agreement. Following the $1.6 billion losses in the Pool's investment portfolio and the resulting bankruptcy filings, distributions from the Pool were stayed, and various Pool Participants asserted a variety of tort claims against the County, including breach of fiduciary duty, fraud and negligence, and asserted trust claims seeking the full amount of the funds they had placed in the County treasury. After extensive negotiations between the County and representatives of the Pool Participants, the County and the Pool Participants entered into the Comprehensive Settlement Agreement Re the Orange County Investment Pools (the "Settlement Agreement"). On April 5, 1995, the County filed the Settlement Agreement with the Bankruptcy Court. The effectiveness of the Settlement Agreement was contingent upon acceptance of the Settlement Agreement within approximately three weeks by at least 80% of the Pool Participants holding at least

90% in aggregate amount of the non-County investment balances in the Pool. The requisite number of Pool Participants accepted the Settlement Agreement, and on May 2, 1995, the Bankruptcy Court entered an order approving the Settlement Agreement and authorizing the County to perform its respective obligations under the Settlement Agreement.

The Settlement Agreement generally provided for the distribution to Pool Participants of their remaining investment balances in the Pool, which constituted approximately 77% of the Pool Participants' aggregate investment balances. This amount was distributed to Pool Participants on May 19, 1995. Moreover, the Settlement Agreement enabled Pool Participants to select one of two options for the treatment of the deficiency between that distribution and their investment balances. Under "Option B," which was selected by less than 10% of the Pool Participants (the "Option B Pool Participants"), Option B Pool Participants generally reserved their rights to litigate against the County to recover their deficiency. Under "Option A," which was selected by more than 90% of the Pool Participants (the "Option A Pool Participants"), Option A Pool Participants released any and all Pool-related claims they had against the County and assigned to the County any and all Pool-related claims they may have had against third parties, and received in exchange the following three types of consideration, intended to enable the Option A Pool Participants eventually to receive approximately 100% of their investment balances.

The first component of consideration consisted of approximately $279 million in "Recovery Notes" of which $232 million was distributed to Option A Pool Participants in amounts such that (a) each Option A Pool Participant that was a school district or school-related entity (the "School Pool Participants") received approximately $.13 for each $1.00 invested in the Pool and (b) the other Option A Pool Participants received approximately $.03 for each $1.00 invested in the Pool. The Recovery Notes constituted administrative claims under Section 364(c)(1) of the Bankruptcy Code, with priority over all other unsecured claims against the County, subject to certain carve-out expenses for professional and legal fees incurred by the County in the bankruptcy proceedings. Under the Settlement Agreement, the County was required to use its "best efforts" to monetize the Recovery Notes by June 5, 1995, and did so with the net proceeds of the 1995 Recovery Bonds issued on June 16, 1995, thereby avoiding the potential insolvencies by some School Pool Participants that could have resulted in bankruptcies and/or state trusteeships. Upon the receipt of proceeds of the 1995 Recovery Bonds, School Pool Participants received 90% of their principal portion of their investment and other Pool Participants received approximately 80%.

The second component of consideration consisted of approximately $325 million of "Settlement Secured Claims" allocated to the Option A Pool Participants that are not School Pool Participants in an amount that provided them the approximately 90% level of recovery provided to School Pool Participants through the Recovery Notes pursuant to the County's Plan of Adjustment (see "--Plan of Adjustment"). The Settlement Secured Claims are allowed general claims in the County's bankruptcy case that will receive a distribution of a share of the net litigation proceeds (the "Net Litigation Proceeds") the County receives from the assertion of certain Pool-related claims against third parties ("Pool-Related Claims") and will receive no other consideration. See "--Plan of Adjustment" below.

The third and final component of consideration consisted of approximately $529 million of "Repayment Claims" that represent the final approximately $.10 increment of the deficiency claims asserted by Option A Pool Participants. The Repayment Claims are allowed general unsecured claims in the County's bankruptcy case on account of which the holder is not entitled to receive any payment from the County or out of any assets of the County, whether under

a plan of adjustment or otherwise, until the payment in full of all "Senior Claims" against the County and the payment of postpetition interest thereon. ("Senior Claims" include, among other indebtedness, short-term debt for borrowed money, some trade debt incurred prior to the commencement of the County's bankruptcy case, and certain other indebtedness of the County.) Pursuant to the Plan of Adjustment, Repayment Claims will receive a distribution of a share of the Net Litigation Proceeds the County receives from Pool-Related Claims and will receive no other consideration. See "--Plan of Adjustment."

In October 1995, the Option B Pool Participants commenced adversary proceedings against the County, asserting claims including, but not limited to, breach of contract, breach of fiduciary duty and breach of trust. The County and the Option B Participants entered into a settlement agreement, approved by the Bankruptcy Court on May 15, 1996, resolving the adversary proceedings and the Option B Participants' anticipated objections to the Plan of Adjustment. In addition to certain litigation rights against third parties, the settlement with the Option B Participants provides that the Option B Participants, in the aggregate, will receive $7.5 million in cash on the Effective Date of the Plan of Adjustment, $8 million in County warrants payable over ten (10) years and bearing an interest rate of 6.5% per annum, and a distribution of net litigation proceeds of $9 million that otherwise would have been received and retained by the County from the prosecution of litigation related to the Pool.

1995 Recovery Bonds and Teeter Bonds. The 1995 Recovery Bonds were issued to accomplish the first component of the return to Pool Participants of their investment losses pursuant to the Settlement Agreement as described above under "The Settlement Agreement." The County also issued Teeter Bonds on June 30, 1995 (the "Teeter Bonds"), to retire $175 million of Teeter Notes due June 30, 1995, provide up to approximately $10 million annually to the County General Fund and provide a method to advance future delinquent tax receipts annually. The Teeter Bonds are payable from delinquent tax receivables sold by the County to a joint powers authority without recourse to the County General Fund.

County Short-Term Notes. Five note issues of the County, totaling approximately $975 million, matured between June 30 and August 15, 1995. The first two of the note issues --$175 million of Taxable and Tax-Exempt Teeter Notes -- matured on June 30 and were paid with proceeds of the Teeter Bonds and other available moneys.

In connection with the other three issues, the Series A TRANs, the Series B TRANs and the Taxable Notes (see "PLAN OF FINANCING" and "--Default on Outstanding Debt Obligations" above) the County entered into note extension agreements (the "Note Extension Agreements"), which were executed by more than 99% of the holders of the related notes and which provided for the holders to extend the maturity date on the notes until June 30, 1996. In exchange, among other things, the County agreed with respect to the extended Notes: (i) to treat the notes as Allowed Claims in the bankruptcy case and to waive and release certain state law defenses (in each instance subject to reservation by the County of certain other rights); (ii) to pay on or before the original maturity dates of the notes all accrued interest on that indebtedness; (iii) to pay a portion of interest due on the notes in Fiscal Year 1995-96, and to accrue the remainder as an administrative expense in the bankruptcy case; (iv) to increase interest on the notes by 0.95%; (v) to use its best efforts to cause the notes to be paid; and (vi) to ensure that any plan of adjustment or other arrangement for the satisfaction of County indebtedness would be consistent with the Note Extension Agreements.

Certain Pool Participants, the Pools Committee, the Vendors' Subcommittee, and the Subcommittee of Orange County Municipalities appealed the Bankruptcy Court's order regarding the extension of the notes. One condition to the effective date of the Plan of Adjustment is the dismissal of those appeals. See "--Plan of Adjustment--Conditions to the Effective Date of the Plan" below.

Defeat of Measure R. As part of the initial recovery plan, the County submitted to the voters a proposal to increase the countywide sales tax by one-half cent for up to ten years ("Measure R"), which the County projected would raise $130 million per year. Measure R was the cornerstone of the initial recovery plan and was viewed as the critical step toward full recovery. Months of heavy campaigning by pro- and anti-tax groups ensued. Several anti-tax groups formed specifically to oppose Measure R. On June 27, 1995, Orange County voters rejected Measure R by a margin of 61% to 39%.

Consensus Plan and Joint Agreement. During August 1995, the County and other agencies met to develop the basic outline of a plan of adjustment and to propose funding sources for a plan which could be supported by substantially all constituencies in the bankruptcy case. On August 18, 1995, the Board of Supervisors was presented a preliminary outline of a consensus plan (the "Consensus Plan") conceptually supported by OCTA, the Pool Committee and Pool Participant representatives. The Consensus Plan, in general, provided for reallocation of certain revenues to the County. The State has enacted legislation described below under "--Recovery Statutes" that would reallocate revenues to the County substantially as contemplated by the Consensus Plan and by the Joint Agreement (as described below).

The Consensus Plan also provided that Settlement Secured Claims and Repayment Claims allocated to Option A Pool Participants pursuant to the Settlement Agreement would be made non-recourse as against the County, and would be paid only from the net proceeds of Pool-related litigation. In addition, under the Consensus Plan, such net proceeds would be distributed among the Pool Participants and the County in accordance with a complex formula. The Consensus Plan also provided for the establishment of a $50 million litigation fund to pay litigation costs incurred in Pool-related litigation.

The Consensus Plan is evidenced by the "Joint Agreement of the County of Orange, the Official Investment Pool Participants Committee and Each Option A Pool Participant to the Resolution of All Claims Against the County of Orange" dated December 18, 1995, as amended (the "Joint Agreement"). The Joint Agreement was executed by the Pool Committee and the County, and as of March 15, 1996, to the best of the County's knowledge, more than 90% of the Option A Pool Participants holding more than 90% of the aggregate amount of Settlement Secured Claims and Repayment Claims had executed the Joint Agreement.

The Joint Agreement was approved by the Bankruptcy Court on May 15, 1996. See "--Plan of Adjustment" below.

Recovery Statutes. Legislation sought by the County as part of its recovery plan was passed by the State Legislature on October 9, 1995 and signed by the Governor the following day, and consists of Chapters 745, 746, 747 and 748 of the 1995 Statutes (the "Recovery Statutes"). The Recovery Statutes provide, among other things, for:

1. 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 from July 1, 1996 until July 1, 2011.

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. The OCDA may not incur any indebtedness in addition to approximately $86,672,000 of bonds currently outstanding, which would impair its ability to make these transfers or cause the transfers to violate Article XVI, Section 16 of the State Constitution. Funds allocated to low and moderate income housing may not be transferred to the County.

3. Reduction in the amount of property tax revenue allocated to the Orange County Flood Control District and to the Harbors, Beaches and Parks Fund by $4,000,000 each, thereby increasing the amount of property tax allocated to the County for deposit to the County General Fund by $8,000,000 for each of fiscal years 1997-98 to 2015-16.

4. Restriction on use of County revenues in the amount of revenues allocated, transferred to or deposited with the County pursuant to the provisions of the Recovery Statutes (as described in paragraphs 1, 2 and 3 above) to the satisfaction of the County's obligations pursuant to a confirmed plan of adjustment.

5. A pledge and intercept of Sales Tax Revenues (including those referred to in paragraph 1 above), and a pledge and intercept of Motor Vehicle License Fees, in each case for the benefit of the Owners of the Series A Certificates and any additional certificates of participation or lease revenue bonds contemplated by the respective Recovery Statutes.

Restructuring of the Integrated Waste Management Department. After analysis of the County's assets and operations, the County determined that the Integrated Waste Management Department (the "IWMD") could provide a source of revenue for the County. Prior to the commencement of the bankruptcy case, the County charged a "tipping fee" of $22.75 per ton for waste disposal, a rate generally lower than the tipping fee charged by neighboring San Diego County and Los Angeles County. Moreover, a County ordinance prohibited non-County residents from using the County's landfills, which have the capacity to accept 6,000 to 16,000 tons per day in excess of existing utilization levels. Accordingly, the County proposed to restructure the operations of the IWMD. Specifically, the County proposed to raise the tipping fee to $35 per ton and subsequently import out-of-County waste, and to lower the tipping fee to $30 per ton for in-County waste. Pursuant to the proposal, the County obtained legislation exempting the IWMD from certain provisions of the California Environmental Quality Act, thereby allowing the County to pursue and contract for the importation of out-of-County waste. The in-County tipping fee was increased to $35 per ton on May 23, 1995, effective July 1, 1995. Based on review of IWMD's ten-year financial plan, the in-County fee was subsequently lowered to $27 per ton on March 12, 1996, effective April 1, 1996.

The County has requested proposals for waste-importation contracts and has entered into contracts of various durations estimated to generate in excess of $15 million in annual revenues to the County. The County is also assessing the possibility of selling the landfill system. Following a period of exclusive negotiations with the County Sanitation Districts of Orange County, the Districts submitted an offer to the County in February, 1996, which was subsequently withdrawn.

While the County may pursue further negotiations with the Districts, the County is intending to issue a request for proposals from private entities.

Plan of Adjustment

The Plan of Adjustment categorizes claims against the County into 48 classes (the "Claims" and "Classes," respectively). The classification and treatment of Claims is summarized below.

The estimated Claim amounts included in the description of Classes of creditors below include the County's estimates of the amount of Claims upon resolution of all Disputed Claims. The actual, ultimate, aggregate amount of Allowed Claims in certain Classes may differ significantly from the estimates below. In addition, the amount of any Disputed Claim that ultimately is allowed by the Bankruptcy Court may be significantly less than the amount of the Disputed Claim asserted by the holder. Many holders of certain of the Claims described below assert Claims to interest. Although pursuant to Bankruptcy Court orders certain of such interest Claims have been allowed, the County has not yet taken a position as to whether all such interest claims are allowable. Also, the remaining cash balances in County-administered accounts may be used to satisfy a significant portion of the allowed amount of the following Claims.

Summary of Classification and Treatment of Claims Under the Plan of Adjustment

Classification	Allowed Claims (estimated amounts in millions)	Treatment
Short-Term Note Debt		
1994-95 Tax and Revenue Anticipation Notes, Series A	173.2	Some unimpaired; Some impaired; paid in full, in cash, on the Effective Date.
1994-95 Tax and Revenue Anticipation Notes, Series B	31.6	Some unimpaired; Some impaired; paid in full, in cash, on the Effective Date.
1994-95 Taxable Notes	509.6	Secured portion impaired; paid in full, in cash, on the Effective Date; unsecured portion impaired, paid in full, in cash, on the Effective Date.
Long-Term Bond and COP Obligations		
Certificates of Participation	373.6	Unimpaired; reserve accounts replenished
Other Long-Term Obligations	247.1	Unimpaired
Series 1994A Pension Bonds	201.5	Impaired; County has option to offer to redeem all or portion of bonds. (See "PLAN OF FINANCING.")
Series 1994B Pension Bonds	110.2	Impaired; County has option to provide remarketing arrangement or other liquidity facility, or to redeem all or portion of bonds. (See "PLAN OF FINANCING.")
Securities as to which County is nominal obligor (includes assessment, community facilities district, tax increment and conduit bonds)	N/A	Not subject to Plan.

Classification	Allowed Claims (estimated amounts in millions)	Treatment
Vendors		
Vendors Claims (for goods and services provided)	65.0[1/]	Impaired; paid in full, in cash, on the Effective Date.
Claims Relating to County-Administered Accounts Subject to Third Party Interests (other than Claims of Pool Participants and other local government agencies)		
Superior Court deposits: eminent domain, interpleader, and minors' compromise Claims	47.4	Unimpaired.
Marshal levies and garnishments	2.9	Unimpaired.
District Attorney family support collections	3.7	Unimpaired.
State and federal program advances	29.2	Unimpaired.
Developer and other deposits with Environmental Management Agency	3.41	Unimpaired.
Public Administrator/Public Guardian	17.1	Unimpaired.
Other County-Administered Account Claims	52.3	Unimpaired.
Employee Claims		
Claims for sick leave, vacation pay, general salary increases and merit-based salary increases	35.0	Impaired; paid in full, in cash, on the Effective Date.
Deferred Compensation	83.1	Unimpaired.
Extra Help Retirement Program	1.2	Unimpaired.
Pool Participant and Other Local Government Agency Claims		
Claims relating to Superior Court deposits by Pool Participants	9.7	Unimpaired.
Claims held by Schools relating to County-Administered Accounts	15.5	Impaired; paid from Available Cash; also may be paid from Pool-Related Net Litigation Proceeds.

1/ Currently estimated at $44 million. (See "PLAN OF FINANCING.")

Classification	Allowed Claims (estimated amounts in millions)	Treatment
Claims held by municipalities other than Schools relating to County-Administered Accounts	10.3	Impaired; paid from Available Cash after payment of School County-Administered Account Claims; also may be paid from Pool-Related Net Litigation Proceeds.
Settlement Secured Claims	325.2	Impaired; paid from Pool-Related Net Litigation Proceeds; non-recourse against other County assets.
School Repayment Claims	109.4	Impaired; paid from Pool-Related Net Litigation Proceeds; non-recourse against other County assets.
Non-School Repayment Claims	384.3	Impaired; paid from Pool-Related Net Litigation Proceeds; non-recourse against other County assets.
Option B Pool Participants Claims	44.0	Paid from Available Cash, in County warrants payable over ten years, bearing interest at a rate of 6.5% per annum, and from Net Litigation Proceeds. (See "--Recovery Plan--The Settlement Agreement.")
Other Claims		
Claims relating to County-Administered Accounts not referenced above	217.2	Impaired; paid from Available Cash after payment of School County-Administered Accounts Claims; some Claims of County departments and/or enterprise funds may not be paid.
Tax Refund Claims	16.1	Unimpaired.
Claims of less than $1,000 or reduced to $1,000	0.3	Unimpaired; paid in full, in cash, on Effective Date.
Claims of tort litigants	N/A	Impaired; receive County Warrants in the Face Amount equal to fifty-two and four-tenths percent (52.4%) of any liquidated judgment.
Claims for fines, penalties or forfeitures	N/A	Impaired; no distribution; County discharged from all related debts.
Other Secured Claims	N/A	Unimpaired.

In addition, the County presently is aware of four types of Administrative Claims, which are to be paid in full on the Effective Date except to the extent that the holder of any such claim has agreed to another treatment (the "Administrative Claims"): (1) Claims relating to payment of 1995 Recovery Bonds, the Teeter Bonds and arbitrage rebate payments; (2) ordinary course Administrative Claims; (3) Administrative Claims for taxes and penalties; and (4) compensation of professionals.[1/]

Means of Implementation of the Plan. In order to meet its financial obligations under and otherwise implement the Plan of Adjustment, the County is executing and delivering the

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[1/] Other Administrative Claims have been allowed during the County chapter 9 case pursuant to Bankruptcy Court order, including the Note Extension Orders.

Series A Certificates and Series 1996A Pension Bonds and taking the other steps summarized under "PLAN OF FINANCING." A representative appointed by order of the Bankruptcy Court (the "Representative") will also pursue certain litigation on the receipt of proceeds from which portions of the distributions to be made on behalf of certain Claims under the Plan are contingent. The County has commenced, and may commence additional, litigation matters against various entities to prosecute and recover Pool-Related Claims. See "LITIGATION AND GOVERNMENTAL ACTIONS--Actions Brought By County." The County believes that such litigation will result in significant net recoveries. All the defendants in such litigation, however, have raised, and are likely to raise, numerous defenses. Moreover, even if the County is able to prevail at trial, there can be no assurance that the County in fact will realize any recovery from such litigation. Moreover, even if successful, the County may not realize such recovery for a number of years.

Pursuant to the Plan of Adjustment, on the Effective Date, Thomas W. Hayes shall be appointed as Representative to enforce, prosecute and collect upon all Pool-Related Claims. The Representative's authority shall include determining whether, and on what terms, to enforce, prosecute, collect, settle or abandon any or all of such Pool-Related Claims. In the event that Mr. Hayes is unable or unwilling to serve as or to continue to serve as the Representative, an individual or entity selected by the County and approved by the Pool Committee shall be the Representative.

Pursuant to the Plan of Adjustment, on the Effective Date, as described in "PLAN OF FINANCING," the County shall cause $50 million to be deposited in a litigation fund, which shall be used by the Representative to enforce, prosecute, and collect upon Pool-Related Claims.

The table below illustrates the estimated sequential distribution of Net Litigation Proceeds, which distributions may be affected by the final allowed amount of settlement secured claims and repayment claims.

Distribution of Net Litigation Proceeds

Sequential Amount	**Recipient**
$ 54,707,336	Holders of School Repayment Claims
$325,188,616	Holders of Settlement Secured Claims
$202,800,694	The County
$712,833,499	61.59% to School and Non-Schoolholders of Repayment Claims; 38.41% to the County
$400,000,000	25% to OCTA and 75% to the County
$125,000,000	OCTA
All amounts in excess of $1,820,530,146	61.59% to holders of Settlement Secured Claims and Repayment Claims per Revised Book Balances; 38.41% to the County

Conditions to the Effective Date of the Plan. Pursuant to the Plan of Adjustment, the Effective Date is a business day, as determined by the County, that is at least 11 business days

after the Confirmation Date (May 16, 1996) and on which (i) the Confirmation Order is in effect, and (ii) all conditions to the Effective Date have been satisfied or waived.

The following conditions to the Effective Date must be satisfied or duly waived by the County: (1) the Confirmation Order becomes a Final Order, (2) the Bankruptcy Court enters final order(s) approving and authorizing the County to take all actions necessary or appropriate to complete, implement and consummate the contracts, instruments, releases and other agreements or documents created in connection with the Plan of Adjustment including authorization to issue the Series A Certificates and the Series 1996A Pension Bonds, (3) the Series A Certificates must be executed and delivered, and the Series 1996A Pension Bonds must be issued, and all other aspects of the financings described in the Plan of Adjustment must be consummated, (4) the County must determine that the sum of certain allowed Claims plus the estimated aggregate amount of Disputed Claims that the County determines reasonably may be allowed Claims, less the cash reserved for the payment of such Claims in appropriate County-Administered Accounts, does not exceed $100 million, (5) all appeals relating to the Bankruptcy Court's Note Extension Orders must be dismissed, and all such orders of dismissal must become Final Orders, (6) if the final terms of the Series 1996A Pension Bonds are not covered under the Statement of Decision of the Superior Court of the State of California that validated the Series 1994A Pension Bonds and the Series 1994B Pension Bonds, a court of competent jurisdiction of the State of California must have entered a Final Order validating, under applicable state law, the issuance by the County of the Series 1996A Pension Bonds, (7) the County must enter into an agreement in form and substance satisfactory to the County, with the Orange County Employees Retirement System ("OCERS") to amend the August 30, 1994 Memorandum of Understanding, as previously amended on July 14, 1995, relating to the County's obligations to OCERS, (8) the Certificate Insurer must consent to the County's issuance of the Series A Certificates pursuant to the documentation governing the 1995 Recovery Bonds (the Certificate Insurer must also waive any conditions applicable to the issuance of the Series A Certificates contained in the Insurance Agreement, dated as of June 1, 1995, by and between the Certificate Insurer and the County), and (9) all appeals relating to the Bankruptcy Court's May 26, 1995, Memorandum Opinion, relating to the Fannie Mae Escrow as subsequently amended, or any order or findings relating thereto, shall have been dismissed, and all such orders of dismissal shall have become Final Orders.

The conditions to the Effective Date are for the sole benefit of the County and may be waived in whole or in part by the County, provided, that the condition in (5) above may only be waived by the County with the written consent of the Committee of Creditors appointed in the bankruptcy case.

Discharge. The Confirmation Order was entered on May 16, 1996 and, as of the Effective Date, discharges all Claims against the County other than debts (i) excepted from discharge by the Plan of Adjustment or the Confirmation Order, or (ii) owed to an entity that, before Confirmation of the Plan, had neither notice nor actual knowledge of the County bankruptcy case. All entities that have held, currently hold or may hold a claim or other debt or liability that would be discharged pursuant to or upon the Effective Date of the Plan of Adjustment under the Bankruptcy Code are permanently enjoined from commencing or continuing any action or proceeding (or enforcing, attaching or collecting any judgment, award, decree, order or lien) against the County or its property.

The Bankruptcy Court, to the fullest extent permitted by law, retains jurisdiction over the bankruptcy case for certain purposes, including to enter orders necessary or appropriate to implement, and to determine matters that arise in connection with, the Plan of Adjustment.

End of Bankruptcy. The Effective Date will be the date of execution and delivery of the Series A Certificates and issuance of the Series 1996A Pension Bonds. Upon the Plan of Adjustment becoming effective on the Effective Date, the County will have emerged from bankruptcy.

COUNTY INVESTMENT POLICY

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

On March 17, 1995, the Board of Supervisors appointed John M.W. Moorlach, CPA, CFP as the Treasurer. Mr. Moorlach replaced Thomas Daxon, who was appointed interim Treasurer by the Board of Supervisors on December 22, 1994, following the resignation of Robert L. Citron. Subsequently, Daniel J. Hempel, formerly the Treasurer of the City of Pomona and Pomona Redevelopment Agency, was hired as Assistant Treasurer.

On March 1, 1995, the Board of Supervisors established a Treasury Oversight Committee to improve accountability to the public with respect to County investments. The Treasury Oversight Committee was charged with the following: (i) to oversee the investment and internal accounting, control, procedural and reporting functions of the Treasurer, including the Treasurer's interaction with the Auditor-Controller; (ii) to oversee, review and recommend investment guidelines and policy for the Treasurer and to submit a written quarterly report of its findings; and (iii) to notify the Board of Supervisors should the committee determine any irregularity exists in the Treasurer's investments, office or operations.

Subsequently, Senate Bill 866, enacted by the California Legislature and generally effective January 1, 1996, added Sections 27130 through 27137 to the California Government Code, requiring the board of supervisors in a county investing surplus funds to establish a treasury oversight committee. In general, the new provisions (i) require the treasury oversight committee to consist of between three and eleven members nominated by the treasurer and confirmed by the board of supervisors; (ii) prohibit committee members from raising money for the treasurer or the board of supervisors and restrict employment by members of the committee; (iii) require the annual preparation of an investment policy to be reviewed and monitored by the treasury oversight committee, which shall include, among other things, a list of the type of securities in which the county treasury may invest and the maximum term of such securities, criteria for the selection of security brokers and dealers, the requirement that the county treasurer provide the oversight committee with an investment report as required by the board of supervisors, the manner of calculating and apportioning costs, and criteria for considering requests to withdraw funds from the county treasury; (iv) require performance of an annual audit by the treasury oversight committee to

ensure compliance with established investment policies; and (v) permit the treasurer to grant withdrawal requests for the purposes of investing or depositing such funds outside of the treasury pool only upon a finding by the treasurer that the withdrawal will not adversely affect the other depositors in the pool.

In addition, Senate Bill 866 added California Government Code provisions, establishing a trust and fiduciary relationship between the treasurer, those involved in the treasury investment process and the depositors, investors and participants in the treasury. The legislation adopts the prudent investor standard for investing, establishes priorities for public investing (first safety, second liquidity and finally return on the funds invested), places additional limitations on permitted treasury investments, including restricting the use of reverse repurchase agreement and certain derivative instruments. Senate Bill 564, also effective January 1, 1996, establishes reporting requirements for the treasury in addition to those currently required.

On December 19, 1995, the Board of Supervisors established a new Treasury Oversight Committee effective January 1, 1996, pursuant to the new Government Code provisions, and accordingly disbanded the previously formed committee. The Treasurer nominated and the Board of Supervisors confirmed the following persons to the new Treasury Oversight Committee: the CEO, the County Auditor-Controller, the County Superintendent of Schools, or his or her designee, and a public member.

The Treasurer adheres to the strict guidelines for treasury investments established by the County's "Money Market Investment Pool Policy" (the "Investment Policy"), which applies solely to pooled funds invested by the Treasurer. Certain other funds, such as the deferred compensation plan and narcotics suppression funds, are invested separately. 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 county resolutions regarding public funds investment. The maximum maturity of investments under the Investment Policy is 13 months, with a maximum average duration of 90 days. (The Treasurer is also in the process of establishing an intermediate investment pool policy for investments with a longer maturity range of one to five years.) The value of the money market pool will be determined by marking to market daily. To further maintain safety, the Treasurer is required to adhere to an investment strategy of diversification in regard to instruments and maturities, as well as establish internal controls for proper accounting and reporting, continually evaluate the investment policy quarterly, document safekeeping and collateralization, and qualify financial dealers.

The assets in the investment pool are required by the Investment Policy to consist of the following investments and maximum permissible concentrations: 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 (50%); commercial paper of a high rating (A-1/P-1) provided by Moody's Investors Service or Standard & Poor's with further restrictions regarding issuer size and maturity (30%); 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 (30%); banker's acceptances (40%); money market funds with a rating of AAA/Aaa (15%); and repurchase agreements collateralized by securities issued or guaranteed by the United States government and/or its agencies, provided the collateral value is maintained at 102% of repurchase price (50%). Repurchase agreements may be transacted only with primary dealers and are limited to a three-month maturity. All permitted investments are required

to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds).

The Investment Policy expressly prohibits leverage, reverse repurchase agreements, and structured notes or derivatives. Under the Investment Policy, no more than 10% of the total market value may be invested in securities of any one issuer, with the exception of obligations of the United States government and no more than 25% may be invested for any single U.S. Government Agency or government sponsored enterprise. All investments will be United States dollar denominated and marked to market.

Furthermore, the Investment Policy requires that all County personnel involved in the investment process act as custodians of the public trust and be held to the prudent person standard regarding the making of investment decisions. In addition, the Treasurer will submit monthly reports to the Treasury Oversight Committee, the CEO and the Board of Supervisors, with sufficient information for evaluation of the performance of the investment program. The Investment Policy, as revised to meet Senate Bill 866 provisions, was approved by the Treasury Oversight Committee on March 6, 1996, and subsequently approved by the Board of Supervisors on March 19, 1996.

As of March 31, 1996, the market value of the County's post-petition commingled pool was $839,851,656. The value of such Pool's assets, as of such date, were invested in United States Treasuries (2%), United States government agencies (20%), commercial paper (28%), certificates of deposit (21%), repurchase agreements (22%), and banker's acceptances (8%). The average maturity was 30 days. Of the funds in the pool, 10.82% constituted County General Fund moneys. The current yield of the investments in the pool at March 31, 1996 was 5.26%. In total, $2,733,071,742 was invested on such date, representing funds deposited in the aforementioned post-petition County commingled pool and various other pre and postpetition pools for which the Treasurer is responsible, of which 4.14% represented County General Fund moneys.

BUDGET INFORMATION RELATING TO THE COUNTY

The General Fund Budget totaled $1.47 billion for Fiscal Year 1995-96, as originally adopted. The General Fund Budget, as adopted in September 1995, reflects a $188 million decrease from the General Fund Budget for Fiscal Year 1994-95. See TABLE 10 below. 62.32% of budgeted Fiscal Year 1995-96 revenues are derived primarily from intergovernmental revenues from State and federal sources. Property tax revenues declined from $269.9 million in Fiscal Year 1992-93 to $111.9 million in Fiscal Year 1995-96 due primarily to changes in local government financing by the State Legislature and lower assessed property valuations. The State Legislature shifted $2.1 billion in property taxes in Fiscal Year 1993-94 from counties to school and community college districts. This shift resulted in $150 million of lost revenue to the County General Fund. In the November 3, 1993 statewide election, voters approved Proposition 172 to permanently extend the half-cent sales tax that had been imposed by the State to partially offset the property tax loss. However, this revenue was dedicated specifically for public safety purposes. The County responded to this loss of discretionary revenue, in part, by increasing dependence upon interest income. However, investment pool losses and the subsequent filing of bankruptcy caused the budgeted County General Fund interest earnings to decrease from $162.5 million in Fiscal Year 1994-95 to approximately $10 million in Fiscal Year 1995-96. See "COUNTY OF ORANGE BANKRUPTCY--Background of Bankruptcy."

The table on the following page presents final budgets for the County General Fund for Fiscal Years 1992-93 through 1995-96.

TABLE 10

COUNTY GENERAL FUND
FINAL BUDGET FOR FISCAL YEARS 1992-93 THROUGH 1995-96

REQUIREMENTS:	Final Budget 1992-93	Final Budget 1993-94	Final Budget 1994-95[1]	Final Budget 1995-96
Public Protection	$ 379,024,263	$ 416,641,631	$ 456,975,128	$ 359,954,933(a)
Health Services	225,793,588	227,548,448	236,278,107	233,140,961
Community & Social Services	548,938,085	545,907,250	575,153,682	531,429,838
Environmental Resources	100,899,166	112,776,469	98,006,684	84,725,418
General Government & Services	123,228,706	120,813,978	122,295,848	100,227,776(b)
Capital Improvements	23,728,374	32,720,321	44,907,573	31,192,232(c)
Debt Service	6,769,657	6,981,474	7,668,135	7,347,647(d)
Insurance, Reserves & Miscellaneous	70,094,466	141,464,827(e)	102,478,399	126,025,252(e)
Total Requirements	$1,478,476,305	$1,604,854,398	$1,643,763,556	$1,474,044,057
AVAILABLE FUNDS:				
Fund Balance Available	$ 61,592,605	$ 80,637,202	$ 55,207,870	$ 25,000,000
Property and Sales Taxes	269,850,000	192,035,000	110,800,000(f)(g)	111,975,000
Licenses, Permits & Franchises	6,257,202	5,591,633	6,142,630	6,007,225
Fines, Forfeitures & Penalties	14,128,318	12,979,996	31,059,737(g)	27,682,731
Use of Money & Property[2]	37,676,267	62,481,438	167,573,747(h)	35,519,099(h)
Intergovernmental Revenues[3]	827,096,384	958,357,290	966,529,931	918,619,665
Charges for Services	212,512,297	240,109,552	253,521,969	255,610,395
Miscellaneous Revenues[4]	31,522,986	38,668,424	35,227,914	70,681,559(i)
Other Financing Sources[5]	6,261,322	13,993,863	17,699,758	22,948,383
Residual Equity Transfer	11,578,924	0	0	0
Total Available Funds	$1,478,476,305	$1,604,854,398	$1,643,763,556	$1,474,044,057

(1) *In response to the County's bankruptcy, the Board of Supervisors adopted a mid-year revision to the FY 1994-95 Final Budget reflected in this Table. On December 22, 1994 action by the Board resulted in a $40 million reduction in the General Fund Budget. See "Budget for Fiscal Year 1995-96" below.*

(2) *Includes interest income.*

(3) *Comprised of federal and state grants, matching funds and state-distributed revenues, including Motor Vehicle License Fees.*

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

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

(a) *The decrease can be generally attributable to an accounting adjustment in conformance with State guidelines concerning trial court funding, whereby appropriations are no longer credited to the General Fund and the County's contribution is no longer credited to Public Protection but rather to Insurance, Reserves & Miscellaneous.*

(b) *Support services such as facilities maintenance, data systems, utilities, legal and the County Administrative office were reduced by $20 million in response to reduced resources.*

(c) *Capital improvements were prioritized and funding limited to those with a critical need or those with non-General funding. Additionally, the real property leases budget was dissolved and expenses distributed to appropriate agencies to better align costs with funding.*

(d) *Debt service is applied to various self balancing funds having external sources of revenue. Total annual debt service for outstanding certificates of participation is approximately $36 million, which includes approximately $9 million paid from enterprise funds and approximately $10 million with respect to certificates of participation being refunded by the Series A Certificates.*

(Footnotes continued on next page.)

(Continued footnotes.)

(e) *In FY 1993-94, a one time funding of a property tax reserve for the Teeter Plan short-term notes was required. The increase for FY 1995-96 was due to the transfer of trial court funding from the Public Protection Program as described in (a) above.*

(f) *The State imposed a property tax shift to schools that is reflected by the reduction between FY 93-4 and FY 1994-95.*

(g) *The Teeter Plan restructuring changed the classification such that collections were classified as Taxes in FY 1993-94 and Fines, Forfeitures and Penalties in FY 1994-95.*

(h) *The increase in Use of Money & Property in the FY 1994-95 budget was based on anticipated investment earnings that were not realized due to the County bankruptcy and subsequently reduced in the FY 1995-96 budget.*

(i) *The increase in Miscellaneous Revenues is the result of a negotiated one-year transfer of normal cost contributions to OCERS for FY 1995-96 from the County's Pension Bond Investment Account held at OCERS, which account is generally used to pay the County's unfunded actuarial liability, rather than from the County General Fund.*

Source: Orange County Management and Budget Division.

Budget for Fiscal Year 1995-96

Due to the County bankruptcy, the budget process for Fiscal Year 1995-96 represented a major departure from established procedures and policies. In a routine budget year, the process involves County agencies and departments receiving budget instructions in early January to start preparation for the following fiscal year's budget, which begins on July 1. Budget submittals from County agencies and departments are received by the CEO at the end of March. Budget negotiations between the CEO and the various County agencies and departments proceed over the following two months. Program needs and estimated revenues are analyzed and validated. The Board of Supervisors would then approve a balanced proposed budget at the end of June for the ensuing fiscal year. As required by statute, public hearings would be scheduled in September and the Board of Supervisors would adopt a budget by October 2.

Following the County bankruptcy significant cuts to programs occurred during Fiscal Year 1994-95, and planning began for further cuts to be implemented by the beginning of Fiscal Year 1995-96. Specific budget reduction targets were determined, and County agencies and departments were required to submit budgets that met these targets. All agency and department budgets were due to the CEO by the end of February. On March 14, 1995 the Board of Supervisors received the adjusted budget for Fiscal Year 1994-95, which reflected cuts to be rolled forward for the required Fiscal Year 1995-96 budget target and a contingency fund of $5 million (reduced from $20 million). Public hearings were held on March 14 and 15, and for all practical purposes, the proposed budget for Fiscal Year 1995-96 was completed on March 30, 1995. The Board of Supervisors adopted a final budget for Fiscal Year 1995-96 on September 26, 1995. As required by law, the Fiscal Year 1995-96 budget was balanced. It allows for payment of all current debt service on outstanding long-term bonds, as well as all long-term leases of the County.

Since the adoption of the final budget in September, 1995, the CEO's Office has worked with agencies and departments to closely monitor expenditures and revenues, identify problem areas and initiate action where possible.

On December 20, 1995, the "Coordinated Trial Courts of Orange County" (the "Trial Courts") directed a "Notice of Deficiency" to the Board of Supervisors that communicated a request for additional Fiscal Year 1995-96 funding for Trial Court operations. The aggregate amount of the shortfall originally claimed by the Trial Courts was $31.7 million, which was subsequently reduced to $26.8 million. The funding dispute with the Trial Courts for Fiscal Year 1995-96 was resolved on May 21, 1996 based upon State matching funds provided pursuant to urgency legislation (Senate Bill 99) and additional County appropriations. No assurances can be given that the State will make adequate funds available in future fiscal years to fund the Trial Courts and/or the County will appropriate moneys sufficient, in the opinion of the Trial Courts, to fund the Trial Courts' operations, or whether in future years the Trial Courts will issue orders directing the County to make additional money available or what remedies may be available to the Trial Courts to enforce such an order.

Proposed Budget for Fiscal Year 1996-97

The County is currently in the process of preparing the Fiscal Year 1996-97 budget, and has returned to normal budget schedules while continuing to fully analyze mandated requirements and service levels to streamline the budget wherever possible. Fiscal Year 1996-97 budget submittals from County agencies and departments were received by the CEO on or before April 15, 1996.

The CEO Management and Budget staff are in the process of reviewing these requests with agencies and departments and analyzing those requests in the context of budget development instructions and available financing. The CEO directed agencies and departments to build a zero base budget, assuming maintenance of existing, but no increase in, service levels or programs. All increases in programs, service levels, or staffing are to be identified as budget augmentation requests. Augmentation requests will be prioritized and considered by the Board of Supervisors as additional financing is identified. The County is also in negotiations with OCERS to reduce the County's payments to OCERS. If the requested changes are not made, payments to OCERS from the County General Fund would increase by up to $14 million over Fiscal Year 1995-96 (during which the County's total pension obligations were paid from the Investment Account funded with proceeds of the Series 1994A and Series 1994B Pension Bonds originally issued for the purpose of paying unfunded accrued actuarial liability).

A balanced proposed budget will be presented to the Board of Supervisors for approval on June 25, 1996. The revenue received by the County General Fund, not specific to a program or service and referred to as "General Purpose Revenue," will be budgeted at the current level of $275 million. This revenue is somewhat discretionary in that its use is not mandated to a specific program or service, although there are demands on the use of the funds to the extent they are required to make the County's match or cost-share for programs requiring a County contribution. That contribution along with County costs that have no other funding source are known as the "net county cost" and are funded by General Purpose Revenue. It is anticipated that General Purpose Revenue for the County's net county cost will be available at approximately $275 million for the proposed budget, which amount will allow the County to maintain current levels of service and programs.

The State is one of the County's largest revenue sources. The County cannot predict at this time what impact the new State budget will have on its finances, nor is it able to predict what actions the State may take in adopting future budgets either to reduce or augment revenues to local governments. In addition, the County cannot predict the impact on its future finances of other

factors, such as population increases, additional demand for County services or general economic factors that may materially adversely affect County revenues. The County remains committed, however, to maintenance of a balanced budget and timely debt repayment.

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. 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 which 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. Because of the recent decrease in property values in certain areas of the State, certain counties have announced that they will review the assessed value of properties within those counties. See APPENDIX A -- "THE COUNTY OF ORANGE DEMOGRAPHIC AND ECONOMIC OVERVIEW--Assessed Valuation."

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 Constitution of the State of California ("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 has 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 July 1, 1990, which implemented Proposition 111, the County has determined that its appropriations limit for "proceeds of taxes" for Fiscal Year 1995-96 is $1,150,600,577. Pursuant to the Fiscal Year 1995-96 budget, "appropriations subject to the limitation" are $213,950,454, or $936,650,123 under the limit.

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 for county or city documentary transfer taxes) 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.

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 estimates that it will collect approximately $53,200 as a result of this increase in Fiscal Year 1995-96 and that approximately $761,362 has been collected as a result of this increase between September, 1990 (when the increase became effective) and December, 1995. If a court determined that the 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.

LITIGATION AND GOVERNMENTAL ACTIONS

Concerning the Series A Certificates

The execution and delivery of the Series A Certificates, the Lease, the Site Lease, the Assignment Agreement and the Trust Agreement have been approved by an Order of the Bankruptcy Court confirming the Plan of Adjustment issued on May 16, 1996, and by separate Order of the Bankruptcy Court approving the Series A Certificates, issued on May 24, 1996. No litigation is pending or threatened concerning the validity of the Series A Certificates, the Lease, the Site Lease or the Trust Agreement, and an opinion of the Office of County Counsel to that effect will be furnished to the Underwriters and the Certificate Insurer at the time of the execution and delivery of the Series A Certificates.

Certain Bankruptcy - Related Litigation

For a discussion of certain litigation relating to the bankruptcy of the County, see "COUNTY OF ORANGE BANKRUPTCY."

General Litigation Against the County

The primary sources of governmental tort liability include actions based upon a dangerous condition of public property, a negligent act or omission of an employee committed within the scope of employment and violation of another's civil rights. Any suit on a cause of action for money or damages not based upon contractual obligations, inverse condemnation, liability arising under the Federal Civil Rights Act or actions for declaratory or specific relief must be preceded by the filing of a claim with the County within six (6) months of the accrual of the cause of action ("Tort Claims"). The County has pending against it many Tort Claims and lawsuits based upon a variety of grounds. Except for certain insurance policies, County liability in most of these cases would be funded by the self insurance reserves maintained by the County in its Property and Casualty Insurance Service Fund (the "Property and Casualty Risk Fund").

Prepetition the County established the Property and Casualty Risk Fund to provide reserves for the ongoing costs of defending against Tort Claims, including their settlement and judgments. Prepetition the Property and Casualty Risk Fund was funded at approximately 60% of anticipated liabilities, and is currently funded at approximately 50% of anticipated liabilities; as of May 20, 1996, the Property and Casualty Risk Fund had a balance of $42,927,635, including $917,621 in post petition cash, $41,248,629 in prepetition funds and $700,385 in liquid receivables from County departments.

Generally, the County's Risk Management Department retains outside private counsel to defend Tort Claims and lawsuits and civil rights actions. The Office of the County Counsel generally represents the County's interests in lawsuits involving contractual obligations, inverse condemnation and property tax refunds, and not in matters involving Tort Claims.

As of the date on which the bankruptcy petition was filed, December 6, 1994 (the "Petition Date"), the County was the subject of approximately 240 tort lawsuits brought by approximately 820 entities and/or individuals and additional Tort Claims asserted by 630 entities and/or individuals based upon incidents occurring or arising prior to the Petition Date. Pursuant to the Bankruptcy Code, substantially all litigation and other claims pending against the County at the

Petition Date were stayed while the County continued its municipal operations. On September 28, 1995, the Bankruptcy Court ordered modification of the automatic stay provisions to allow commencement and continuation of actions attempting to enforce the Tort Claims. This order prevented the enforcement of any judgment against the County and established procedures allowing the County to settle certain Tort Claims without further order of the Bankruptcy Court. As of March 31, 1996, the County had 1,422 pending Tort Claims (both prepetition and post petition claims), including 268 lawsuits brought by approximately 730 entities and/or individuals.

In addition, $2.68 billion in proofs of claims, including a $1.7 billion claim by Westinghouse/Montrose (which in the opinion of the County is without merit), were filed with the Bankruptcy Court prior to the Bar Date, the last day for filing such claims. The County disputes a majority of these claims, both as to the liability and the amount asserted, and such disputed claims, if allowed, would be treated as described herein under "COUNTY OF ORANGE BANKRUPTCY--Plan of Adjustment."

In general, if parties asserting Tort Claims against the County prevail, the County's payment obligation is borne by the County General Fund. See "RISK FACTORS--Constrained General Fund Budget." In the opinion of the Office of County Counsel, if a substantial portion of the aforementioned Tort Claims, proofs of claims, other claims or other pending or threatened litigation is determined in a manner adverse to the County, in the aggregate, such awards could materially impair the County's General Fund Budget.

Governmental Investigations

Subsequent to the County's bankruptcy filing, various governmental authorities have conducted or are conducting investigations into the matters surrounding the County's bankruptcy.

California Senate Hearings. In response to the County's bankruptcy filing, the California Senate formed a special committee to investigate a variety of issues including local agency investment activity. The Senate Special Committee on Local Government Investments held public hearings on the County's bankruptcy, and its Board of Advisors issued a February 16, 1995 Preliminary Report to the Senate Special Committee analyzing the causes of the County's bankruptcy filing, and recommending a series of legislative enactments relating to local agency investments.

California State Auditor Report. On March 28, 1995, California's State Auditor issued a report critical of the investment strategy and practices pursued by the former Treasurer. The report found, among other things, that the Treasurer violated the basic principles of prudent investing, made investments that were unsafe, highly risky and extremely volatile, leveraged the portfolio more than 2.7 times, invested more than 40% of available funds in inverse floaters and other structured securities, used reverse repurchase agreements in an extreme and inappropriate manner in the management of public funds and obtained excessive leverage through their use, and violated his trust responsibilities by altering accounting records and misallocating earnings and losses. The State Auditor is continuing to review the County's restructuring and recovery efforts.

Orange County District Attorney and Grand Jury Investigations. The Orange County District Attorney is conducting a criminal investigation relating to events preceding the County's bankruptcy. In connection with such investigation, the Grand Jury acted to indict the former Treasurer, who pleaded guilty to two felony counts of violating Corporation Code Section 25401, making untrue material statements in connection with the sale of securities, and to

four felony counts of violating Penal Code Section 424, related to misappropriation of public funds, the failure to transfer public funds, and maintaining false entries in a public record. In addition, the former County Assistant Treasurer has been indicted on the same six felony counts. He has pleaded not guilty to all such counts. Finally, the former County Budget Director has been indicted on two felony counts of aiding and abetting the former Treasurer in misappropriating public funds and unlawful failure to transfer public funds, and is currently awaiting trial.

The Grand Jury also issued Accusations of Willful Misconduct in Office against Board of Supervisors members Roger Stanton and William Steiner and Auditor-Controller Steven Lewis. If convicted, the penalty for willful misconduct in office is removal from office. All three currently await trial.

Securities and Exchange Commission. The Securities and Exchange Commission (the "SEC") and the Commodities Futures Trading Commission (the "CFTC") are each conducting investigations of the Pool and County bond offerings. Pursuant to a formal order of investigation, and after a year-long investigation of the County's financial crisis and subsequent bankruptcy, on January 24, 1996, the SEC instituted a public administrative cease and desist proceeding against the County, the Orange County Flood Control District (the "OCFCD"), and the Board of Supervisors. On the same date, the SEC accepted the County's, OCFD's and the Board's offer of settlement and issued a cease and desist order against the County, the OCFCD, and the Board of Supervisors.

In a report filed by the SEC pursuant to Section 21(a) of the Securities Exchange Act of 1934, the SEC made numerous factual and legal findings concerning eight municipal securities offerings by the County. The SEC found that the County and the OCFCD made material misrepresentations and omissions in the official statements of each offering and that the Board of Supervisors authorized the disclosure of such material misrepresentations. In particular, the SEC found that many of the official statements failed to disclose some or all of the following: (1) the investment strategy for the Pools, (2) the results of the investment strategy for the Pools and the risks thereof, (3) the manipulation of the yield on investments allocated to the Pools, (4) the investments allocated to the Pools of moneys pledged to repay certain securities, (5) the County's financial condition, including its economic reliance on the investment results of the Pool, (6) facts relating to the tax-exempt status of certain offerings, (7) the interest rate cap on certain securities, and (8) the absence of consent to use of an outside auditor's report.

As a result, the SEC found that the County, the OCFCD, and the Board had made misrepresentations and omissions of material facts with scienter and had thus violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder. The County, without admitting or denying the SEC's findings, consented to the entry of a cease and desist order providing that, among other things, Orange County and the Board shall cease and desist from committing or causing any violation and any future violation of Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and shall comply with certain undertakings described in the cease and desist order (including the obligation to cooperate with Commission staff in preparing for and presenting any civil litigation or administrative proceedings concerning the transactions that are the subject of the Order).

Internal Revenue Service. In early April 1996, the County received a notification letter from the Internal Revenue Service (the "Service") indicating that the County's Series A TRANs and Series B TRANs have been selected for examination with respect to tax-exemption compliance requirements. The Service has requested various documents and information from the County. The

County has and will respond appropriately to any request for information. In the opinion of Special Counsel, the result of the examination will not, in and of itself, adversely affect the federal income tax treatment of the interest evidenced by and payable with respect to the Series A Certificates.

Other Investigations. Other investigations in connection with the bankruptcy have been or are being conducted by the U.S. Attorney's Office in conjunction with a federal grand jury, the California Department of Corporations and the California Legislature. The County is cooperating with all of these investigations.

Actions Brought By County

The County has engaged in an extensive investigation of certain prepetition events and transactions that could give rise to claims by or on behalf of the County, primarily focused on: (i) the brokers who sold securities to the County; (ii) the brokers who lent the County moneys pursuant to reverse repurchase agreements, including those brokers who the County asserts have unlawfully liquidated securities purportedly held as collateral; (iii) the County's former accountants; and (iv) the attorneys who advised the County in connection with or who otherwise participated in several of its financing transactions. The County's investigation and analysis, which have included extensive legal and factual research, will aid the County in assessing whether claims properly can be asserted against such professionals, and the likelihood of prevailing thereon. While this investigation has resulted in the filing of certain lawsuits described below, the investigation is not complete. The following description of claims and potential defendants therefore is not exhaustive.

While the County believes that it has asserted valid and substantial claims against the defendants discussed below, no assurance can be given that the litigation will have a successful outcome. The claims being asserted by the County will be in excess of $3 billion and will be based on a multitude of legal theories. In addition, the various defendants can be expected to assert numerous defenses at trial and through multiple appeals. Litigation of this magnitude and complexity is, by its very nature, lengthy, difficult, expensive and, most importantly, uncertain in outcome. There can be no assurance that recoveries, if any, will be material, nor can any assurance be made as to the timing of any recoveries.

Additionally, even if the County were successful in its litigation against any of the defendants, because of the magnitude of the damages the County is seeking or anticipates seeking, full recovery of any amounts adjudged against any of the defendants may not be possible if such defendants do not have sufficient assets, financial resources, or insurance coverage, if any, to satisfy any judgment. Finally, due to the complex formula for the distribution of litigation proceeds contained within the Plan of Adjustment, any litigation proceeds received with respect to such litigation will be shared by County and Pool participants. See "COUNTY OF ORANGE BANKRUPTCY--Means of Implementation of the Plan."

Litigation by the County Against Merrill Lynch. On January 12, 1995, the County filed an adversary proceeding in the Bankruptcy Court against Merrill Lynch and Co., Inc., Merrill Lynch Pierce Fenner & Smith, Inc., Merrill Lynch Government Securities, Inc., Merrill Lynch Capital Services, Inc. and Merrill Lynch Money Markets, Inc. (collectively "Merrill Lynch"). On a motion by Merrill Lynch, the Bankruptcy Court dismissed the County's First Amended Complaint in October 1995. The County subsequently filed a Second Amended Complaint and Merrill Lynch renewed its motion to dismiss. On December 1, 1995, the Bankruptcy Court denied Merrill Lynch's

motion. Merrill Lynch has sought to file an interlocutory appeal of the order denying the motion to dismiss, which motion for leave to appeal is pending.

The County's current pending Second Amended Complaint (the "Merrill Complaint") alleges that Merrill Lynch violated state and federal laws in the course of Merrill Lynch's relationship with the County, and that Merrill Lynch violated various provisions of the Bankruptcy Code in connection with its attempt to enforce the claims against the County. The Merrill Complaint alleges claims on behalf of the County and, pursuant to the Settlement Agreement and the Joint Agreement, on behalf of the Option A Pool Participants. The Merrill Lynch Complaint seeks damages in excess of $2 billion and injunctive and other relief. Merrill Lynch has denied nearly all of the County's allegations and asserted 33 affirmative defenses.

Litigation by the County Against KPMG Peat Marwick. On December 20, 1995, the County filed an adversary proceeding in the Bankruptcy Court against KPMG Peat Marwick, KPMG Peat Marwick, LLP, Klynveld Peat Marwick Goerdeler, Margaret J. McBride, Howard Bland and John Madonna, individually and as representatives of the class of all partners and principals of the foregoing defendants (collectively, "KPMG").

KPMG was engaged by the County to provide independent annual audits of the financial statements of the County for Fiscal Years 1992, 1993 and 1994. (The Fiscal Year 1994 audit was not completed by KPMG). The KPMG Complaint contends that, as part of its contract with the County, KPMG agreed to, among other things, conduct an examination of the County's financial statements, review investment vehicles for compliance with policy, test debt obligations for compliance with bond resolutions, and prepare a separate management letter regarding any significant findings which came to KPMG's attention, including any noncompliance with laws, and any material weaknesses in internal accounting controls. The KPMG Complaint seeks recovery of damages in excess of $2 billion against KPMG for breach of contract, professional negligence, and for express indemnity. KPMG publicly has denied any liability to the County for claims asserted in the KPMG Complaint, and has indicated it intends vigorously to oppose the lawsuit.

Potential Litigation by the County Against LeBoeuf, Lamb, Greene & MacRae. The County is investigating potential claims against LeBoeuf, Lamb, Greene & MacRae ("LeBoeuf, Lamb"), and its partner, Jean M. Costanza ("Costanza"). LeBoeuf, Lamb and Costanza acted as bond counsel on the County's 1994 short-term debt issuance, including the Series A TRANs, the Series B TRANs, the Teeter Notes and the Taxable Notes. Under LeBoeuf, Lamb's contract with the County, LeBoeuf, Lamb was responsible for assisting in the preparation and review of all documents connected with the County's short-term debt and for advising the County on all aspects of such offerings. Pursuant to the contract, LeBoeuf, Lamb also agreed to indemnify the County for claims for damages in connection with LeBoeuf, Lamb's legal services. The County currently is investigating causes of action for breach of contract, professional negligence, breach of fiduciary duty, and express indemnity against LeBoeuf, Lamb and its partners.

The County entered into a Tolling Agreement with LeBoeuf, Lamb and its partners which preserves the County's claims against LeBoeuf, Lamb until July 11, 1996. Either party may terminate the Tolling Agreement on an earlier date upon 60 days' notice. Under the Tolling Agreement, the County agreed to give LeBoeuf, Lamb 20 days' notice prior to asserting claims against LeBoeuf, Lamb in any proceeding. The County provided such notice to LeBoeuf, Lamb on December 15, 1995.

Potential Litigation by the County Against Other Brokers. On December 9, 1994, the County filed an adversary proceeding against Nomura Securities Company ("Nomura") for liquidating, subsequent to the Petition Date, approximately $1.07 billion of bonds and structured notes that Nomura purportedly held as collateral to secure County obligations. The County contends that Nomura's liquidation of these bonds and notes despite its knowledge of the pendency of the bankruptcy case violated the automatic stay provisions of Sections 362(a) and 922(a) of the Bankruptcy Code. The County contends that Nomura's unlawful liquidation renders the liquidation void and entitles the County to recover, among other things, all losses caused by such liquidation. The County has similar claims against certain other brokers who liquidated securities.

The County voluntarily dismissed the original suit against Nomura after the County and Nomura entered into a tolling agreement, whereby each agreed that neither party would commence any legal proceedings against the other during the pendency of the tolling agreement. Either party may terminate the tolling agreement upon 45 days' written notice. The County now is evaluating the filing of a complaint against Nomura to expand the action to include other legal theories, and the County is investigating whether to file similar claims against certain other brokerage houses.

The County sustained investment losses on inverse floaters and other derivative investments and received loans through reverse repurchase agreements from a number of broker/dealers. The County has not completed its analysis regarding investment losses sustained on derivative securities, or claims related to reverse repurchase agreements, or whether to bring any actions as a result.

Potential Pool-Related Litigation by the County Against Other Professionals. During the course of rendering investment advice, assisting in bond offerings or providing other financial services, various other financial and legal firms might have become aware of the risks associated with the County's investment policy and the significant risk of loss to securities allocated to the Pool. Such professionals include but are not limited to Leifer Capital, Inc., Brown & Wood, Rauscher, Pierce Refsnes, Inc., O'Brien Partners, Inc., and Stradling, Yocca, Carlson & Rauth. The County intends to investigate potential claims it may have against these firms.

The foregoing does not attempt to list all potential Pool-related causes of action that might be commenced by the County. The County expressly has reserved its right to pursue Pool-related litigation against all brokers, dealers, attorneys, financial advisors and other professionals who have dealt with the County. The investigation is not yet sufficiently complete to permit a full analysis and evaluation of the County's potential claims against such persons and entities.

TAX MATTERS

In the opinion of Special Counsel, assuming (among other things) continuing compliance by the County with certain covenants relating to requirements contained in the Internal Revenue Code of 1986, as amended (the "Code"), interest evidenced and represented by the Series A Certificates is not includable in the gross income of the Owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest evidenced and represented by the Series A Certificates is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes and the corporate environmental tax imposed by the Code.

However, interest evidenced and represented by the Series A Certificates is includable in the "adjusted current earnings" of a corporate owner of the Series A Certificates and 75% of such interest is thus includable in the tax base for computing a corporation's liability with respect to the 20% alternative minimum tax and the 0.12% environmental tax that are imposed on corporations by the Code. (Although such 0.12% corporate environmental tax is currently scheduled to terminate for taxable years beginning after December 31, 1995, legislation that is now pending in Congress would extend the tax for an additional year.) Moreover, interest evidenced and represented by the Series A Certificates may be subject to a branch profits tax of up to 30% when owned by certain foreign corporations. Furthermore, interest evidenced and represented by the Series A Certificates may be subject to tax at ordinary income rates when owned by "S Corporations" in certain cases.

Special Counsel is also of the opinion that interest evidenced and represented by the Series A Certificates is exempt from personal income taxes imposed by the State of California under existing statutes and court decisions.

The Code imposes various requirements relating to the exclusion from gross income for Federal income tax purposes of the interest that is evidenced and represented by the Series A Certificates. The County has covenanted in certain documents relating to the Series A Certificates to comply with certain restrictions which are designed to insure that the interest which is evidenced and represented by the Series A Certificates will not be included in gross income for Federal income tax purposes. Failure to comply with these covenants may result in the interest which is evidenced and represented by the Series A Certificates being included in gross income for Federal income tax purposes, possibly from the date of original issuance of the Series A Certificates. The opinion of Special Counsel assumes compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of original issuance of the Series A Certificates may adversely affect the Federal or State of California income tax treatment of the interest that is evidenced and represented by such Series A Certificates.

Certain requirements and procedures that are contained or referred to in the Lease and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series A Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to any of the Series A Certificates or the interest which is evidenced and represented thereby if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Willkie Farr & Gallagher.

Although Special Counsel expresses no opinion regarding other tax consequences arising with respect to the Series A Certificates, Special Counsel nevertheless notes that the following ancillary Federal income tax consequences may apply to certain owners of the Series A Certificates:

(1) The Code provides that interest evidenced and represented by the Series A Certificates is includable in the calculation of modified adjusted gross income for purposes of determining whether a portion of Social Security or Railroad Retirement Benefits are to be included in the taxable income of individual owners of the Series A Certificates.

(2) For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to individuals otherwise eligible for such credit if the aggregate amount

of their disqualified income for the taxable year exceeds $2,350. Interest evidenced and represented by the Series A Certificates will constitute disqualified income for this purpose.

(3) In the case of property and casualty insurance companies that own the Series A Certificates, deductible underwriting losses will be reduced (in certain cases below zero) by a percentage of the interest evidenced and represented by the Series A Certificates.

(4) No deduction will be allowed to certain financial institutions (e.g., banks) for that portion of their total interest expense which is allocable to the Series A Certificates. For this purpose, the financial institution's total interest expense is allocated to the Series A Certificates in the same proportion that the financial institution's average adjusted basis of the Series A Certificates bears to the average adjusted basis of all of the financial institution's assets.

(5) In the case of owners of the Series A Certificates that are not financial institutions of the type described in (4) above, the owner will not be able to deduct interest expense on indebtedness of such owner that is, for Federal income tax purposes, deemed to be incurred or continued to purchase or carry the Series A Certificates.

Legislation affecting the Federal income tax treatment of interest paid on municipal obligations such as the Series A Certificates is constantly being considered by Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Series A Certificates will not have an adverse effect on the tax-exempt status or market price of the Series A Certificates.

Owners of the Series A Certificates should consult their own tax advisors with respect to calculations of the corporate alternative minimum tax, the corporate environmental tax, foreign branch profits tax liability and taxes imposed on "S Corporations" as well as with respect to the inclusion of Social Security or Railroad Retirement Benefits in taxable income, the denial of the earned income credit or the denial of interest deductions with respect to indebtedness that is allocable or deemed allocable to ownership of the Series A Certificates.

Original Issue Discount. The Series A Certificates with final Certificate Payment Dates in each of the years from 1998 through 2001, inclusive, in each of the years from 2003 through 2005, inclusive, and in 2009, 2010, 2016, 2019 and 2026 (collectively, the "OID Certificates") are being offered to the public at prices which are below the respective principal amounts of such OID Certificates. The amount by which the principal amount on the final Certificate Payment Date of an OID Certificate exceeds the first price at which a substantial amount of OID Certificates with the same final Certificate Payment Date was sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) constitutes original issue discount for federal income tax purposes and State of California personal income tax purposes (hereinafter, "Original Issue Discount"). An owner who acquires an OID Certificate in the original offering will be treated as receiving on each day from the date of execution and delivery of such OID Certificate interest that is attributable to such Original Issue Discount and which is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes in an amount determined pursuant to the economic accrual method that is required by the Code. To determine the amount of the Original Issue Discount which is considered to be received on each day by a holder who acquires an OID Certificate in the original offering, the period between the execution and delivery date of the

OID Certificate and the final Certificate Payment Date of such OID Certificate is first subdivided into a series of shorter periods (the "accrual periods"). Accrual periods may be of any duration that is selected by a holder of an OID Certificate and may vary in length over the term of the OID Certificate so long as each accrual period is no longer than one year and each scheduled payment of principal and interest that is evidenced and represented by such OID Certificate occurs on either the first day or the last day of an accrual period. For purposes of this discussion, the first accrual period is assumed to begin on the date of execution and delivery of Series A Certificates and end on July 1, 1996 and the remaining accrual periods are all assumed to be six-month periods ending on each successive January 1st and July 1st thereafter during the term of the OID Certificate. A portion of the Original Issue Discount is then allocated to each accrual period in an amount equal to the product of the issue price of the OID Certificate (increased by the amount of the Original Issue Discount allocated to all prior accrual periods) and the yield to the maturity of the OID Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The amount so allocated to an accrual period is reduced by the stated interest that is evidenced and represented by the OID Certificate during and with respect to such accrual period. The Original Issue Discount allocated to a particular accrual period is then allocated ratably to each day in the accrual period. The amount representing Original Issue Discount that is treated as being received by an owner of an OID Certificate will be added to the owner's tax basis for purposes of determining gain or loss upon a sale or prepayment of an OID Certificate for both federal income tax purposes and State of California personal income tax purposes. Unearned Original Issue Discount and prepayment premiums, if any, received by an owner of an OID Certificate upon any prepayment of an OID Certificate will not constitute interest that is excluded from gross income for federal income tax purposes and will not constitute interest that is exempt from State of California personal income taxes. Purchasers of OID Certificates are advised that they should consult their own tax advisors with respect to the tax consequences of owning such OID Certificates, including the treatment of purchasers who do not purchase such OID Certificates in the original offering at the first price at which a substantial amount of OID Certificates with the same final Certificate Payment Date was sold to the public.

UNDERWRITING

The Series A Certificates are being purchased by Goldman, Sachs & Co. and A.G. Edwards & Sons, Inc. (collectively, the "Underwriters") from the County. The Underwriters have agreed to purchase the Series A Certificates at a purchase price equal to $737,698,818.65 plus accrued interest, including an underwriters' discount of $11,412,000. The purchase contract pursuant to which the Series A Certificates are being sold provides that the Underwriters will purchase all of the Series A Certificates if any such Series A Certificates are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell the Series A Certificates to certain dealers and others at a price lower than the offering price stated on the inside cover page hereof. The offering price may be changed from time to time by the Underwriters.

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 percent of full cash value. Under Proposition 13, Article XIII A of the California Constitution, the value may be adjusted annually by not more than two percent to account for inflation. When property is transferred or new construction occurs it is assessed at its then cash value. 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.

California law provides exemptions for owner-occupied residences and business inventories. Under state law, revenues lost to local governments due to the owner-occupied residence exemption are reimbursed by the State.

The following table shows a history of assessed valuations in the County since Fiscal Year 1989-90. Fiscal Year 1995-96 total assessed value is $176,757,158,595.

TABLE A-14

COUNTY OF ORANGE
DETAIL OF ASSESSED VALUATION

Fiscal Year	Secured	Unsecured	Total	% Change
1989-90	$130,484,245,939	$11,457,476,971	$141,941,722,910	--
1990-91	146,563,134,928	11,779,062,243	158,342,197,171	11.55%
1991-92	156,946,653,730	13,204,482,266	170,151,135,996	7.46
1992-93	165,318,079,807	13,216,054,195	178,534,134,002	4.93
1993-94	166,543,083,303	12,218,374,405	178,761,457,708	0.13
1994-95	165,693,754,508	11,281,189,833	176,974,944,341	-0.99
1995-96	165,339,528,462	11,417,630,133	176,757,158,595	-0.10

Source: Orange County Auditor-Controller Department.

Note: Figures in table include incremental value for redevelopment agencies and reflect exclusion of business inventory valuations.

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 as of the preceding March 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.

TABLE A-15

COUNTY OF ORANGE
PROPERTY TAX LEVIES AND COLLECTIONS
GENERAL FUND
(IN THOUSANDS)

Fiscal Year	Secured Tax Levy	Unsecured Tax Levy	Total Tax Levy	Total Tax Collections through June 30	Outstanding Delinquent Taxes	Ratio of Delinquency to Tax Levy
1983-84	$106,336	$9,517	$115,853	$111,299	$4,554	3.93%
1984-85	119,780	10,305	130,085	125,513	4,572	3.51
1985-86	131,352	11,467	142,819	138,121	4,698	3.29
1986-87	143,664	12,344	156,008	151,184	4,824	3.09
1987-88	158,160	13,256	171,416	166,856	4,560	2.66
1988-89	172,607	14,081	186,688	182,160	4,528	2.43
1989-90	192,755	16,488	209,243	202,746	6,497	3.11
1990-91	215,137	16,794	231,931	222,904	9,027	3.89
1991-92	229,982	18,218	248,200	237,443	10,757	4.33
1992-93	224,726	17,613	242,339	231,105	11,234	4.64
1993-94	93,369	6,336	99,705	96,507	3,198	3.21
1994-95	91,611	6,284	98,195	95,516	2,819	2.87

Source: Orange County Auditor-Controller Department.

Note 1: Beginning in 1993-94, levies & collections decreased due to a shift of property tax revenue from cities, counties & special districts to education.

Note 2: Table includes tax levies and collections for General Fund only. It does not include property tax levies and collections for other fund types.

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 June 30 of the fiscal year for which the tax was levied, the property securing the taxes 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 following the year for which the tax was levied. Properties may be redeemed under an installment plan by paying current taxes plus 20% of delinquent taxes for five years. If 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. Since Fiscal Year 1993-94, secured property tax delinquencies are reimbursed by the Teeter Plan, which pays all participating agencies' share of secured property tax delinquencies. Participation in the Teeter Plan essentially reduces the County General Fund secured delinquency to zero.

Pension Obligations

The County meets its pension obligations through its contributions to the Orange County Employees Retirement System ("OCERS"), a contributory plan covering substantially all County employees. As of December 31, 1995, there were 18,009 active members and 6,359 pensioners in OCERS. During the year ended December 31, 1994, members contributed approximately $41.7 million and the County and participating districts (as listed below) contributed approximately $71.7 million.

Those entities paying into OCERS, inclusive of the County, are included on Table A-16.

TABLE A-16

COUNTY OF ORANGE
ENTITIES PAYING INTO OCERS

Name of Entity	Percent
County (including Orange County Fire Authority)[1]	94.17%
Orange County Transportation Authority	3.21
Orange County Sanitation District	1.55
University of California, Irvine	.35
City of San Juan Capistrano	.21
Transportation Corridor Agency	.20
Orange County Vector Control District	.11
Capistrano Water District	.05
Department of Education	.04
Orange County Cemetery District	.04
Orange County Law Library	.04
Cypress Park & Recreation District	.03
Total	100.00%

Source: Orange County Retirement Office.

(1) *On December 6, 1994 the Board of Supervisors approved a Joint Powers Agreement forming the Orange County Fire Authority, previously the Orange County Fire Department. After taking into account transfer of Fire Department employees and related pension obligations to the OCFA, the County represents approximately 85% of payments into OCERS.*

The County's contributions to the pension fund are composed of two primary components, the normal contributions and the Unfunded Actuarial Accrued Liability (UAAL). OCERS uses a Projected Unit Credit methodology to determine County's normal contributions. The difference between the current assets, plus the projected normal contributions, and the pension system's projected liabilities, constitutes the UAAL. On December 31, 1994, the UAAL had a present value of $372 million. The County is obligated to pay its share of this amount by June 30, 2008. The County's portion of the UAAL has been amortized with funds in an investment account (the "Pension Bond Investment Account") established by OCERS and funded by the County in connection with the issuance of its Taxable Pension Obligation Bonds Series 1994A and Series 1994B. Earnings on and principal from the Pension Bond Investment Account will be used to pay the County's portion of the UAAL until the end of the UAAL amortization

period or until the UAAL no longer exists. See "BUDGET INFORMATION RELATING TO THE COUNTY--Proposed Budget for Fiscal Year 1996-97."

Insurance

Since Fiscal Year 1986-87, the County has been completely self-insured for workers' compensation and general liabilities. The County's self-insurance program is operated through two internal service funds, one for workers' compensation and one for general liabilities, and is administered and controlled by the County's Chief Executive Officer/Risk Management Division. The Risk Management Division is staffed by County employees and supplemented by contract consultants and administrators.

An actuarial study is completed at the end of each fiscal year. The study for Fiscal Year 1994-95 estimated that the County would have total outstanding liabilities of approximately $98.9 million as of June 30, 1995. Beginning with Fiscal Year 1986-87, the Workers' Compensation and General Liability budgets included funding to be applied against the total outstanding liabilities. The Risk Management Division has stated a goal of funding ten percent of the total liabilities each year until the outstanding liabilities are 50% funded. The current funding level is approximately 50% of the total outstanding liabilities.

Financial Statements

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

The County uses the modified accrual basis of accounting (except for proprietary funds which are on a full accrual basis) with revenues being recorded when available and measurable and expenditures recorded when services or goods are received, and with all unpaid liabilities being accrued at year end. All of the financial statements contained herein, with the exception of the statements for the proprietary fund types, have been prepared on this modified accrual basis.

The County Auditor-Controller maintains the accounting system and records of account for all County funds. A separate internal audit division provides continuous reports to the Board of Supervisors. Legal compliance audits are conducted by State Controller auditors. All audits are reviewed by the Board of Supervisors.

The information in the following financial table for Fiscal Years 1990-91 to 1994-95 was prepared from information in either the County's Comprehensive Annual Financial Reports ("CAFR") or General Purpose Financial Statements ("GPFS"). The CAFR and GPFS are prepared by the County Auditor-Controller and audited by an independent certified public accounting firm each year.

TABLE A-17

COUNTY OF ORANGE
COMBINED STATEMENT OF GENERAL FUND
REVENUES AND EXPENDITURES
(IN THOUSANDS)

	1990-91	1991-92	1992-93	1993-94	1994-95
REVENUES					
Taxes	$281,750	$282,620	$261,095	$168,655	$110,123
Licenses, Permits & Franchises	5,518	5,922	5,441	5,861	5,612
Fines, Forfeitures & Penalties	17,155	13,744	10,838	35,712	39,600
Use of Money and Property	27,168	43,129	70,571	81,107	89,291
Investment Pool Loss	-	-	-	-	(24,099)
Intergovernmental Revenues	600,833	703,498	742,762	916,075	984,801
Charges for Services	208,337	212,357	207,540	208,771	226,142
Other Revenues	17,586	20,546	27,372	35,256	44,322
TOTAL REVENUES	$1,158,347	$1,281,816	$1,325,619	$1,451,437	$1,475,792
EXPENDITURES					
Current General Government	$133,257	$135,349	$116,959	$178,026	$126,065
Public Protection	437,448	460,681	465,026	502,269	514,340
Health and Sanitation	192,283	232,616	216,306	225,356	222,733
Public Assistance	368,848	432,076	481,192	508,691	533,194
Capital Outlay	16,499	89,664	19,969	15,709	22,935
Debt Service & Fiscal Charges	10,916	17,733	7,533	41,959	135,806
TOTAL EXPENDITURES	$1,159,251	$1,368,119	$1,306,985	$1,472,010	$1,555,073
Excess (Deficit) of Revenues Over/(Under) Expenditures	(904)	(86,303)	18,634	(20,573)	(79,281)
Other Financing Sources (Uses)					
Operating Transfers In	1,182	5,128	15,815	17,446	83,043
Operating Transfers Out	(1,116)	-	(20,469)	(34,103)	(242,953)
Bond Issuance Proceeds	-	77,633	-	-	200,000
Capital Lease Financing	-	3,750	1,086	1,294	2,644
Excess (Deficit) of Revenues & Other Sources Over (Under) Expenditures and Other Uses	(838)	208	15,066	(35,936)	(36,547)
Fund Balance July 1	121,859	118,894	114,424	135,192	97,302
Prior Period Adjustment	-	(3,791)	-	-	
Transfers From(To) Other Funds	(2,127)	(887)	5,702	(1,954)	(1,404)
FUND BALANCES (June 30)	$118,894	$114,424	$135,192	$97,302	$59,351

Source: Fiscal Years 1990-91 through 1994-95, except Fiscal Year 1993-94, County of Orange Comprehensive Annual Financial Reports. Fiscal Year 1993-94, County of Orange General Purpose Financial Statements for the year ended June 30, 1994.

Short Term Debt

In the past, the County has pursued a cash management program for its General Fund through the issuance of tax and revenue anticipation notes. 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.

TABLE A-18

COUNTY OF ORANGE
SHORT-TERM BORROWINGS

Fiscal Year	Amount
1988-89	$ 22,000,000
1989-90	41,000,000
1990-91	53,500,000
1991-92	76,000,000
1992-93	110,000,000
1993-94[1]	136,000,000
1994-95[2]	200,000,000

Source: Orange County Treasurer-Tax Collector.

(1) *1993-94 data excludes $400,000,000 in County of Orange taxable notes and $215,000,000 in Teeter Plan taxable notes.*

(2) *1994-95 data excludes $600,000,000 in County of Orange taxable notes and $155,000,000 in Teeter plan tax exempt and taxable notes. The amount reported is comprised of two tax and revenue anticipation note issues, 1994 Series A ($169,000,000) and 1994 Series B ($31,000,000), both of which have been reclassified as long-term debt in default and are expected to be repaid with the proceeds of the Series A Certificates.*

Outstanding Long Term Debt and Lease Obligations

As of June 30, 1995, the County had outstanding approximately $1,795,000 of general obligation bonded indebtedness, all of which is scheduled for retirement on or before Fiscal Year 1997-98. A statement of the County's general obligation bonded indebtedness follows:

TABLE A-19

COUNTY OF ORANGE
STATEMENT OF BONDED INDEBTEDNESS
GENERAL OBLIGATION
JUNE 30, 1995

Description of Bonds	Date of Bonds	Years of Maturity	Rate of Interest	Amount of Original Issue	Bonds Outstanding 6/30/95
County General Obligation Bonds	7/1/57	1958-1997	1.00% to 4.25%	$7,510,000	$590,000
County Sanitation District No. 12 Bonds	1/1/63	1966-1995	4.50%	$1,810,000	$110,000
Orange County Flood Control	2/1/57	1958-1996	.25% to 4.25%	$42,620,000	$1,095,000
Total Bonded Indebtedness				$51,940,000	$1,795,000

Source: County of Orange Comprehensive Annual Financial Report for year ended June 30, 1995.

Note: Table does not include Pension Obligation Bonds (Series 1994A and 1994B) issued on September 1, 1994 in an amount of $320,040,000 or the 1995 Recovery Bonds issued on June 16, 1995 in the aggregate principal amount of $278,790,000.

The County issued $242.4 million of revenue bonds to finance the construction of new facilities at John Wayne Airport in July 1987. In October 1990, the County issued $6.4 million of certificates of participation to finance the acquisition of loading bridges and baggage handling facilities. In June 1993, the County issued $79.8 million of revenue bonds for a partial refunding of the 1987 revenue bonds. These revenue bonds and certificates are secured and are primarily paid by a pledge of net revenues of the Airport Enterprise Fund and its right to receive such revenues. The outstanding principal balance of these bonds and certificates as of June 30, 1995, was $245.5 million.

In September 1994, the County issued $320.0 million in taxable Pension Obligation Bonds (the "Pension Bonds"). The Pension Bonds were issued in two series (1994A - $209.8 million, and 1994B - $110.2 million) to refund the County's obligation under a debenture issued in favor of OCERS to amortize the County's unfunded actuarial accrued liability to OCERS. The outstanding principal balance of the Pension Bonds as of June 30, 1995, was $320.0 million. The Series 1996A Pension Bonds will refund the Series 1994B Pension Bonds. See "PLAN OF FINANCING."

During the fiscal year ended June 30, 1994, the County issued non-taxable tax and revenue anticipation notes (Series A) in the amount of $169 million, which were scheduled to mature on July 19, 1995, and non-taxable tax and revenue anticipation notes (Series B) in the amount of $31 million, scheduled to mature on August 10, 1995. The County also issued taxable notes in the amount of $600 million, which were scheduled to mature on July 10, 1995. The maturities of these notes were extended as a result of the investment loss suffered and bankruptcy filed by the County. The County received

approval from more than 99% of the noteholders to extend these notes through June 30, 1996. The funding to repay the notes is to be derived from proceeds of the Series A Certificates as detailed in the Plan of Adjustment that was submitted to Bankruptcy Court. See "PLAN OF FINANCING" and "COUNTY OF ORANGE BANKRUPTCY--Plan of Adjustment."

In June 1995, the County issued $278.8 million of 1995 Recovery Bonds. The 1995 Recovery Bonds were issued to refund obligations that the County issued in partial satisfaction of claims of certain Investment Pool Participants pursuant to the Comprehensive Settlement Agreement between the County and such participants. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES--1995 Recovery Bonds."

In June 1995, the Orange County Special Financing Authority issued $155.0 million in taxable (1995 Series A - $32.4 million) and tax-exempt (1995 Series B through E - $122.6 million) Teeter Plan Revenue Bonds (the "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 these bonds as of June 30, 1995, was $155.0 million.

The County has caused certificates of participation to be sold to finance the construction of various County facilities or the acquisition of certain equipment. The certificates are dated December 30, 1985, July 1, 1986, December 1, 1988, April 1, 1991, August 1, 1991, November 15, 1991, June 1, 1992, and February 1, 1993. The outstanding principal balance of these certificates as of June 30, 1995, was $372.0 million. Approximately $83.2 million of these certificates will be paid from the County General Fund, and $288.8 million of the certificates will be paid from enterprise, internal service, or other governmental funding sources. On March 1, 1996, $16.6 million of certificates from the County's Master Lease Program (Master Lease 3) were prepaid. Additionally, a portion of the proceeds of the Series A Certificates will be used to prepay and refund $124.7 million of outstanding certificates of participation. This prepayment and refunding will decrease the current outstanding County General Fund share of certificates of participation to $20.6 million and the total outstanding certificates of participation to $219.1 million.

The County issued Master Lease Equipment Obligations dated September 1, 1988, and January 3, 1991. These obligations are secured by base rental payments on the acquired equipment. The total outstanding equipment obligations as of June 30, 1995, was $12.9 million, of which the County General Fund share was $7.8 million.

The Orange County Development Agency has issued tax allocation bonds that are paid from tax increment revenues. The Bonds are dated June 1, 1992, July 1, 1992, and August 1, 1993. The outstanding principal balance of these bonds as of June 30, 1995 was $88 million.

The County has formed 20 community facilities districts and assessment districts, 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, 1995 was $759 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 organized 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

As of June 30, 1995, the County was 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, as of June 30, 1995.

TABLE A-20

COUNTY OF ORANGE
CAPITAL LEASE PAYMENTS

Fiscal Year of Lease	General Long-Term Debt Account Group
1995-96	$2,320,000
1996-97	991,000
1997-98	39,000
1998-99	39,000
1999-2000	15,000
Total minimum lease payments	$3,404,000
Less: amount representing interest	(186,000)
Net minimum lease payments	$3,218,000

Source: County of Orange Comprehensive Annual Financial Report for year ended June 30, 1995.

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 following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group during Fiscal Year 1994-95.

TABLE A-21

COUNTY OF ORANGE
CHANGES IN CAPITAL LEASE OBLIGATIONS FOR THE GENERAL LONG-TERM DEBT ACCOUNT GROUP
(IN THOUSANDS)

	Lease Principal Outstanding July 1, 1994	Credits/Obligation Incurred During Year	Lease Principal Paid/Reduced During Year	Lease Principal Outstanding June 30, 1995
Total Capital Lease Obligations	$2,762	$2,644	$2,188	$3,218

Source: County of Orange Comprehensive Annual Financial Report for Fiscal Year ended June 30, 1995.

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, 1995.

TABLE A-22

COUNTRY OF ORANGE
OPERATING LEASE PAYMENTS
(IN THOUSANDS)

Fiscal Year	Equipment	Real Property	Total
1995-96	5,523	56,735	62,258
1996-97	816	54,192	55,008
1997-98	259	53,977	54,236
1998-99	103	49,694	49,797
1999-2000	31	45,857	45,888
Subsequent Years	-	277,375	277,375
TOTAL	$6,732	$537,830	$544,562

Source: County of Orange Comprehensive Annual Financial Report for year ended June 30, 1995.

Note: Total rent expenditures for operating leases incurred for FY 94-95 were $52,369.

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. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation.

TABLE A-23

County of Orange
Computation of Direct and Overlapping Bonded Debt
(as of June 30, 1995)

1994-95 Assessed Valuation **$162,810,614,348 (after deducting $14,164,329,993 redevelopment incremental valuation; includes unitary utility valuation)**

DIRECT AND OVERLAPPING BONDED DEBT	% Applicable	Debt 6/30/95
Orange County General Fund Obligations	100%	$290,974,000*
Orange County Pension Obligations	100	320,040,000
Orange County Transit Authority	100	21,100,000
Orange County Flood Control District	100	1,095,000
Orange County Water District Certificates of Participation	100	207,870,000
Metropolitan Water District	19.580	122,747,999
Municipal Water District of Orange County Water Facilities Corp.	100	88,135,000
Orange County Sanitation Districts Certificates of Participation	100	418,435,000
Community College Districts Certificates of Participation	100	42,008,364
Unified School Districts and Certificates of Participation	100	86,124,715
High School Districts and Certificates of Participation	91.408-100	9,866,460
School Districts and Certificates of Participation	100	11,627,184
Irvine Ranch Water District Certificates of Participation & Improvement Districts	100	368,900,000
Moulton-Niguel Water District Certificates of Participation & Improvement Districts	100	139,424,699
Santa Margarita Water District and Improvement Districts	100	331,845,000
Other Water Districts	100	54,945,000
Community Facilities Districts	100	956,832,868
Other Special Districts	100	19,663,000
Cities	100	58,465,000
City of Anaheim General Fund Obligations	100	261,087,087
Other City General Fund Obligations	100	434,415,473
City and Special District 1915 Act Bonds	100	431,744,851
County 1915 Act Bonds	100	184,258,107
TOTAL GROSS DIRECT AND OVERLAPPING BONDED DEBT		$4,861,604,807[1]
Less: Orange County Transit Authority (80% self-supporting)		16,880,000
Orange County Water District Certificates of Participation (100% self-supporting)		207,870,000
Anaheim self-supporting obligations (100% self-supporting)		202,794,487
MWDOC Water Facilities Corporation (100% self-supporting)		88,135,000
Other self-supporting bonds		5,540,000
TOTAL NET DIRECT AND OVERLAPPING BONDED DEBT		$4,340,385,320

(1) Excludes tax and revenue anticipation notes, revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations.

Ratios to Assessed Valuation:
Direct Debt ($611,014,000)..... 0.38%
Total Gross Debt..... 2.99%
Total Net Debt..... 2.67%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/95: $36,478,183

Source: California Municipal Statistics Inc., August, 1995.

* This amount does not include $278,790,000 Refunding Recovery Bonds, 1995 Series A issued on June 16, 1995.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 1994 AND JUNE 30, 1995

COUNTY OF ORANGE
GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1994

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Report of Independent Auditors

Board of Supervisors
County of Orange, California

We have audited the accompanying general purpose financial statements of the County of Orange, California, as of and for the year ended June 30, 1994, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further discussed in Note 1 to the financial statements, the County of Orange and the Orange County Investment Pool filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code on December 6, 1994 as a result of losses in the value of assets in the Orange County Investment Pool. In connection with the bankruptcy, the Orange County Investment Pool subsequently sustained and reported in the year ended June 30, 1995, a loss of $1.6 billion through the liquidation of the majority of its securities. At June 30, 1994, the Orange County Investment Pool was comprised substantially of the same securities held as of December 6, 1994. Due to the complex nature of a significant portion of the investments in the portfolio, management has not been able to determine market values for a significant portion of the investments in the portfolio as of June 30, 1994. As a consequence, the ultimate $1.6 billion loss reported in the year ended June 30, 1995 may be overstated by the portion of the loss, if any, attributable to the year ended June 30, 1994, and we were unable to otherwise ascertain whether any portion of the investment loss and related reduction in the carrying amount of investments is attributable to fiscal year 1994. As an additional consequence, management was unable to provide disclosure of the market value of investments and credit risk categorization required by generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to ascertain the market value of the investments, and except for the omission of disclosures related to market value of investments and credit risk categorization, the general purpose financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the County of Orange at June 30, 1994 and the results of operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in Notes 10 and 20 to the financial statements, in 1994 the County changed its method of accounting for advance refundings in accordance with Governmental Accounting Standards Board (GASB) Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," and retroactively changed its method of accounting for closure and postclosure care costs in accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," and implemented GASB Statement No. 14, "The Financial Reporting Entity."

As referred to above and more fully discussed in Note 1 to the financial statements, the County of Orange filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code on December 6, 1994, following considerable investment losses sustained by the Orange County Investment Pool in which most of the County's funds had been invested. As a result of the investment losses incurred, the subsequent liquidation of the pool investments and a related reduction in investment revenue, the County has experienced an operating shortfall in the 1995 fiscal year and is in default under the terms of a number of debt obligations. A balanced general fund operating budget is projected for the 1996 fiscal year by reducing service levels and the scope of operations. However, the principal and interest portion of the County's short-term notes due on June 30, 1996 and bankruptcy creditor claims have not been budgeted in 1996 for repayment. Management has developed its Plan of Adjustment ("the Plan"), which was filed in the Bankruptcy Court on December 21, 1995. The Plan anticipates that all County debtholders, vendors, and certain County-administered accounts and administrative undisputed claims will be paid current and required debt reserves will be replenished from the issuance of debt. The Plan also provides for legislatively enacted redirected revenues and incremental revenues from the importation of out-of-County waste and Teeter Plan distribution of surplus cash flows over the next 20 years to pay debt service on the new long-term debt and any remaining claims under the Plan. Additionally, in accordance with the Joint Agreement for Resolution of All Claims Against the County of Orange ("Joint Agreement"), certain noncounty pool participants claims of $819,000,000 will become nonrecourse against the County and will be repaid solely from litigation proceeds relating to County claims initiated against various advisors. The Plan and Joint Agreement are subject to various approvals including the Bankruptcy Court. The general purpose financial statements do not include any adjustments relating to the amounts and

classification of liabilities that might be necessary if the County of Orange, California is not able to meet its debts as they come due, or if such debts are adjusted under the provisions of Chapter 9 of the United States Bankruptcy Code.

Ernst + Young LLP

January 5, 1996,
except for items O and P of Note 29, as to which
the date is January 19, 1996 and January 24, 1996, respectively

COUNTY OF ORANGE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1994
(In Thousands)

	Total (Memorandum Only)	Governmental Fund Types	
		General	Special Revenue
ASSETS AND OTHER DEBITS			
Treasurer's Investment Pool (Notes 1, 2, 3)	$ 19,825,372	$ 2,585,674	$ 1,022,398
Imprest Cash Funds (Note 3, 18)	3,680	1,442	118
Restricted Investments with Trustee (Note 3)	237,061	2,996	20,055
Deposits In-Lieu of Cash	55,769	--	--
Receivables			
Accounts	25,367	7,622	4,123
Taxes (Note 2)	323,710	11,717	3,514
Interest/Dividends	100,571	26	22,375
Deposits	24,609	1,276	6,663
Notes (Note 4)	13,990	184	7,829
Advances	237	31	147
Allowance for Uncollectible Receivables	(1,316)	(892)	(395)
Due from Other Funds (Note 14)	286,360	122,905	126,996
Due from Other Governmental Agencies	126,747	60,288	13,914
Inventory of Materials and Supplies (Notes 2, 18)	1,153	882	271
Prepaid Costs/Expenses (Note 18)	1,044	951	--
Land and Improvements Held for Resale (Note 2, 18)	7,252	--	2,039
Land (Notes 2, 5, 13)	242,811	--	--
Structures and Improvements (Notes 2, 5, 13)	854,650	--	--
Accumulated Depreciation	(56,525)	--	--
Equipment (Notes 2, 5, 13)	251,906	--	--
Accumulated Depreciation	(34,489)	--	--
Construction in Progress (Note 5)	260,055	--	--
Bond Issuance Costs	3,801	--	--
Amount Available in Debt Service Funds	43,533	--	--
Amount to be Provided for Payment of General Long-Term Debt	404,932	--	--
Total Assets and Other Debits	$ 23,002,280	$ 2,795,102	$ 1,230,047
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities			
Accounts Payable	$ 81,858	$ 26,236	$ 7,239
Salaries and Employee Benefits Payable	46,153	39,557	4,418
Interest Payable	89,517	26	5,360
Deposits from Others	268,686	666	13,426
Monies Held for Others	5,332,315	--	255
Due to Other Funds (Note 14)	286,360	18,591	20,061
Due to Other Governmental Agencies	30,050	11,690	6,747
Unapportioned Taxes (Note 7)	370,480	--	--
Reverse Repurchase Agreements (Note 3)	12,627,365	2,583,626	594,925
Insurance Claims Payable (Note 2)	105,620	701	--
Deferred Revenue	21,999	16,707	1,767
Notes Payable (Notes 8, 9)	504,846	--	104,836
Landfill Site Closure Liability (Note 22)	110,346	--	--
Bonds Payable (Note 10)	727,509	--	--
Capital Lease Obligations Payable (Note 13)	2,762	--	--
Compensated Absences Payable (Note 2)	55,866	--	--
Arbitrage Rebate Payable (Note 11)	785	--	--
Estimated Litigation & Claims (Note 24)	150	--	--
Total Liabilities	20,662,667	2,697,800	759,034
Equity and Other Credits			
Investment in General Fixed Assets	1,078,724	--	--
Contributed Capital	84,703	--	--
Retained Earnings (Deficits) - Unreserved (Note 16, 20)	162,359	--	--
Fund Balances			
Reserved (Note 18, 20)	405,932	43,702	293,503
Unreserved			
Undesignated (Note 16)	607,895	53,600	177,510
Total Equity and Other Credits	2,339,613	97,302	471,013
Total Liabilities, Equity and Other Credits	$ 23,002,280	$ 2,795,102	$ 1,230,047

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

Governmental Fund Types (Cont'd)		
Debt Service	Capital Projects	
$ 420,094	$ 689,038	Treasurer's Investment Pool (Notes 1, 2, 3)
--	--	Imprest Cash Funds (Note 3, 18)
39,833	16,662	Restricted Investments with Trustee (Note 3)
--	--	Deposits In-Lieu of Cash
		Receivables
--	341	Accounts
637	--	Taxes (Note 2)
259	5,457	Interest/Dividends
--	16,670	Deposits
--	85	Notes (Note 4)
--	59	Advances
--	--	Allowance for Uncollectible Receivables
1	3,967	Due from Other Funds (Note 14)
--	2,434	Due from Other Governmental Agencies
--	--	Inventory of Materials and Supplies (Notes 2, 18)
25	--	Prepaid Costs/Expenses (Note 18)
--	5,213	Land and Improvements Held for Resale (Note 2, 18)
--	--	Land (Notes 2, 5, 13)
--	--	Structures and Improvements (Notes 2, 5, 13)
--	--	Accumulated Depreciation
--	--	Equipment (Notes 2, 5, 13)
--	--	Accumulated Depreciation
--	--	Construction in Progress (Note 5)
--	--	Bond Issuance Costs
--	--	Amount Available in Debt Service Funds
--	--	Amount to be Provided for Payment of General Long-Term Debt
$ 460,849	$ 739,926	Total Assets and Other Debits
		LIABILITIES, EQUITY AND OTHER CREDITS
		Liabilities
$ 3	$ 1,617	Accounts Payable
--	--	Salaries and Employee Benefits Payable
107	2,250	Interest Payable
--	5,198	Deposits from Others
--	--	Monies Held for Others
3,247	16,146	Due to Other Funds (Note 14)
640	13	Due to Other Governmental Agencies
--	--	Unapportioned Taxes (Note 7)
11,744	339,770	Reverse Repurchase Agreements (Note 3)
--	--	Insurance Claims Payable (Note 2)
95	749	Deferred Revenue
400,000	--	Notes Payable (Notes 8, 9)
--	--	Landfill Site Closure Liability (Note 22)
--	--	Bonds Payable (Note 10)
--	--	Capital Lease Obligations Payable (Note 13)
--	--	Compensated Absences Payable (Note 2)
--	--	Arbitrage Rebate Payable (Note 11)
--	--	Estimated Litigation & Claims (Note 24)
415,836	365,743	Total Liabilities
		Equity and Other Credits
--	--	Investment in General Fixed Assets
--	--	Contributed Capital
--	--	Retained Earnings (Deficits) - Unreserved (Note 16, 20)
		Fund Balances
45,013	22,646	Reserved (Note 18, 20)
		Unreserved
--	351,537	Undesignated (Note 16)
45,013	374,183	Total Equity and Other Credits
$ 460,849	$ 739,926	Total Liabilities, Equity and Other Credits

(Continued)

COUNTY OF ORANGE
COMBINED BALANCE SHEET (Cont'd)
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1994
(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types
ASSETS AND OTHER DEBITS	Enterprise	Internal Service	Trust and Agency
Treasurer's Investment Pool (Notes 1, 2, 3)	$ 474,031	$ 287,033	$ 14,347,104
Imprest Cash Funds (Note 3, 18)	49	1,980	91
Restricted Investments with Trustee (Note 3)	38,322	6,601	112,592
Deposits In-Lieu of Cash	28,001	--	27,768
Receivables			
Accounts	8,706	121	4,454
Taxes (Note 2)	--	--	307,842
Interest/Dividends	5,968	3,568	62,918
Deposits	--	--	--
Notes (Note 4)	2	--	5,890
Advances	--	--	--
Allowance for Uncollectible Receivables	(29)	--	--
Due from Other Funds (Note 14)	15,026	1,782	15,683
Due from Other Governmental Agencies	1,758	19	48,334
Inventory of Materials and Supplies (Notes 2, 18)	--	--	--
Prepaid Costs/Expenses (Note 18)	--	68	--
Land and Improvements Held for Resale (Note 2, 18)	--	--	--
Land (Notes 2, 5, 13)	29,457	--	--
Structures and Improvements (Notes 2, 5, 13)	403,776	--	--
Accumulated Depreciation	(56,525)	--	--
Equipment (Notes 2, 5, 13)	19,175	48,183	--
Accumulated Depreciation	(10,299)	(24,190)	--
Construction in Progress (Note 5)	30,107	--	--
Bond Issuance Costs	3,801	--	--
Amount Available in Debt Service Funds	--	--	--
Amount to be Provided for Payment of General Long-Term Debt	--	--	--
Total Assets and Other Debits	$ 991,326	$ 325,165	$ 14,932,676
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities			
Accounts Payable	$ 13,955	$ 2,495	$ 30,313
Salaries and Employee Benefits Payable	981	531	666
Interest Payable	2,955	2,044	76,775
Deposits from Others	38,688	--	210,708
Monies Held for Others	--	--	5,332,060
Due to Other Funds (Note 14)	1,078	6,335	220,902
Due to Other Governmental Agencies	200	203	10,557
Unapportioned Taxes (Note 7)	--	--	370,480
Reverse Repurchase Agreements (Note 3)	275,651	167,756	8,653,893
Insurance Claims Payable (Note 2)	--	104,913	6
Deferred Revenue	710	1,971	--
Notes Payable (Notes 8, 9)	--	--	--
Landfill Site Closure Liability (Note 22)	110,346	--	--
Bonds Payable (Note 10)	320,350	16,425	--
Capital Lease Obligations Payable (Note 13)	--	--	--
Compensated Absences Payable (Note 2)	1,367	475	--
Arbitrage Rebate Payable (Note 11)	--	--	--
Estimated Litigation & Claims (Note 24)	--	--	--
Total Liabilities	766,281	303,148	14,906,360
Equity and Other Credits			
Investment in General Fixed Assets	--	--	--
Contributed Capital	59,756	24,947	--
Retained Earnings (Deficits) - Unreserved (Note 16, 20)	165,289	(2,930)	--
Fund Balances			
Reserved (Note 18, 20)	--	--	1,068
Unreserved			
Undesignated (Note 16)	--	--	25,248
Total Equity and Other Credits	225,045	22,017	26,316
Total Liabilities, Equity and Other Credits	$ 991,326	$ 325,165	$ 14,932,676

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

Account Groups		
General Fixed Assets	General Long Term Debt	
$ --	$ --	Treasurer's Investment Pool (Notes 1, 2, 3)
--	--	Imprest Cash Funds (Note 3, 18)
--	--	Restricted Investments with Trustee (Note 3)
--	--	Deposits In-Lieu of Cash
		Receivables
--	--	Accounts
--	--	Taxes (Note 2)
--	--	Interest/Dividends
--	--	Deposits
--	--	Notes (Note 4)
--	--	Advances
--	--	Allowance for Uncollectible Receivables
--	--	Due from Other Funds (Note 14)
--	--	Due from Other Governmental Agencies
--	--	Inventory of Materials and Supplies (Notes 2, 18)
--	--	Prepaid Costs/Expenses (Note 18)
--	--	Land and Improvements Held for Resale (Note 2, 18)
213,354	--	Land (Notes 2, 5, 13)
450,874	--	Structures and Improvements (Notes 2, 5, 13)
--	--	Accumulated Depreciation
184,548	--	Equipment (Notes 2, 5, 13)
--	--	Accumulated Depreciation
229,948	--	Construction in Progress (Note 5)
--	--	Bond Issuance Costs
--	43,533	Amount Available in Debt Service Funds
		Amount to be Provided for Payment of
--	404,932	General Long-Term Debt
$ 1,078,724	$ 448,465	Total Assets and Other Debits
		LIABILITIES, EQUITY AND OTHER CREDITS
		Liabilities
$ --	$ --	Accounts Payable
--	--	Salaries and Employee Benefits Payable
--	--	Interest Payable
--	--	Deposits from Others
--	--	Monies Held for Others
--	--	Due to Other Funds (Note 14)
--	--	Due to Other Governmental Agencies
--	--	Unapportioned Taxes (Note 7)
--	--	Reverse Repurchase Agreements (Note 3)
--	--	Insurance Claims Payable (Note 2)
--	--	Deferred Revenue
--	10	Notes Payable (Notes 8, 9)
--	--	Landfill Site Closure Liability (Note 22)
--	390,734	Bonds Payable (Note 10)
--	2,762	Capital Lease Obligations Payable (Note 13)
--	54,024	Compensated Absences Payable (Note 2)
--	785	Arbitrage Rebate Payable (Note 11)
--	150	Estimated Litigation & Claims (Note 24)
--	448,465	Total Liabilities
		Equity and Other Credits
1,078,724	--	Investment in General Fixed Assets
--	--	Contributed Capital
--	--	Retained Earnings (Deficits) - Unreserved (Note 16, 20)
		Fund Balances
--	--	Reserved (Note 18, 20)
		Unreserved
--	--	Undesignated (Note 16)
1,078,724	--	Total Equity and Other Credits
$ 1,078,724	$ 448,465	Total Liabilities, Equity and Other Credits

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1994
(In Thousands)

	Total (Memorandum Only)	Governmental Fund Types	
		General	Special Revenue
Revenues			
Taxes	$ 337,441	$ 168,655	$ 150,722
Licenses, Permits, and Franchises	12,813	5,861	6,952
Fines, Forfeitures and Penalties	46,518	35,712	3,321
Use of Money and Property	312,943	81,107	180,517
Intergovernmental Revenues	1,041,130	916,075	71,071
Charges for Services	235,093	208,771	26,148
Contributions From Property Owners	3,678	--	--
Other Revenues	72,669	35,256	35,938
Total Revenues	2,062,285	1,451,437	474,669
Expenditures			
Current			
General Government	201,311	178,026	18,750
Public Protection	622,240	502,269	119,971
Public Ways and Facilities	38,785	--	36,136
Health and Sanitation	225,356	225,356	--
Public Assistance	552,694	508,691	867
Education	20,991	--	20,991
Recreation and Cultural Services	32,886	--	32,886
Provision for Decline in Land Held for Resale	3,897	--	1,764
Capital Outlay	177,832	15,709	35,688
Debt Service			
Principal Retirement	11,400	1,708	20
Interest	100,052	40,251	22,655
Total Expenditures	1,987,444	1,472,010	289,728
Excess (Deficit) of Revenues Over Expenditures	74,841	(20,573)	184,941
Other Financing Sources (Uses)			
Operating Transfers In (Note 15)	69,821	17,446	11,179
Operating Transfers Out (Note 15)	(70,156)	(34,103)	(13,991)
Proceeds from Capital Lease Obligations (Note 13)	1,294	1,294	--
Bond Issuance Proceeds (Note 10)	56,795	--	--
Payment to Refunded Bond Escrow Agent (Note 10)	(26,146)	--	--
Excess (Deficit) of Revenues and Other Sources over Expenditures and Other Uses	106,449	(35,936)	182,129
Fund Balances - Beginning of Year	910,037	135,192	277,287
Adjustment Due To Reclassification (Note 19)	(1,852)	--	(1,852)
Residual Equity Transfers From Other Funds (Note 15)	14,323	87	13,546
Residual Equity Transfers To Other Funds (Note 15)	(16,198)	(2,041)	(97)
Fund Balances - End of Year	$ 1,012,759	$ 97,302	$ 471,013

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

	Governmental Fund Types (Cont'd)		Fiduciary Fund Types
	Debt Service	Capital Projects	Expendable Trusts
Revenues			
Taxes	$ 14,589	$ 3,475	$ --
Licenses, Permits, and Franchises	--	--	--
Fines, Forfeitures and Penalties	--	7,485	--
Use of Money and Property	3,248	39,548	8,523
Intergovernmental Revenues	174	9,235	44,575
Charges for Services	--	174	--
Contributions From Property Owners	--	3,678	--
Other Revenues	--	1,076	399
Total Revenues	18,011	64,671	53,497
Expenditures			
Current			
General Government	4,535	--	--
Public Protection	--	--	--
Public Ways and Facilities	--	--	2,649
Health and Sanitation	--	--	--
Public Assistance	--	--	43,136
Education	--	--	--
Recreation and Cultural Services	--	--	--
Provision for Decline in Land Held for Resale	--	2,133	--
Capital Outlay	--	94,214	32,221
Debt Service			
Principal Retirement	9,672	--	--
Interest	21,522	13,370	2,254
Total Expenditures	35,729	109,717	80,260
Excess (Deficit) of Revenues Over Expenditures	(17,718)	(45,046)	(26,763)
Other Financing Sources (Uses)			
Operating Transfers In (Note 15)	33,575	6,815	806
Operating Transfers Out (Note 15)	(7,094)	(12,739)	(2,229)
Proceeds from Capital Lease Obligations (Note 13)	--	--	--
Bond Issuance Proceeds (Note 10)	23,270	33,525	--
Payment to Refunded Bond Escrow Agent (Note 10)	(21,646)	(4,500)	--
Excess (Deficit) of Revenues and Other Sources over Expenditures and Other Uses	10,387	(21,945)	(28,186)
Fund Balances - Beginning of Year	34,626	409,498	53,434
Adjustment Due To Reclassification (Note 19)	--	--	--
Residual Equity Transfers From Other Funds (Note 15)	--	690	--
Residual Equity Transfers To Other Funds (Note 15)	--	(14,060)	--
Fund Balances - End of Year	$ 45,013	$ 374,183	$ 25,248

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENDITURES/ENCUMBRANCES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL ON BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1994
(In Thousands)

	General Fund		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 192,035	$ 168,655	$ (23,380)
Licenses, Permits, and Franchises	5,592	5,861	269
Fines, Forfeitures and Penalties	12,831	35,712	22,881
Use of Money and Property	62,481	63,110	629
Intergovernmental Revenues	980,010	916,075	(63,935)
Charges for Services	245,161	208,771	(36,390)
Other Revenues	39,705	35,256	(4,449)
Total Revenues	1,537,815	1,433,440	(104,375)
Expenditures/Encumbrances			
Current			
General Government	153,559	179,340	(25,781)
Public Protection	541,181	502,347	38,834
Health and Sanitation	248,018	221,682	26,336
Public Assistance	549,100	512,937	36,163
Total Current	1,491,858	1,416,306	75,552
Capital Outlay	56,137	15,813	40,324
Debt Service			
Principal Retirement	11,951	1,606	10,345
Interest	23,238	22,230	1,008
Total Expenditures/Encumbrances	1,583,184	1,455,955	127,229
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(45,369)	(22,515)	22,854
Other Financing Sources (Uses)			
Operating Transfers In	94,625	17,446	(77,179)
Operating Transfers Out	(2,154)	(34,103)	(31,949)
Proceeds from Capital Lease Obligations	--	1,294	1,294
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	47,102	(37,878)	(84,980)
Fund Balance - Beginning of Year	139,226	139,226	--
Residual Equity Transfers From Other Funds	--	87	87
Residual Equity Transfers To Other Funds	(86,998)	(2,041)	84,957
Fund Balance - End of Year	$ 99,330	$ 99,394	$ 64

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

	Budgeted Special Revenue Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 137,767	$ 150,722	$ 12,955
Licenses, Permits, and Franchises	3,777	6,952	3,175
Fines, Forfeitures, and Penalties	2,917	3,321	404
Use of Money and Property	27,220	161,999	134,779
Intergovernmental Revenues	105,163	71,071	(34,092)
Charges for Services	21,460	26,148	4,688
Other Revenues	118,164	35,909	(82,255)
Total Revenues	416,468	456,122	39,654
Expenditures/Encumbrances			
Current			
General Government	32,220	18,183	14,037
Public Protection	161,970	112,645	49,325
Public Ways and Facilities	63,265	38,035	25,230
Education	24,353	19,789	4,564
Recreation and Cultural Services	41,968	35,245	6,723
Public Assistance	2,520	795	1,725
Provision for Decline in Land Held for Resale	--	1,764	(1,764)
Miscellaneous	318	--	318
Total Current	326,614	226,456	100,158
Capital Outlay	219,579	36,351	183,228
Debt Service			
Principal Retirement	868	20	848
Interest	6,993	5,459	1,534
Total Expenditures/Encumbrances	554,054	268,286	285,768
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(137,586)	187,836	325,422
Other Financing Sources (Uses)			
Operating Transfers In	110,370	10,337	(100,033)
Operating Transfers Out	(168,826)	(13,716)	155,110
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	(196,042)	184,457	380,499
Fund Balance - Beginning of Year	248,489	248,489	--
Residual Equity Transfers From Other Funds	3,315	13,546	10,231
Residual Equity Transfers To Other Funds	(472)	(97)	375
Fund Balance - End of Year	$ 55,290	$ 446,395	$ 391,105

(Continued)

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENDITURES/ENCUMBRANCES
AND CHANGES IN FUND BALANCES (Cont'd)
BUDGET AND ACTUAL ON BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1994
(In Thousands)

	Budgeted Debt Service Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 12,777	$ 14,589	$ 1,812
Use of Money and Property	456	783	327
Intergovernmental Revenues	174	174	--
Total Revenues	13,407	15,546	2,139
Expenditures/Encumbrances			
General Government	3,832	3,139	693
Debt Service			
Principal Retirement	1,965	1,690	275
Interest	3,758	4,032	(274)
Total Expenditures/Encumbrances	9,555	8,861	694
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	3,852	6,685	2,833
Other Financing Sources (Uses)			
Operating Transfers In	--	341	341
Operating Transfers Out	(8,465)	(5,659)	2,806
Bond Issuance Proceeds	18,918	23,270	4,352
Payment to Refunded Bond Escrow Agent	(21,646)	(21,646)	--
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(7,341)	2,991	10,332
Fund Balance - Beginning of Year	6,716	6,716	--
Fund Balance - End of Year	$ (625)	$ 9,707	$ 10,332

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

	Budgeted Capital Projects Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ --	$ 3,475	$ 3,475
Fines, Forfeitures and Penalties	7,350	7,485	135
Use of Money and Property	20,002	26,148	6,146
Intergovernmental Revenues	14,990	9,235	(5,755)
Charges for Services	354	174	(180)
Contributions From Property Owners	34,783	3,678	(31,105)
Other Revenues	12,042	1,076	(10,966)
Total Revenues	89,521	51,271	(38,250)
Expenditures/Encumbrances			
Provision for Decline in Land Held for Resale	--	2,133	(2,133)
Capital Outlay	470,674	70,579	400,095
Debt Service			
Principal Retirement	2,740	--	2,740
Interest	6,654	(30)	6,684
Total Expenditures/Encumbrances	480,068	72,682	407,386
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(390,547)	(21,411)	369,136
Other Financing Sources (Uses)			
Operating Transfers In	154,737	6,815	(147,922)
Operating Transfers Out	(180,509)	(12,739)	167,770
Bond Issuance Proceeds	57,965	33,525	(24,440)
Payment to Refunded Bond Escrow Agent	(23,418)	(4,500)	18,918
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	(381,772)	1,690	383,462
Fund Balance - Beginning of Year	464,397	464,397	--
Residual Equity Transfer from Other Funds	1,784	690	(1,094)
Residual Equity Transfer to Other Funds	(14,060)	(14,060)	--
Fund Balance - End of Year	$ 70,349	$ 452,717	$ 382,368

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE (DEFICITS) AND CONTRIBUTIONS
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1994
(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	Internal Service	Pension Trust	Total (Memorandum Only)
Operating Revenues				
Use of Money and Property	$ 46,966	$ --	$ 67	$ 47,033
Licenses, Permits, and Franchises	178	--	--	178
Charges for Services	83,363	36,080	--	119,443
Insurance Premiums	--	61,245	--	61,245
Other Revenues	12,151	1,303	--	13,454
Contributions	--	--	675	675
Total Operating Revenues	142,658	98,628	742	242,028
Operating Expenses				
Salaries and Employee Benefits	18,047	17,719	--	35,766
Employee Benefit Payments and Refunds	--	--	404	404
Services and Supplies	14,791	21,533	--	36,324
Professional Services	19,635	6,614	--	26,249
Operating Leases	2,647	2,710	--	5,357
Insurance Claims	--	41,688	--	41,688
Other Charges	12,298	495	--	12,793
Waste Disposal Site Closing Costs	11,435	--	--	11,435
Depreciation and Amortization	17,687	5,333	--	23,020
Total Operating Expenses	96,540	96,092	404	193,036
Operating Income	46,118	2,536	338	48,992
Nonoperating Revenues (Expenses)				
Fines, Forfeitures, and Penalties	35	25	--	60
Intergovernmental Revenues	197	5,376	--	5,573
Interest Revenue	22,396	12,910	--	35,306
Interest Expense, net of Capitalized Interest of $1,929	(33,016)	(6,355)	--	(39,371)
Loss on Disposition of Fixed Assets	(1,261)	(4,324)	--	(5,585)
Other Revenue (Expense) - Net	(262)	--	--	(262)
Total Nonoperating Revenues (Expenses)	(11,911)	7,632	--	(4,279)
Income Before Operating Transfers	34,207	10,168	338	44,713
Operating Transfers In (Note 15)	--	534	--	534
Operating Transfers Out (Note 15)	--	(199)	--	(199)
Net Income	34,207	10,503	338	45,048
Add Depreciation Related To Assets Acquired with Contributed Capital	1,376	578	--	1,954
Retained Earnings/Fund Balance (Deficits) - Beginning of Year as Restated (Note 20)	129,706	(14,011)	730	116,425
Retained Earnings/Fund Balance (Deficits) - End of Year	$ 165,289	$ (2,930)	$ 1,068	$ 163,427

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

	Proprietary Fund Types		Fiduciary Fund Type	
	Enterprise	Internal Service	Pension Trust	Total (Memorandum Only)
Contributions:				
County				
Balances - Beginning of Year	$ 2,113	$ 31,501	$ --	$ 33,614
Cash Deletions - Net	--	(6,998)	--	(6,998)
Fixed Assets - Additions (Deletions) - Net	(12)	297	--	285
Balances - End of Year	2,101	24,800	--	26,901
Federal Aviation Administration				
Balances - Beginning of Year	53,623	--	--	53,623
Cash Additions - Net	5,274	--	--	5,274
Fixed Assets - Deletions - Net	(1,364)	--	--	(1,364)
Balances - End of Year	57,533	--	--	57,533
State of California				
Balances - Beginning of Year	122	33	--	155
Cash Deletions - Net	--	(33)	--	(33)
Balances - End of Year	122	--	--	122
City of San Clemente				
Balances - Beginning of Year	--	--	--	--
Fixed Assets - Additions - Net	--	147	--	147
Balances - End of Year	--	147	--	147
Total Contributions				
Balances - Beginning of Year	55,858	31,534	--	87,392
Cash Additions (Deletions) - Net	5,274	(7,031)	--	(1,757)
Fixed Assets - Additions (Deletions) - Net	(1,376)	444	--	(932)
Balances - End of Year	$ 59,756	$ 24,947	$ --	$ 84,703

COUNTY OF ORANGE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1994
(In Thousands)

	Proprietary Fund Types		
	Enterprise	Internal Service	Total (Memorandum Only)
Cash Flows From Operating Activities:			
Operating Income	$ 46,118	$ 2,536	$ 48,654
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:			
Depreciation and Amortization	17,687	5,333	23,020
Provision for Waste Disposal Site Closure Costs	11,435	--	11,435
Fines, Forfeitures and Penalties	35	25	60
Other Revenue (Expense) - Net	(262)	--	(262)
(Increases) Decreases In:			
Deposits In-Lieu of Cash	(3,288)	--	(3,288)
Accounts Receivable	273	(24)	249
Notes Receivable	(2)	--	(2)
Due From Other Funds	6,410	841	7,251
Due From Other Governmental Agencies	1,943	476	2,419
Prepaid Expenses	--	632	632
Increases (Decreases) In:			
Accounts Payable	621	326	947
Salaries and Benefits Payable	(1,123)	(298)	(1,421)
Deposits From Others	8,844	--	8,844
Due to Other Funds	(828)	5,564	4,736
Due to Other Governmental Agencies	(804)	1	(803)
Insurance Claims Payable	--	2,760	2,760
Deferred Revenue	165	(448)	(283)
Compensated Employee Absences Payable	1,367	475	1,842
Total Adjustments	42,473	15,663	58,136
Net Cash Provided By Operating Activities	88,591	18,199	106,790
Cash Flows From Noncapital Financing Activities:			
Operating Transfers In	--	534	534
Operating Transfers Out	--	(199)	(199)
Net Cash Used By Noncapital Financing Activities	$ --	$ 335	$ 335

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

	Proprietary Fund Types		
	Enterprise	Internal Service	Total (Memorandum Only)
Cash Flows From Capital and Related Financing Activities:			
Intergovernmental Revenues	$ 197	$ 5,376	$ 5,573
Acquisition and Construction of Capital Assets	(21,358)	(2,051)	(23,409)
Proceeds From Debt Issuance	77,021	--	77,021
Bond Issuance Costs Paid	(679)	--	(679)
Payments to Refunding Bond Escrow Agent	(76,556)	--	(76,556)
Principal Paid on Bonds and Certificates of Participation	(3,248)	(4,615)	(7,863)
Interest Paid on Long Term Debt and Other	(32,693)	(5,741)	(38,434)
Increase (Decrease) in Contributed Capital	5,274	(7,031)	(1,757)
Proceeds From Sale of Fixed Assets	4	249	253
Waste Disposal Site Closing Disbursements	(13,908)	--	(13,908)
Net Cash Used By Capital and Related Financing Activities	(65,946)	(13,813)	(79,759)
Cash Flows From Investing Activities:			
Proceeds from Interest on Investments	20,841	12,442	33,283
Decrease in Restricted Investments with Trustee	8,549	1,920	10,469
Increase in Obligations Under Reverse Repurchase Agreements	57,459	16,859	74,318
Net Cash Provided By Investing Activities	86,849	31,221	118,070
Net Increases In Cash and Cash Equivalents	109,494	35,942	145,436
Cash and Cash Equivalents - Beginning of Year	364,586	253,071	617,657
Cash and Cash Equivalents - End of Year	$ 474,080	$ 289,013	$ 763,093
Supplemental Disclosure:			
Noncash Transactions:			
Contribution of Capital Assets	$ --	$ 1,022	$ 1,022

1. COUNTY BANKRUPTCY

On December 6, 1994, the County of Orange (the "County") and the Orange County Investment Pool (the OCIP) filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code following significant losses incurred by the OCIP.

OCIP Bankruptcy

The OCIP was a collection of internal accounting entries maintained by the County Treasurer-Tax Collector (the "Treasurer") to account for and invest the funds within his control. State law generally requires that all monies of the County and School Districts within the County be held by the Treasurer. In addition, the monies of approximately 190 other public agencies (the "Pool Participants") such as cities, transportation agencies, and special districts were voluntarily deposited with OCIP.

Most of the assets of the OCIP were held in one custodial bank account. However, in the recordkeeping, two pools and several specific investment funds were separately accounted for. Total assets under management prior to bankruptcy totaled approximately $20.6 billion. Approximately $13 billion of these assets were financed by borrowings arranged through a variety of commercial banks and investment banks via repurchase and reverse repurchase agreements whereby securities in the OCIP were pledged as collateral for the short-term borrowings. The unencumbered asset balance at the bankruptcy date was approximately $7.6 billion.

Despite the fact that these deposits were available on relatively short notice for withdrawal by Pool Participants, the OCIP invested a large portion of the assets in securities with an average duration of four years. The OCIP also purchased a variety of structured derivative instruments such as inverse-floaters, step-up callable notes, and other structured notes which were highly sensitive to interest rate fluctuations. At December 6, 1994, approximately 40% of the OCIP assets consisted of these securities. Using these securities as collateral, additional money was borrowed for investment by entering into, on behalf of the County, reverse repurchase agreements with broker-dealers. Reverse repurchase agreements using interest rate sensitive securities as collateral exposed the County to cash collateral calls in the event of interest rate fluctuations. Together with the leverage from reverse repurchase agreements, the purchase of long-term and structured securities limited OCIP's liquidity and resulted in substantial losses of market value when interest rates increased through most of 1994.

On December 1, 1994, the County announced that the OCIP had sustained a $1.5 billion loss in the value of its assets. In response to the OCIP announcement, many broker-dealers who loaned monies to the OCIP began liquidating the collateral they held in order to avoid large losses on their loans.

Due to the sensitivity of the OCIP to interest rate fluctuations, the County's immediate goal upon filing the petition in Bankruptcy Court was to eliminate exposure to further losses in the illiquid, volatile portfolio. In mid-December, the County commenced the orderly auction and sale of certain securities in the portfolio. As a result of the liquidation of these securities, which was completed on January 20, 1995, the investment loss of approximately $1.6 billion was recorded on the County's books and records in the fiscal year ended June 30, 1995. Liquidation of these securities significantly reduced the volatility of the remaining portfolio, shortened its average duration to less than one year, and restored its liquidity. Due to the complex nature of the structured derivative instruments in the OCIP, many of which were held by OCIP as of June 30, 1994 and December 6, 1994, the County has not been able to ascertain the market values of a significant portion of the investment in the OCIP at June 30, 1994. Accordingly, the amount of the investment loss recorded in fiscal year 1995 may be overstated, as some of the investment loss and related reduction in the carrying amount of investments may be attributable to fiscal year 1994.

The filing of the bankruptcy petitions on December 6, 1994 stayed the Pool Participants' demands for withdrawals from the pools. Further, as a result of the undifferentiated $1.6 billion investment loss, distributions to Pool Participants were stayed. Later, Pool Participants asserted a variety of claims against the County, including breach of fiduciary duty, fraud and negligence, and asserted trust claims seeking the full amount of funds they had placed in the County treasury.

1. COUNTY BANKRUPTCY (Cont'd)

After extensive negotiations between the County and representatives of the Pool Participants, the County and the Pool Participants negotiated and entered into the Comprehensive Settlement Agreement re Orange County Investment Pools, which was approved by the Bankruptcy Court in an order dated May 2, 1995. The Comprehensive Settlement Agreement gave Pool Participants two options to resolve any claim to the Pools they may have had. In return for a release of claims against the County, Pool Participants who selected Option A received cash equal to approximately 77% of their December 6, 1994 investment balance with the Pools, Recovery Notes equal to approximately 3% of their December 6, 1994 balance (13% for school Pool Participants), Settlement Secured Claims equal to approximately 9% for the non-school Pool Participants and a Repayment Claim for the remainder that is junior to certain other claims against the County. Pool Participants who chose Option B received cash equal to approximately 77% of their December 6, 1994 balance and retained all rights and claims they may have against the County and other parties. All Pool Participants chose either Option A or Option B. Approximately 98% of the Pool Participants chose Option A.

As previously indicated, the County as a part of the OCIP settlement agreed to various claims with non-county Pool Participants. The County issued recovery bonds totaling approximately $279 million as the first form of commitment by the County in order to liquidate claims. These bonds were issued in June 1995 and approximately $232 million of the proceeds were distributed to Option A Pool Participants. The remaining $819 million of Option A Pool Participant Claims, as well as $355 million of claims attributed to the County-administered account investment losses, have been recorded as County obligations in the General Long-Term Debt Account Group in the fiscal year ended June 30, 1995.

In October and November 1995, the Option B Pool Participants commenced adversary proceedings against the County, asserting thirteen claims including, but not limited to, breach of contract, breach of fiduciary duty and breach of trust. In November 1995, the County filed a motion to dismiss these complaints. On January 12, 1996, the Bankruptcy Court granted the County's motion to dismiss eleven of the claims and ruled that the Option B Pool Participants should be afforded the opportunity to offer evidence concerning their ability to trace to identifiable trust property. The County will defend vigorously against the Option B complaints, and intends to seek summary judgment against the Option B Pool Participants. The County also will object to any proofs of claims filed by the Option B Pool Participants in the bankruptcy proceedings. As a result, no liabilities have been recognized for the Option B Pool Participant investment losses (approximately $44 million) in the fiscal year ended June 30, 1995.

After consummation of the May 2, 1995 Comprehensive Settlement Agreement, Option A Pool Participants and the County further agreed to final treatment of Option A Pool Participants' remaining claims against the County. Representatives of the Option A Pool Participants have negotiated and agreed to the Joint Agreement for Resolution of All Claims Against the County of Orange ("Joint Agreement"). The Joint Agreement provides that Option A Pool Participants will make their remaining claims non-recourse as against the County, and secured by and to be paid from the proceeds from litigation relating to the $1.6 billion investment loss. This Joint Agreement requires ratification on the part of the majority of the Pool Participants and Bankruptcy Court approval. As of January 5, 1996, a majority of the Pool Participants had yet to ratify the Joint Agreement.

The District Attorney for the County has been conducting a criminal investigation relating to the bankruptcy. The former Treasurer has pleaded guilty to six felony counts, and charges are currently pending against others for violations of state laws. The County has engaged in an extensive investigation of certain events and transactions prior to the bankruptcy that could give rise to claims by the County focused on brokers who sold securities to the County and/or unlawfully liquidated securities purportedly held as collateral, former accountants, and attorneys who advised the County in connection with several of its borrowings. Two such claims aggregating $5 billion have been filed to date. No assurances can be given that this litigation will be successful.

County Bankruptcy

The County's financial health was closely tied to the OCIP, since most of the County's assets were invested in the OCIP. In addition, the County General Fund was very dependent on investment income from the OCIP to fund its operating budget. The fiscal year 1994-95 General Fund operating budget included $162 million of investment income. With the losses sustained by OCIP and resulting loss of investment income, the County General Fund revenues faced an approximate $200 million shortfall in fiscal year 1994-95. The County temporarily addressed this shortfall by obtaining bankruptcy court approval to not make its tax and revenue anticipation note set asides for Fiscal Year 1994-95.

1. COUNTY BANKRUPTCY (Cont'd)

To address the General Fund operating budget shortfall in the future, the County embarked on an aggressive effort to balance the budget for Fiscal Year 1995-96. This process was focused on preserving the health, safety and welfare of County residents while bringing the budgetary expenditures in line with anticipated revenue sources. By the end of December, 1994, the County cut its General Fund spending by $40 million, resulting in the first round of County employee layoffs. In March of 1995, further General Fund reductions were implemented. These cuts, representing a reduction to the discretionary portion of the General Fund of $188 million, or 41%, brought the County General Fund net cost spending level down to $275 million for the remainder of Fiscal Year 1994-95 and in preparation for the Fiscal Year 1995-96 budget.

The County is currently in default under the terms of a number of its debt obligations. Indenture trustees have drawn on the reserve accounts for various outstanding certificates of participation financings in order to meet current principal and interest payments. These withdrawals, totaling approximately $8.7 million as of June 30, 1995, have not been replenished as required by the terms of the documents pursuant to which the certificates of participation were issued. However, principal and interest payments on the County's outstanding certificates of participation have been paid when due. On September 1, 1994, the County issued County of Orange, California Taxable Pension Obligation Bonds, Series 1994A and 1994B (the "Pension Bonds"). The Series 1994B Bonds provide for a put on seven-days notice to the OCIP. The OCIP has defaulted on its obligation to purchase such bonds pursuant to such puts. In connection with the issuance of Series 1994A Pension Bonds, the County entered into an interest rate swap agreement with Credit Suisse Financial Products. The County is currently in default under the terms of the swap agreement and has not accrued or paid to Credit Suisse Financial Products the termination payment of $6 million specified in the swap agreement. In addition, the County is in technical default under the terms of various financing documents as a result of the bankruptcy filing and/or other conditions.

The County's short-term indebtedness in fiscal 1995 consisted of, in part, 1994-95 Tax and Revenue Anticipation Notes ("TRANs"), Series A ($169 million), 1994-95 Tax and Revenue Anticipation Notes, Series B ($31 million), and 1994-95 Taxable Notes ($600 million). While the County is in default on these issues by means of a failure to perform certain covenants contained therein, the County successfully negotiated with representatives of its short-term noteholders to extend voluntarily the maturity dates of up to $800 million in short-term debt to June 30, 1996, in exchange for accruing additional interest equal to the contract rate on the short-term debt, plus an additional 95 basis points and granting a security interest on approximately $163 million of County property. County noteholders representing the entire $600 million taxable note issue voluntarily agreed to extend the maturity dates on their notes. Similarly, 100% of the Series B TRANs holders agreed to extend maturity dates on the Series B notes, and 99% of Series A TRANs holders agreed to extend maturity dates on their Series A Notes.

The Joint Agreement with the Pool Participants also outlined legislation that, if enacted, would transfer approximately $50 million in annual revenues to the County for the purpose of satisfying the County bankruptcy obligations ("Recovery Legislation"). In September 1995, the California Legislature approved the Recovery Legislation that consisted of several bills that, among other measures, redirects existing tax revenues from various other Orange County governmental jurisdictions to the County to provide a revenue stream to allow the County to meet its bankruptcy obligations.

The Recovery Legislation also provided for the appointment of a state trustee if the County did not file a Plan of Adjustment with the Bankruptcy Court by January 1, 1996. The Trustee must also be appointed if the Governor decides after May 1, 1996 that confirmation of the Plan of Adjustment in the County's bankruptcy does not appear likely by May 30, 1996. The Trustee would have the power and authority to vote in the County's bankruptcy case all the bankruptcy claims of all governmental agencies. The Recovery Legislation also anticipates that the revenue reallocation will commence on July 1, 1996, upon the effectiveness of the Plan of Adjustment.

On December 21, 1995, the County filed in bankruptcy court its Plan of Adjustment for the resolution of the County's outstanding creditor claims. The Plan of Adjustment calls for the issuance of $707 million of new and refunding certificates of participation in a series of public offerings which together provide sufficient proceeds to pay County debtholders, vendors, certain County-administered accounts and administrative undisputed claims in total, as well as replenish debt reserves for outstanding certificates of participation and fund a litigation reserve. Most remaining claims will be paid over twenty years with available cash under the Plan of Adjustment.

1. COUNTY BANKRUPTCY (Cont'd)

The Plan of Adjustment certificates of participation and refunding certificates of participation represent obligations to be payable from the County General Fund. The enacted Recovery Legislation provides these bondholders with statutory liens on motor vehicle license fees and sales tax revenues and, if the County so elects, the ability to have the amount of these fees and revenues necessary to pay each installment of principal and interest on these borrowings intercepted by the State Controller and paid directly to the trustee of the bonds.

The Plan of Adjustment provides that the legislatively enacted redirected revenues discussed above, along with County incremental revenues from the importation of out-of-County trash into its solid waste management system and the Teeter Plan distribution of surplus cash flows from the Orange County Special Financing Authority, will be used over twenty years to satisfy principal and interest payments on the Plan of Adjustment certificates of participation and the amortization of any remaining claims under the Plan of Adjustment. The Plan of Adjustment further provides that a representative be appointed to enforce, prosecute and collect upon all remaining Pool Participant related claims. These claims will be paid from distributions of net litigation proceeds as provided in the Joint Agreement.

The County, with an aggressive time schedule, anticipates that it will emerge from bankruptcy by July 1, 1996. This is subject to the County satisfying certain conditions discussed in the Plan of Adjustment. These conditions include bankruptcy court orders confirming the Plan of Adjustment, estimating the amount of Option B Pool Participant allowed claims and authorizing issuance of the certificates of participation; final issuance of all Plan of Adjustment debt issues; and obtaining other necessary agreements and/or waivers. County officers currently predict that these conditions will be satisfactorily met.

The financial statements do not include any adjustments relating to the amounts and classifications of liabilities that might be necessary if the County is not able to meet its debts as they come due, or such adjustments that will be necessary upon the effective date of any Plan of Adjustment for the County confirmed under Chapter 9 of the United States Bankruptcy Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity/Fiduciary Responsibility

The County of Orange (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 and fire protection, judicial, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles, 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 therefore data from these units are combined with data of the primary government. The County has no component units which require discrete presentation.

The following entities are presented as blended component units in the General Purpose Financial Statements for the fiscal year ended June 30, 1994: Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Civic Center Authority, Orange County-Westminster Civic Center Authority, Orange County Public Facilities Corporation, and certain special districts.

The County's General Purpose Financial Statements do not reflect the operations of the following entities which are not considered a part of the primary government, since the County does not have the ability to select the governing authorities or management staff, significantly influence operations, approve budgets or budgetary changes or provide funding: Orange County Employees' Retirement System (OCERS), Orange County Transportation Authority, Transportation Corridor Agencies, Santiago Library System, Marine Studies Institute, Law Library, school districts, cities and other special districts governed by local boards. These entities have governing boards other than the County Board of Supervisors and provide services to residents, generally within the geographic boundaries of the County.

B. Fund Accounting

The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary "fund types".

Governmental Fund Types:

General Fund - The general fund is used to account 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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary fund types and trust funds).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Proprietary Fund Types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises (where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges), or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

Fiduciary Fund Types:

Trust and Agency Funds - Trust and agency funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the County. When these assets are held under the terms of a formal trust agreement, a pension trust, nonexpendable trust or expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the County is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

Account Groups:

General Fixed Assets - The general fixed assets account group is used to account for all fixed assets of the County, other than those accounted for in proprietary funds or similar trust funds.

General Long-Term Debt - The general long-term debt account group is used to account for the unmatured principal of bonds and notes, and other forms of noncurrent or long-term general obligation debt that are not a specific liability of any proprietary fund or similar trust funds.

The County maintains 766 individual funds. Certain similar special revenue, debt service, capital projects, enterprise, and trust and agency funds have been grouped on a functional basis in conformity with generally accepted accounting principles (GAAP) to enhance communication and understanding of the financial statements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type and similar trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is followed for the general, special revenue, debt service, capital projects, expendable trust and agency funds. 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 to finance expenditures of the fiscal period. Revenues which 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 notes and leases receivable that are measurable and available and where collectibility is assured. Revenues which are not considered susceptible to accrual include minor licenses and permits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 fiscal year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures during the fiscal year when they would normally be liquidated with expendable available financial resources. The related long-term obligation is recorded in the general long-term debt account group at year end. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding.

The accrual basis of accounting is followed for enterprise, internal service and pension trust funds. Generally, revenues are recognized when earned and expenses are recognized when incurred. Grants are recorded as nonoperating revenues when earned, except for those restricted for capital acquisitions, which are recorded as contributions to equity.

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. 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). The governmental funds are comprised of multiple fund-agency units, with the exception of the "Parking Facilities," "Public Library," and "Master Lease Program" special revenue funds, and the "Public Facilities Corporation Bonds" and "Taxable Note Repayment" debt service funds, which are comprised of individual fund-agency units.

Each year the initial adopted budget is increased for unanticipated revenues, offset by an equal amount of increased appropriations for new reimbursement contracts not in the original budget. 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 which represents a Department or an Agency. Final appropriations reflected in the "Revised Budget" columns of the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis - All Governmental Fund Types include the following supplemental appropriations:

General Fund	$ 67,483
Special Revenue Funds	85,954
Debt Service Funds	21,645
Capital Projects Funds	87,727

Annual budgets were adopted for the individual funds comprising the following governmental fund type functional groupings (listed by fund type/functional grouping), and for certain individual funds in the "General Obligation, Other Revenue Bonds" debt service functional grouping (listed by fund type/functional grouping/individual fund-agency):

General

Special Revenue
- Parking Facilities
- Roads, Airport Land Use
- Public Library
- Fire Department
- Flood Control District
- Harbors, Beaches & Parks District
- Service Areas, Lighting & Maintenance Districts
- Redevelopment, Other Environmental Management
- Other Public Protection
- Contingencies, Economic Uncertainty

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Community Services
Taxable Note Repayment

Debt Service
Redevelopment Agency Bonds
General Obligation, Other Revenue Bonds
Bond Redemption
Flood Control District Bonds (1957) Interest and Sinking Fund
Sanitation District #12 (1963) Sewer Bond Redemption

Capital Projects
Criminal Justice Facilities
County, Public Library, & Fire Department
Flood Control District
Harbors, Beaches & Parks District
Redevelopment Agency
Special Assessment Districts and Service Areas
Public Facilities Corporation

Excluded from the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on a Budgetary Basis are the following governmental fund type functional groupings for which annual budgets were neither legally required nor adopted (listed by fund type/functional grouping/individual fund-agency):

Special Revenue
Master Lease Programs
Master Lease Programs

Debt Service
Public Facilities Corporation Bonds/Master Lease
Orange County Public Facilities Corporation - Project Funds/Master Lease

General Obligation, Other Revenue Bonds
Orange County-Westminster Civic Center - 1st Issue
Orange County-Westminster Civic Center - 2nd Issue
Orange County Civic Center - Debt Service

Taxable Note Repayment
Taxable Note Repayment

Master Lease Programs (special revenue), Public Facilities Corporation Bonds/Master Lease (debt service), and Taxable Note Repayment (debt service), listed above, are the only governmental fund type functional groupings comprised entirely of one or more nonbudgeted fund(s).

E. Reconciliation of Actual Operations on a Budgetary Basis to Modified Accrual Basis

The accompanying Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget (more fully described in Note 2.D) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resultant basis, entity and timing differences in the corresponding ending fund balances as reported on the combined financial statements for the year ended June 30, 1994 is presented below:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Fund balances, as reported on the Combined Statement of Revenues, Expenditures/ Encumbrances and Changes in Fund Balances (budgetary basis)	$ 99,394	$ 446,395	$ 9,707	$ 452,717
Adjustments:				
Effects of encumbrances on expenditures	(2,092)	4,896	–	(78,534)
For nonbudgeted funds (entity differences)	–	19,722	35,306	–
Fund balances, as reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis)	$ 97,302	$ 471,013	$ 45,013	$ 374,183

F. Encumbrances and Appropriations

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General, Special Revenue and Capital Projects Funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures which will ultimately result if the unperformed contracts in process at year-end are completed. Encumbrances at year-end do not constitute GAAP basis expenditures or liabilities. Only unencumbered, unexpended appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures.

G. Cash and Investments

The County maintains a cash and investments pool for the purpose of increasing interest income through pooled investment activities (see Notes 1 and 3).

Investments are valued at cost, except those of the Deferred Compensation Agency Fund, which are valued at market (see Note 28).

H. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving 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 when issued to user departments/agencies.

I. Land and Improvements Held for Resale

These assets, held by the County's development agency, are valued at the lower of cost or estimated net realizable value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. General Fixed Assets

The General Fixed Assets Account Group records, at cost, the fixed assets which are not accounted for in an enterprise or internal service or similar trust fund. Such assets include land, buildings, building improvements, furniture, fixtures and equipment. Gifts and contributions of fixed assets are recorded at fair market value when received. No depreciation is provided on general fixed assets. Expenditures for streets, roads, bridges, curbs, gutters, sidewalks, flood channels, lighting systems, and similar assets are included in construction in progress but are not transferred or capitalized to other asset categories upon completion, because they are immovable and of value only to the County.

K. Property, Plant and Equipment of Enterprise and Internal Service Funds

Fixed assets purchased by the enterprise and internal service funds are capitalized at cost, while contributed assets are recorded at their fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of property, plant and equipment are as follows:

Structures and Improvements	10 to 45 years
Equipment	2 to 20 years

L. 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 estimated future amounts to be paid on known claims and incurred but not reported claims.

The County bankruptcy (see Note 1) has resulted in lower cash reserves; however, liability expenses cannot be measured until the bankruptcy process concludes, and the County does not anticipate that this will affect its ability to remain self-insured in the future.

M. Property Taxes

Real and personal property taxes are determined by applying approved rates to properties' assessed values established by the County. Property taxes are levied annually and, when collected, are periodically apportioned to the taxing entities. Property taxes receivable are recorded as of the date levied in agency funds. 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 but not distributed within 60 days after the fiscal year end.

Unsecured and supplemental property 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 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
Property tax lien date is March 1.	2192

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

	California Revenue & Taxation Code Section
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 June 30.	3436
Power to sell is effective five years after tax default.	3691

Alternate Method of Tax Apportionment - Teeter Plan

By a resolution, dated June 29, 1993, the County's Board of Supervisors elected to operate under the Alternate Method of Tax Apportionment. This is an alternative procedure for the distribution of property tax and/or direct assessment levies on the secured roll. This is an accrual method which recognizes taxes receivable as an expendable resource and, subsequently, simplifies the tax apportionment process.

A "Tax Losses Reserve" fund was created to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property. The "Tax Resources" fund was established as a control for the funds to which delinquent taxes are apportioned and from which current delinquencies will be paid.

When the choice to apportion taxes using this method was made, the current delinquent abstracts were distributed as if they had been collected. This was done only in the initial year, fiscal year 1993-94, and is referred to as the "Teeter Plan buyout." Thereafter, all delinquent taxes belong to the County. The dollar value of the delinquent abstracts ad valorem taxes was determined, and 95% of the amount was apportioned to the taxing agencies. The remaining 5% was credited to the Tax Losses Reserve Fund, and 100% of delinquent assessments were apportioned to the levying funds.

See Note 29 for discussion of refinancing of "Teeter" notes.

N. Accounting Reclassifications

Certain reclassifications have been made to the amounts previously reported to conform to the current year's report presentation.

O. Compensated Employee Absences

Compensated absences (vacation, compensatory time off, and sick leave) are accrued as an expense and liability in the proprietary fund types when incurred. In the governmental fund types, only those amounts that are expected to be liquidated with expendable available financial resources are accrued as current year expenditures. Compensated absences that exceed this amount are reported in the General Long-Term Debt Account Group and are not recorded as expenditures. The estimate recorded at June 30, 1994, in the General Long Term Debt Account Group is $54,024 compared with $50,308 at June 30, 1993. Most of this amount will be ultimately paid from the General Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

As a result of the County's bankruptcy (see Note 1), most of this amount constitutes a pre-petition claim of the County's employees, which will be a part of the eventual settlement with County creditors.

P. Total Columns on Combined Financial Statements

The "Total" columns on the accompanying combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. They do not represent and are not comparable to a consolidation. Data in these columns do not purport to present financial position, results of operations, or cash flows of the County in conformity with generally accepted accounting principles.

Q. Statement of Cash Flows

The County presents statements of cash flows in conformity with Governmental Accounting Standards Board Statement No. 9. For purposes of the statement of cash flows, the County considers the "Treasurer's Investment Pool" and "Imprest Cash Funds" as cash and cash equivalents. Cash and cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash or mature within three months of original purchase. The County's investment in the Treasurer's Investment Pool is available for withdrawal on a daily basis, and is assumed to be a cash equivalent for financial reporting purposes. Due to the current year presentation of the "Treasurer's Investment Pool," the "Cash and Cash Equivalents - Beginning of Year" line item has been restated to include the prior year's "Investments" balance.

R. Effect of New Pronouncements

In November 1989, the Governmental Accounting Standards Board (GASB) issued Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues." Public entitites other than risk pools (such as the County) are required to adopt certain accounting policies for risk financing for years beginning after June 15, 1994. The County has elected to early adopt this Statement as of June 30, 1994 and has appropriately recorded an estimated loss for claims that have been incurred but not reported for its self-insurance programs in the internal service funds; however, all disclosures required by this Statement have not been made. The County adopted this accounting policy in previous years.

In May 1990, the GASB issued its Statement No. 11, "Measurement Focus and Basis of Accounting - Governmental Fund Operating Statements," which will modify the measurement focus and basis of accounting for governmental fund operating statements. GASB Statement No. 17, "Measurement Focus and Basis of Accounting - Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements," issued in June 1993, deferred the effective date for the application of the requirements of Statement 11 to periods beginning approximately two years after an implementation standard is issued. The County is not permitted to elect early adoption of Statement 11 and has not been able to complete all of the complex analysis required to estimate the full impact of the new Statement.

In November 1994, the GASB issued Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers." This Statement establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, not disclosures, and, if applicable, required supplementary information in the financial statements of state and local governmental employers. This statement is effective for periods beginning after June 15, 1997. The County has elected not to early adopt this statement as of June 30, 1994, and has not completed all of the analyses required to estimate the full impact of this new statement.

3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS

Deposits and investments (including repurchase agreements and reverse repurchase agreements) totaled $20,066,113 as of June 30, 1994. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Treasurer's Investment Pool, Imprest Cash Funds, and Restricted Investments with Trustee."

As discussed in Note 1, the Treasurer maintained the Orange County Investment Pool (OCIP) for the County and other non-County entities for the purpose of increasing interest income through pooled investment activities. This pool contains deposits, repurchase agreements, and other investments with an average maturity of two and a half years. Interest was apportioned to individual funds on deposit with the Treasurer. In addition, longer term investments and deposits were held by several of the County's funds.

A. Deposits

Monies which are deposited 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.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, they may be held by the trust department of the same institution. 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 and negotiable certificates of deposit 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.

At year-end, the carrying amount overdraft of the County's demand deposits was $12,230. The related bank balance for the demand deposits was $77,494, of which $642 was insured by FDIC insurance with the remainder collateralized as described above. In addition, the County had imprest cash funds in the amount of $3,680, of which $225 was insured by FDIC insurance with the remainder collateralized as described above.

B. Investments

The investment policies are governed by State statutes. In addition, the County has its own written investment policies. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, negotiable certificates of deposit, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Investors Service, bankers' acceptances, money market mutual funds, medium-term corporate notes, and repurchase agreements, among others.

Repurchase agreements can be acquired from entities prescribed in California State Government Code Sections 53601 and 53635. Securities underlying a repurchase agreement must have a market value of at least 102 percent of the cost of the repurchase agreement. The securities underlying the agreements must be delivered to the County's custodial banks except in the case of overnight repurchase agreements, in which case delivery of the underlying securities is not required by the County, but the underlying securities must be segregated by an independent financial institution. The County has also entered into written master repurchase agreements that outline obligations of both the County and the dealers.

The County has also entered 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.

3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS (Cont'd)

B. Investments (Cont'd)

Generally accepted accounting principles require that investments be catgorized to indicate the level of risk assumed by the County at year-end, and that market values for investments be stated. As of June 30, 1994, the County did not have access to such information for financial reporting purposes. Therefore, the presentation below is not in accordance with generally accepted accounting principles.

	Carrying Amount
Repurchase agreements	$ 893,171
U.S. Government securities, corporate and foreign bonds and debentures	2,233,804
Negotiable certificates of deposit	878,942
Medium-term corporate notes	1,883,305
Investments with Trustees:	
Reverse repurchase agreements	9,505
Repurchase agreements	26,701
U.S. Government securities	99,609
Guaranteed investment contracts	24,797
Mutual funds	22,555
Fixed annuities	43,747
Mutual funds	415,987
Guaranteed investment contracts	4,143
Investments held by broker-dealers under reverse repurchase/securities lending agreements:	
U.S. Government securities	12,783,397
Medium term notes	25,000
Negotiable certificates of deposit	730,000
Total investments	$ 20,074,663

The County was not committed to resell any securities under yield maintenance agreements as of June 30, 1994.

As of December 1, 1994, the estimated market value of the investment pool is seven percent less than the carrying amount of those investments. The investment policy was to hold investments to maturity, and management tried to develop strategies to maintain the needed liquidity to continue with this policy and/or to mitigate any loss if it became advantageous to sell securities before maturity. Management informed its investors and brokers of the market decline and believed that the market value decline would not result in any permanent loss of principal as of December 1, 1994. Subsequently, on December 6, 1994, the County of Orange filed bankruptcy under Chapter 9 of the U.S. Bankruptcy Code. See Note 1.

3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS (Cont'd)

C. Reverse Repurchase Agreements

The 53600 series of the State of California Government Code permits the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Substantially all reverse repurchase agreements are made with SEC-registered securities brokerages . The proceeds from these agreements may be used to invest in securities permissible under Government Code Section 53635, primarily U.S. Treasury and U.S. agency obligations, commercial paper, and certificates of deposit. The normal transaction period was 90 days, and could be as long as 180 days, and was renewable. The average terms of the securities purchased with the proceeds are approximately 5 years, and the maximum term is 9 years, i.e. the maturities were not matched.

The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the County or provide securities or cash of equal value, the County would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest.

The County was not committed to repurchase any securities under yield maintenance agreements as of June 30, 1994.

4. NOTES RECEIVABLE

Deferred Loan Program

The County processes loans under a Federal Department of Housing and Urban Development (HUD) program which allows individuals to borrow funds free of interest for rehabilitation of real property. Loans made to qualifying individuals are collateralized by the property rehabilitated. Repayment occurs upon a change of property ownership or earlier at the borrower's option. The committed funds are disbursed periodically upon satisfaction of certain lending requirements and, when disbursed, are reflected as notes receivable in the Deferred Loan Program Fund, an agency fund. The notes are not expected to be repaid within one year. Funds collected upon repayment are used to issue new loans. Should the program cease to exist, all collections on future notes would be due and payable to HUD.

Formal Assurance Loan Program

This program allows individuals to borrow funds at an interest rate of 3% for the rehabilitation of real property. Loans made to qualifying individuals are secured by the property rehabilitated. Repayment of the loans occurs on a monthly basis.

At June 30, 1994, the amounts committed and disbursed are as follows:

	Deferred Loan Program	Formal Assurance Loan Program	Total
Loan commitments	$ 4,438	$ 1,553	$ 5,991
Less undisbursed amounts	97	79	176
Notes receivable	$ 4,341	$ 1,474	$ 5,815

An additional $75 in notes receivable relates to loans made through the Orange County Housing Authority (expendable trust fund) to developers, for the purpose of providing low to moderate income housing.

5. CHANGES IN GENERAL FIXED ASSETS

The Schedule of Changes in General Fixed Assets includes general fixed assets of the County other than those accounted for in proprietary funds or similar trust funds. Additions, retirements and transfers in the County's general fixed assets during the fiscal year were as follows:

	Balance July 1, 1993	Transfers and Additions	Transfers and Retirements	Balance June 30, 1994
Land	$ 204,566	$ 9,636	$ 848	$ 213,354
Structures and Improvements	376,955	103,543	29,624	450,874
Equipment	191,310	87,189	93,951	184,548
Construction in Progress	594,862	120,511	485,425	229,948
Total	$ 1,367,693	$ 320,879	$ 609,848	$ 1,078,724

Construction in progress is composed of the following:

Project Title	Project Authorization	Expenditures to Date	Committed	Remaining Authorization
Civic Center Development Report & Design	$ 6,936	$ 1,704	$ 107	$ 5,125
GSA-New Data Center	5,738	1,316	7	4,415
Sheriff-Tent Replacement-Musick	6,796	911	9	5,876
GSA-New Communications Center	16,210	1,017	19	15,174
HCA Remodel 1719/1725 W 17th. St.	9,019	4,082	2,061	2,876
Probation-Juvenile Hall Expansion	8,932	581	85	8,266
Manchester Parking	7,072	18	–	7,054
Sheriff-South County Substation	7,700	2	–	7,698
Theo Lacy Expansion	185,546	60,708	189	124,649
Superior/Juvenile Crt-New Facilities Design	10,072	5,662	25	4,385
Muni/South Court Master Plan*	6,213	1,406	60	4,747
Central Court Master Plan*	5,225	3,811	137	1,277
Juvenile Justice Center Interior Furnishings	6,803	995	–	5,808
Cabot Rd-Crown Valley/Animal Shelter	6,684	2,344	266	4,074
Seismic Retrofit (Building)	6,535	232	493	5,810
Juvenile Justice Courts	47,013	43,271	–	3,742
Juvenile Justice Intake Center	11,276	6,209	–	5,067
Parking Structure #2	10,353	8,168	–	2,185
Parking Structure #1	9,056	8,843	–	213
GSA Data Center	17,631	9,461	–	8,170
Loma Ridge Communications Center	12,682	6,952	49	5,681
Sunset Harbor-Phase II	13,849	357	–	13,492
Fairview/Talbert Grassland Habitat	5,194	1,285	5	3,904
Elementary School	6,800	4,388	–	2,412
All Other Projects**	149,478	56,225	1,989	91,264
Total	$ 578,813	$ 229,948	$ 5,501	$ 343,364

* Project suspended due to bankruptcy (See Note 1.)
** "All Other Projects" represents projects with individual appropriations of less than $5 million.

6. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancellable operating leases for certain buildings which are not material to the County's general operations. The Airport derives a substantial portion of its revenues from noncancellable operating leases with air carriers and concessionaires. The Airport's property under operating leases, consisting primarily of structures and improvements, at June 30, 1994, approximates $49,291.

6. COUNTY PROPERTY ON LEASE TO OTHERS (Cont'd)

The County's General Fund, Special Revenue Funds and Enterprise Funds lease real property to others under noncancellable operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancellable operating leases as of June 30, 1994, are as follows:

	General Fund	Special Revenue Funds	Enterprise Funds
FY 1994-95	$ 598	$ 4,054	$ 25,769
FY 1995-96	600	4,042	21,054
FY 1996-97	599	3,935	19,298
FY 1997-98	250	3,482	19,278
FY 1998-99	162	3,381	19,253
Subsequent years	1,398	37,548	114,936
Total future minimum rentals	$ 3,607	$ 56,442	$ 219,588

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $57 (General Fund), $2,455 (Special Revenue Funds), and $15,305 (Enterprise Funds) for the year ended June 30, 1994.

7. UNAPPORTIONED TAXES

The County records collections of significant disputed property taxes within the unapportioned taxes liability category in its financial statements. Upon final disposition of the disputes, the amounts are either refunded to taxpayers or distributed to the County or other taxing entities. At June 30, 1994, approximately $52.1 million of disputed property taxes and interest earnings were included in unapportioned taxes.

8. NOTES PAYABLE

The Orange County Housing Authority is obligated for the repayment of several notes, primarily from the purchase of real property. The total original principal amount was $351 with an outstanding balance of $10 at June 30, 1994, as reflected in the General Long-Term Debt Account Group. The outstanding balance at June 30, 1993, was $159.

Annual principal requirements to maturity are as follows:

Fiscal Year(s) Ending June 30	Amount
1995-1999	$ 8
2000	2
Total	$ 10

9. SHORT-TERM NOTES PAYABLE

Tax and Revenue Anticipation Notes

During the year ended June 30, 1994, the County of Orange issued non-taxable tax and revenue anticipation notes in the amount of $136,000. Related interest expenditures as of June 30,1994 were $4,069. The notes matured June 30,1994. The monies provided by these notes were used for general fund expenditures and capital expenditures, and to discharge other obligations or indebtedness of the County. The interest and principal thereon was paid from funds received by the County during fiscal year 1993-94.

The County also issued taxable tax and revenue anticipation notes in the amount of $400,000. The proceeds from these notes were used to make investments in the Orange County Investment Pool (OCIP) to generate additional investment income for the County. Related interest expenditures for the year ended June 30, 1994 were $16,288. The notes matured July 1, 1994.

9. SHORT-TERM NOTES PAYABLE (Cont'd)

Teeter Financing

The County issued "Teeter Plan" taxable notes in the amount of $215,000. Related interest expenditures as of June 30, 1994 were $5,401. Of the $215,000, $110,164 of the notes were paid by collections of delinquent taxes and penalties by June 30, 1994. The remaining $104,836 of the notes plus accrued interest were paid in July 1994, by the County Treasury pursuant to a standby note purchase agreement, which was subsequently redeemed by the issuance of the taxable 1994-95 Series A Teeter Notes in the amount of $111,000.

10. LONG-TERM OBLIGATIONS

General Obligation Bonds Payable

General obligation bonds are not collateralized. Revenue for retirement of these bonds is provided from ad valorem taxes on property within the district of the governmental unit issuing the bonds.

The amount of 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, 1994, the statutory limit was approximately $2.2 billion.

General obligation bonds outstanding and related activity for the year ended June 30, 1994 were as follows:

Description	Balance July 1, 1993	Retirements	Balance June 30, 1994
County Improvement Serial Bonds:			
Date Issued: July 1, 1957			
Interest Rates: 1.00% to 4.25%			
Original Amount: $7,510			
Maturing in installments through July 1, 1997	$ 980	$ (195)	$ 785
County Flood Control District Improvement Bonds:			
Date Issued: February 1, 1957			
Interest Rates: 0.25% to 4.25%			
Original amount: $42,620			
Maturing in installments through February 1, 1996	3,285	(1,095)	2,190
County Sanitation District No. 12 Sewer Bonds:			
Date Issued: January 1, 1963			
Interest Rate: 4.50% to 4.75%			
Original amount: $1,810			
Maturing in installments through July 1, 1995	320	(100)	220
	$ 4,585	$ (1,390)	$ 3,195

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

Orange County Public Facilities Corporation (OCPFC) revenue bonds are primarily secured by facilities constructed with the bond proceeds. The outstanding OCPFC balance includes $14,768 in the Telephone Internal Service Fund (which includes accrued interest of $512) and $83,801 in the Waste Management Enterprise Fund (which includes accrued interest of $535). Revenue for interest payments and bond retirements is serviced by the Telephone Internal Service Fund and the Waste Management Enterprise Fund; the remainder is serviced by revenues generated from lease payments made by the General Fund on the constructed facilities. The General Fund is reimbursed for a portion of these lease payments by other County funds.

Airport Enterprise Fund revenue bonds are secured and serviced primarily by a pledge of the net revenues of the Airport and its rights to receive net revenues.

10. LONG-TERM OBLIGATIONS (Cont'd)

Orange County Financing Authority and the Orange County Development Agency (OCDA) revenue bonds are secured and serviced by a pledge of OCDA's allocation of property taxes derived from the total incremental taxable value of properties within the redevelopment areas.

Master Lease Equipment Obligations are serviced by base rental payments on acquired equipment. The outstanding Master Lease Equipment Obligations balance includes $69 in the Enterprise Funds and $2,169 in the Internal Service Funds.

In prior years, the County has advance refunded the 1987 and 1989 Certificates of Participation and the 1989 Tax Allocation Bonds which are considered defeased and the long-term debt liability has been removed from the General Long-Term Debt Account Group. At June 30, 1994, $125,381 of defeased debt remained outstanding.

During fiscal year 1993/94, the September 1, 1987 Orange County Development Agency Tax Allocation Revenue Bonds and July 23, 1987 Airport Enterprise Fund Revenue Bonds were advance refunded. The net proceeds from the advance refunding were used to purchase State and Local Government Series securities. Those securities were deposited with an escrow agent to provide for all future debt service payments on the refunded debt issuance. As a result, the refunded debt issuance is considered defeased, as described below.

Orange County Development Agency
In August 1993, the Orange County Development Agency issued $57,965 in tax allocation revenue bonds, with interest rates ranging from 3.250% to 6.125%, to advance refund tax allocation bonds ranging from 6.20% to 7.60%, originally issued September 1, 1987, and to fund ongoing redevelopment projects. The refunding tax allocation bonds reduced the debt service payments by $1,716 and produced an economic gain (difference between the present values of the debt service payments on the old and new debt) of $208. Additionally, the annual letter of credit fee was eliminated by the refunding, increasing the present value savings to $1,466. The outstanding balance of the refunded bonds at June 30, 1994 was $18,770.

Airport Enterprise Fund
In July 1993, the Airport Enterprise Fund issued $79,755 in revenue bonds, with interest rates ranging from 3.00% to 5.50%, to partially advance refund revenue bonds ranging from 6.00% to 8.12% which were originally issued on July 23, 1987. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $11,322. In accordance with Governmental Accounting Standards Board Statement 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," this difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018 using the effective-interest method. The Airport completed the advance refunding to reduce its total debt service payments over the next 25 years by $11,700 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $6,100.

The following long-term obligations, with the exception of the 1992 OCFA Revenue Bonds Series A and B and the 1993 OCDA Revenue Bonds are considered to be in technical default as described in Note 1.

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 1994, were as follows:

Description	Balance July 1, 1993	Issuances and Discount Amortization	Deferred Refunding, Assignments and Retirements	Balance June 30, 1994
Orange County Public Facilities Corporation Revenue Bonds:				
Date Issued: July 1, 1986				
Interest Rates: 6.75% to 7.50%				
Original amount: $36,965				
Maturing in installments through July 1, 2001.	$ 20,838	$ 22	$ (4,595)	$ 16,265

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1993	Issuances and Discount Amortization	Deferred Refunding, Assignments and Retirements	Balance June 30, 1994
Airport Enterprise Fund				
Revenue Bonds:				
Date Issued: July 23, 1987, $68,440 refunded on July 1, 1993.				
Interest Rates: 6.00% to 8.12%				
Original amount: $233,676				
Maturing in installments through July 1, 2018.	$ 232,979	$ 2,416	$ (69,440)	$ 165,955
Orange County Development				
Agency Revenue Bonds:				
Date Issued: September 1, 1987, $19,045 refunded on August 1, 1993.				
Interest Rates: 6.20% to 7.60%				
Original amount: $20,000				
Maturing in installments through September 1, 2017.	19,045	–	(19,045)	–
Master Lease				
Schedule No. 1, 1988 Equipment				
Project Purchaser Certificates:				
Date Issued: September 1, 1988				
Interest Rates: 7.20%				
Original amount: $13,475				
Maturing in installments through September 1, 1995	4,526	–	(1,776)	2,750
Orange County Public Facilities				
Corporation Revenue Bonds:				
Date Issued: December 1, 1988				
Interest Rates: 6.80% to 7.875%				
Original amount: $88,146				
Maturing in installments through December 1, 2013.	85,009	12	(1,755)	83,266
Airport Enterprise Fund				
Subordinated Airport Revenue				
Certificates of Participation:				
Date Issued: October 1, 1990				
Interest Rates: 6.50% to 7.80%				
Original amount: $6,420				
Maturing in installments through July 1, 2000.	5,460	–	(525)	4,935
Master Lease				
Schedule No. 2, 1990 Equipment				
Project Purchaser Certificates:				
Date Issued: January 3, 1991				
Interest Rates: 7.00%				
Original amount: $16,475				
Maturing in installments through September 1, 2000.	13,558	–	417	13,975

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1993	Issuances and Discount Amortization	Deferred Refunding, Assignments and Retirements	Balance June 30, 1994
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: April 1, 1991 Interest Rates: 5.60% to 6.50% Original amount: $31,380 Maturing in installments through June 1, 2021.	$ 30,860	$ –	$ (440)	$ 30,420
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: August 1, 1991 to refund prior December 22, 1987 bond issue Interest Rates: 5.40% to 7.05% Original amount: $33,579 Maturing in installments through December 1, 2018.	30,934	–	(1,290)	29,644
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: November 15, 1991 Interest Rates: 4.90% to 7.30% Original amount: $86,035 Maturing in installments through August 1, 2021.	85,345	–	(1,145)	84,200
Orange County Financing Authority Revenue Bonds Series A: Date Issued: June 1, 1992 to refund prior June 1, 1989 Orange County Development Agency bond issue Interest Rates: 4.50% to 6.55% Original amount: $28,082 Maturing in installments from September 1,1994 through September 1, 2022	28,082	–	–	28,082
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: June 1, 1992 and delivered July 7, 1992 to refund prior April 1, 1989 bond issue Interest Rates: 4.70% to 6.375% Original amount: $102,735 Maturing in installments through June 1, 2019.	100,980	–	(1,805)	99,175
Orange County Financing Authority Revenue Bonds Series B: Date Issued: July 1, 1992 Interest Rates: 5.10% to 7.40% Original amount: $3,185 Maturing in installments through September 1, 2000.	3,185	–	(300)	2,885

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1993	Issuances and Discount Amortization	Deferred Refunding, Assignments and Retirements	Balance June 30, 1994
Orange County Public Facilities Corporation Revenue Bonds				
Master Lease Program:				
Date Issued: February 1, 1993				
Interest Rates: 3.40% to 5.50%				
Original amount: $24,780				
Maturing in installments from September 1, 1994 through September 1, 2003	$ 24,780	$ –	$ –	$ 24,780
Airport Enterprise Fund				
Revenue Bonds:				
Date issued: July 1, 1993 to refund $68,440 of the 1987 Airport Revenue bond issue				
Interest rate: 3.00% to 5.50%				
Original amount: $79,755				
Maturing in installments through July 1, 2018.	–	77,105	–	77,105
Orange County Development Agency Revenue Bonds:				
Date issued: August 1, 1993 to refund prior September 1, 1987 bond issue				
Interest rate: 3.250% to 6.125%				
Original amount: $57,965				
Maturing in installments through September 1, 2023.	–	57,965	–	57,965
Deferred amount on refunding (1993 Airport Revenue Bonds)	–	343	(11,322)	(10,979)
Total	$ 685,581	$ 137,863	$ (113,021)	$ 710,423

Demand Obligations Payable

The General Long-Term Debt Account Group includes $13,900 of demand obligations indebtedness; revenue for related debt retirements and interest payments is provided by lease payments from the General Fund.

Demand obligations outstanding and related activity for the year ended June 30, 1994, were as follows:

Description	Balance July 1, 1993	Issuances	Retirements	Balance June 30,1994
Orange County Public Facilities Corporation				
1985 Refunding Certificates of Participation:				
Date Issued: December 30, 1985				
Interest Rate: 12.00% Maximum Variable				
Original amount: $33,851				
Maturing in installments through December 1, 2015.	$ 14,100	$ –	$ (200)	$ 13,900

10. LONG-TERM OBLIGATIONS (Cont'd)

The 1985 certificates were issued by OCPFC to provide funds to refund, on December 1, 1987 (the "cross-over date"), 1984 certificates which had also been issued by OCPFC. The 1984 certificates were issued to finance the rehabilitation of two three-story office buildings located in Santa Ana, California, the expansion and remodeling of an existing courthouse located in Newport Beach, California, and the acquisition and improvement of a refuse disposal site and access road located within the County. One of the office buildings in Santa Ana was not rehabilitated, resulting in a prepayment in a prior year of $2,675.

Some of the proceeds from the OCPFC Revenue Bonds dated December 1, 1988 were used to refund $16,640 of the 1985 Certificates designated for the acquisition and improvement of the refuse disposal site and access road.

Proceeds of the 1985 issuance, along with accumulated interest earnings, were used to retire the 1984 certificates on December 1, 1987. Each 1985 certificate was secured, prior to the cross-over date, by a pledge of and lien upon the escrow fund established to retire the related issue of 1984 certificates, and is now secured by a pledge of payments under the related 1985 lease agreements.

The 1985 certificates shall be purchased upon demand of the holder at a price equal to the principal amount thereof plus accrued interest, upon no more than seven days' notice and delivery to the trustee or paying agent. The remarketing agent has agreed to make a good faith attempt to remarket any repurchased bonds at a price equal to the principal amount thereof plus any accrued interest to the purchase date.

The 1985 certificates are secured by irrevocable letters of credit issued by the Dai-Ichi Kangyo Bank, Limited. The letters of credit permit the trustee to draw up to an amount sufficient to pay principal of the related certificates when due, to pay the purchase price of the related certificates that are required to be purchased pursuant to "puts" or are subject to mandatory purchase and that are not remarketed, and to pay not less than 62 days of accrued interest. As of June 30, 1994, there were no outstanding draws on the letters of credit.

OCPFC demand bonds are reported as long-term debt because they met all four conditions for such treatment specified in Governmental Accounting Standards Board Interpretation No. 1, as follows:

- The 1985 Reimbursement Agreement between the County and Dai-Ichi Kangyo Bank (the "Bank") provides for the registration of any unremarketed certificates in the name of the Bank. The obligation of the County to reimburse the Bank is satisfied by making the regularly scheduled long-term interest payments for up to five years following a purchase drawing. Holders other than Dai-Ichi Kangyo Bank may "put" certificates to the County's paying agent. If not remarketed, the certificates are acquired by the Bank and a "conversion" occurs because the Bank holds the certificates long-term without the ability to "put" to the County for payment.

- The expiration date of the 1985 issue letters of credit (and the associated Reimbursement Agreement) is June 30, 1996.

- The 1985 Reimbursement Agreement is not cancelable by Dai-Ichi Kangyo Bank prior to its expiration date, except with respect to events of default, the existence of which can be objectively determined by the County and the Bank.

- Dai-Ichi Kangyo Bank was the largest bank in the world on both an asset and deposit basis on the date of issuance of the 1985 letters of credit and thus is expected to be financially capable of honoring the Reimbursement Agreement.

Fees associated with the 1985 demand bonds primarily consist of letter of credit fees. Prior to December 15, 1995, the County was required to pay annually to Dai-Ichi Kangyo Bank amounts ranging from 1/5 to 1/4 of one percent of the letter of credit amount. After December 15, 1995 and through the expiration date, the County is required to pay annually .6% of the letter of credit amount.

10. LONG-TERM OBLIGATIONS (Cont'd)

Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by bond type on an annual basis (in thousands):

Fiscal Year(s) Ending June 30	General Obligation Bonds	Revenue Bonds	Demand Bonds	Total
1995	$ 1,466	$ 64,360	$ 1,208	$ 67,034
1996	1,433	65,193	1,392	68,018
1997	200	66,708	1,368	68,276
1998	202	66,892	1,248	68,342
1999	–	66,772	1,328	68,100
2000-2004	–	298,648	6,704	305,352
2005-2009	–	275,855	6,784	282,639
2010-2014	–	274,038	7,096	281,134
2015-2019	–	230,883	2,816	233,699
2020-2024	–	53,387	–	53,387
Total	3,301	1,462,736	29,944	1,495,981
Less: Interest	106	732,570	16,044	748,720
Deferred amount on refunding	–	10,979	–	10,979
Discount	–	8,764	–	8,764
Principal Payable	$ 3,195	$ 710,423	$ 13,900	$ 727,518

The following is a schedule of all long-term debt service requirements to maturity by fund type and account group on an annual basis (in thousands):

Fiscal Year(s) Ending June 30	Enterprise Funds	Internal Service Funds	General Long-Term Debt Account Group	Total
1995	$ 28,720	$ 4,080	$ 34,233	$ 67,033
1996	28,996	4,071	34,951	68,018
1997	30,802	3,971	33,503	68,276
1998	30,640	3,943	33,759	68,342
1999	30,649	3,596	33,857	68,102
2000-2004	150,250	–	155,101	305,351
2005-2009	147,299	–	135,340	282,639
2010-2014	145,843	–	135,291	281,134
2015-2019	103,060	–	130,639	233,699
2020-2024	–	–	53,387	53,387
Total	696,259	19,661	780,061	1,495,981
Less: Interest	356,255	3,138	389,327	748,720
Deferred amount on refunding	10,979	–	–	10,979
Discount	8,675	89	–	8,764
Principal Payable	$ 320,350	$ 16,434	$ 390,734	$ 727,518

There is an additional $9 in Internal Service Funds for Master Lease acquisitions recorded as controlled equipment.

See Note 1 for discussion of the County's ability to meet these long-term obligations as a result of the bankruptcy.

10. LONG-TERM OBLIGATIONS (Cont'd)

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 of Orange or any political subdivision thereof is pledged to the payment of the bonds. Accordingly, such obligations are not included in the accompanying general purpose financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facility District. 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. 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 general purpose financial statements.

The County is acting as an agent of the special 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.

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts and Service Areas" Capital Projects Fund. Because the County is not obligated in any manner for special assessment district and community facilities district debt, related debt service transactions are recorded within the "Deposit Fund-Local Boards, Commissions, Authorities and Districts," an Agency Fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 1994, are $713,557.

11. ARBITRAGE REBATE PAYABLE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the Federal government at least every five years.

During the current year, the County performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. In accordance with these regulations, 90% of the amount due to the Internal Revenue Service (IRS) at the end of each five year period has been paid. The remaining 10% has been recorded as a liability in the General Long-Term Debt Account Group and will be paid after all bonds have been redeemed. Any rebate amounts identified as the result of interim reports are also recorded as a liability in the General Long-Term Debt Account Group. The County has determined that an arbitrage rebate liability of $785 at June 30, 1994 is due to the IRS and is comprised of the following:

Orange County Development Agency Revenue Bonds, 1987	$ 71
Orange County Development Agency Revenue Bonds, 1989	448
Orange County Public Facilities Corporation Revenue Bonds, 1989	258
Master Lease Schedule No. 1, 1988	8
	$ 785

During Fiscal Year 1993-94, the County made arbitrage rebate payments of $2,321.

12. HOUSING REVENUE BOND PROGRAM

The County first issued housing bonds in 1980. Since then, a total of over $2,456,983 of such bonds have been issued. Housing bonds provide funds for the purchase of loans collateralized by first lien deeds of trust, certain reserve funds and other monies on single-family residences and multiple rental units located in certain areas of the County.

The bonds are payable solely from payments made on the purchased loans. It is the County's opinion that these bonds are not payable from any other revenues or assets of the County, and neither the faith and credit nor the taxing power of the County, the State of California, or any political subdivision thereof, is obligated to pay principal and interest on the bonds. Consequently, the transactions of these revenue bond programs are not included in the financial statements of the various funds and account groups of the County.

13. LEASES

Commitments Under Operating Leases

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

	Equipment	Real Property	Total
FY 1994-95	$ 6,256	$ 49,440	$ 55,696
FY 1995-96	1,550	49,918	51,468
FY 1996-97	584	48,976	49,560
FY 1997-98	85	48,152	48,237
FY 1998-99	–	44,959	44,959
Subsequent years	–	279,426	279,426
Total	$ 8,475	$ 520,871	$ 529,346

Total rent expenditures for operating leases incurred for FY 93-94 were $50,117.

Capital Leases

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

	General Fixed Assets Account Group
Equipment	$ 5,788
Land	335
Structures and Improvements	618
Total	$ 6,741

13. LEASES (Cont'd)

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, 1994:

	General Long-Term Debt Account Group
FY 1994-95	$ 1,455
FY 1995-96	1,393
FY 1996-97	64
FY 1997-98	39
FY 1998-99	39
Subsequent years	15
Total minimum lease payments	3,005
Less: amount representing interest	(243)
Present value of net minimum lease payments	$ 2,762

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

The following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group:

	Lease Principal Outstanding July 1, 1993	Obligations Incurred During Year	Lease Principal Paid/Reduced During Year	Lease Principal Outstanding June 30, 1994
Total capital lease obligations	$ 2,867	$ 1,294	$ 1,399	$ 2,762

Due to the bankruptcy (see Note 1), the County has discontinued, renegotiated, or restructured certain leases in an effort to obtain more favorable terms and cost savings to the County.

14. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables by fund are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	$ 122,905	$ 18,591
	122,905	18,591
Special Revenue Funds		
Parking Facilities	104	47
Roads, Airport Land Use	833	4,355
Public Library	565	359
Fire Department	63	2,527
Flood Control District	146	3,202
Harbors, Beaches & Parks District	16,245	3,417
Service Areas, Lighting & Maintenance Districts	6	42
Redevelopment, Other Environmental Management	2,403	4,066
Other Public Protection	961	1,217
Contingencies, Economic Uncertainty	1,075	215
Community Services	–	597
Taxable Note Repayment	104,595	17
	126,996	20,061

14. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

	Due From Other Funds	Due To Other Funds
Debt Service Funds		
Redevelopment Agency Bonds	$ –	$ 3,247
General Obligation, Other Revenue Bonds	1	–
	1	3,247
Capital Projects Funds		
Criminal Justice Facilities	561	112
County, Public Library, & Fire Department	2,312	581
Flood Control District	–	606
Harbors, Beaches & Parks District	701	13,694
Redevelopment Agency	260	705
Special Assessment Districts, Service Areas	98	446
Public Facilities Corporation	35	2
	3,967	16,146
Enterprise Funds		
Airport	106	514
Waste Management	14,920	564
	15,026	1,078
Internal Service Funds		
Communications	15	5,473
County Indemnity Health Plan	–	5
Workers' Compensation	24	69
Property & Casualty Risk	–	36
Transportation	748	75
Reprographics	201	70
Telephone	794	607
	1,782	6,335
Trust and Agency Funds		
Civic Center Authorities	32	89
Other Expendable Trusts	–	6
Deposit Fund - Local Boards, Commissions, Authorities and Districts	210	6,845
Tax Unapportioned Fund	1	122,654
Clearing and Revolving Fund	(5,665)	–
Departmental Fund	21,105	91,308
	15,683	220,902
Total	$ 286,360	$ 286,360

15. OPERATING TRANSFERS AND RESIDUAL EQUITY TRANSFERS

Operating transfers in totaling $70,355 are comprised of $17,446 into the General Fund, $11,179 into the Special Revenue Funds, $33,575 into the Debt Service Funds, $6,815 into the Capital Projects Funds, $534 into the Internal Service Funds, and $806 into the Expendable Trust Funds. Operating transfers out totaling $70,355 are comprised of $34,103 out of the General Fund, $13,991 out of the Special Revenue Funds, $7,094 out of the Debt Service Funds, $12,739 out of the Capital Project Funds, $2,229 out of the Expendable Trust Funds, and $199 out of the Internal Service Funds.

15. OPERATING TRANSFERS AND RESIDUAL EQUITY TRANSFERS (Cont'd)

Residual equity transfers in totaling $16,198 are comprised of $87 into the General Fund, $13,546 into the Special Revenue Funds, $690 into the Capital Projects Funds, and $1,875 into the Internal Service Funds (disclosed as an increase in contributed capital). Residual equity transfers out totaling $16,198 are comprised of $2,041 out of the General Fund, $97 out of the Special Revenue Funds, and $14,060 out of the Capital Projects Funds.

16. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following funds have deficit fund balances or retained earnings.

Fund	Deficit (In Thousands)
Special Revenue	
Taxable Note Repayment	$ 258
Internal Service	
Workers' Compensation	12,278
Property and Casualty Risk	14,563

The deficit in the Taxable Note Repayment Fund results from interest expenditures exceeding interest revenues. Deficits in the Workers' Compensation and Property and Casualty Risk Funds result from accruals of actuarially-determined, incurred but not reported losses. These funds will receive sufficient funding from other funds to cover disbursements during the year when they become payable.

17. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following areas for the year ended June 30, 1994:

Fund	Account	Appropriations	Expenditures
General Fund			
	General Government	$ 153,559	$ 179,340
	Operating Transfers Out	2,154	34,103
Special Revenue Funds			
	Provision for Decline in Land Held for Resale	–	1,764
Debt Service Funds			
	Interest	3,758	4,032
Capital Projects Funds			
	Provision for Decline in Land Held for Resale	–	2,133

In the General Fund, the general government expenditures in excess of appropriations resulted from the transfer of the Teeter Plan property tax delinquency buyout and tax shift credit to the Tax Losses Reserve fund. The operating transfers out in excess of appropriations occurred because certain amounts for Debt Service relating to leases were reclassified for financial reporting purposes.

For the Special Revenue and Capital Projects Funds, the unbudgeted provisions for decline in land held for resale result from decreases in net realizable values recorded for financial reporting purposes for the Orange County Development Agency.

The interest expenditures in excess of appropriations for the Debt Service Funds is due to reverse repurchase agreement interest recorded for financial statement purposes.

18. RESERVED FUND BALANCES

Fund balances which are not available for appropriation at June 30, 1994 are reserved for the following purposes:

	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency
Fund Balance Reserved					
Encumbrances	$ 40,377	$ 73,084	$ –	$ 14,277	$ –
Imprest Cash Funds	1,442	118	–	–	–
Long-Term Receivables	–	16,635	–	–	–
Employees' Retirement	–	–	–	–	1,068
Inventory of Materials and Supplies	882	271	–	–	–
Prepaid Costs	951	–	25	–	–
Equipment Replacement	–	9,335	–	–	–
Construction	–	15,441	–	2,015	–
Land and Improvements Held for Resale	–	2,039	–	5,213	–
Economic Uncertainties	–	125,806	–	–	–
Low and Moderate Income Housing	–	1,259	–	616	–
Transportation Corridor Agency Loan	–	11,000	–	–	–
Fire Communication System	–	9,669	–	–	–
Development of Fire District	–	17,130	–	–	–
OCHA Operations	–	4,600	–	–	–
Redevelopment Loans	–	–	–	525	–
Debt Service	–	–	44,988	–	–
Future Construction Loans	–	6,781	–	–	–
General Reserve	–	285	–	–	–
Other Reserves	50	50	–	–	–
Reserved Fund Balance	$ 43,702	$ 293,503	$ 45,013	$ 22,646	$ 1,068

General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves, revenue anticipation notes, or a combination of both 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. Other reserves consist of a variety of amounts, including repair and maintenance contracts, and replacement of materials.

19. FUND TYPE RECLASSIFICATIONS

Governmental Funds

Effective July 1, 1993, pursuant to an in-depth analysis, the County reclassified $1,852 of certain Special Revenue Funds to Agency Funds. Two funds previously accounted for in the "Other Public Protection" Special Revenue grouping, amounting to $1,852, are now accounted for in the "Departmental Fund" Agency grouping. The reclassifications were made to each fund in which the purpose and types of activities more closely fit the definition of an Agency Fund type, wherein the County acts in the capacity of an agent for some other organization, government, or fund.

20. RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE

In 1994, the Integrated Waste Management Department (IWMD) implemented GASB 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," which requires governments to accrue a liability for anticipated costs to provide the required care of closing landfill sites plus the costs of monitoring and maintaining the sites during the postclosure periods. Accordingly, retained earnings as of July 1, 1993 has been reduced by $77,393 to account for these postclosure costs. See Note 22 for the complete GASB 18 disclosure.

20. RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE (Cont'd)

The beginning fund balance for the Pension Trust Funds was reduced by a total of $1,944,911. This restatement includes a decrease of $1,945,122 which reflects the implementation of GASB 14, "The Financial Reporting Entity," relating to the Orange County Employees' Retirement System because it does not meet the criteria for inclusion as a component unit. In addition, reporting of the Defined Benefit Retirement Plan was changed from a calendar year basis to a fiscal year basis, and therefore its beginning fund balance of $519 has been increased by $211 to account for the six months of operations (from January 1, 1993 to June 30, 1993) not reported in the prior year's CAFR.

21. ENTERPRISE FUNDS

A. Airport

The Airport Enterprise Fund was established to account for self-supporting services rendered at John Wayne Airport. The Airport's staff coordinates and administers the general business activities related to the John Wayne Airport, including concessions, fixed base operations, leased property, and aircraft tiedown facilities. Copies of the financial statements may be obtained from Airport Accounting Services.

B. Waste Management

This fund was established to provide monies for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate fees, which users pay based primarily on tonnage. Copies of the financial statements may be obtained from the Integrated Waste Management Department.

C. Segment Information for Enterprise Funds

	Airport	Waste Management	Total Enterprise Funds
Operating revenues	$ 58,002	$ 84,656	$ 142,658
Depreciation and amortization	13,674	4,013	17,687
Operating income	22,273	23,845	46,118
Net income	7,569	26,638	34,207
Net current capital contributions	3,910	(12)	3,898
Plant, property and equipment:			
Additions	11,525	10,889	22,414
Deletions	1,134	752	1,886
Net working capital	47,758	138,435	186,193
Total assets	486,030	505,296	991,326
Bonds and other long-term liabilities:			
Payable from operating revenues	237,085	193,611	430,696
Total equity	141,422	83,623	225,045

22. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE 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 thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that each respective landfill stops accepting waste, IWMD is required by GASB 18 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.

All active waste disposal sites are owned by IWMD, with the exception of the Santiago Canyon site, which is leased. In 1990, IWMD closed its Coyote Canyon landfill as this site had reached its maximum capacity.

22. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE COSTS (Cont'd)

The $110,346 reported as the balance of the landfill closure and postclosure care liability at June 30, 1994 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date less actual costs disbursed related to the closure of the Coyote Landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of $205,172 as the proposed capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 1994. 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 2038. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board, 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 Frank R. Bowerman, Prima Deschecha, and Santiago Canyon landfill sites into a restricted escrow fund, held by the County. An irrevocable letter of credit amounting to $14,508 has been issued by a bank for the closure care costs of Olinda/Olinda Alpha in lieu of an escrow arrangement. As of June 30, 1994, $13,761 has been set aside for these costs and is included as restricted assets in the accompanying balance sheets as due from the County of Orange. The state mandated formula under which these contributions are computed will 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 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.

Due to the bankruptcy in December 1994 (see Note 1), the amounts in the restricted escrow funds became insufficient to meet the Financial Assurance requirements of California Code of Regulations Title 14. In order to renew the state operating permit without penalty, IWMD successfully requested and received drawdowns of pre-petition funds from the County and, in September 1995, reported to the State Board that the escrow accounts had been restored to full compliance with State regulations.

23. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 1994, major contracts entered into for proprietary fund types for equipment, land, structures and improvements, and other commitments were as follows:

Project Title	Remaining Commitments
Airport	
Runway/Taxiway Expansion and Strengthening	$ 1,900
Integrated Waste Management	
Olinda LFG Recovery	1,266
FRB - Project-Phase 3	1,201
Total	$ 4,367

24. ESTIMATED LIABILITY - OTHER LITIGATION AND CLAIMS

The County records estimates of liabilities for litigation and claims expected to be paid primarily from the General Fund. Estimated liabilities for litigation and claims totaling $150 have been recorded in the General Long-Term Debt Account Group at June 30, 1994, as none of these liabilities are expected to be liquidated with expendable available financial resources.

The County is a defendant in various lawsuits related to the bankruptcy (see Note 1). The outcome of these lawsuits is not presently determinable and no estimate of loss can be made.

25. 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 results of operations of the funds of the County.

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.

As the owner and operator of a number of landfill sites, IWMD has potential exposure to environmental liability. IWMD may be required to perform corrective action for contaminate releases at any of its inactive landfills, even if the County no longer owns the site. IWMD is in the process of evaluating its potential exposure to remediation liabilities on closed landfill sites. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

See Note 1 for discussion of contingencies related to the bankruptcy.

26. DEFINED BENEFIT PENSION PLANS

Orange County Employees' Retirement System

Substantially all County employees participate in the Orange County Employees' Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system.

At December 31, 1993, total OCERS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	5,524
Active employees, including those pending retirement or withdrawal, and terminated employees entitled to benefits but not yet receiving them:	
Fully Vested	11,881
Partially Vested	–
Nonvested	8,095
Total	25,500

The covered payroll (regular salaries only) for County employee members of OCERS for the year ended December 31, 1993, was $608.4 million; the County's total payroll for all employees was $682.9 million.

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. If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee 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.

26. DEFINED BENEFIT PENSION PLANS (Cont'd)

Significant accounting policies of OCERS are as follows:

- During the year, OCERS maintains its books on the accrual basis of accounting.

- Quoted market prices are used to value United States Government securities, corporate and foreign bonds and debentures, equity securities, and domestic and international common stocks. Mortgage investments are valued at an amount equal to the unpaid principal of the loans. Real estate equity investments are stated at market value as determined by independent appraisals. The equity index, open end and venture capital funds, and limited partnership investments are carried at market value, as determined by the investment managers.

- Unclaimed monies represent terminated members' contributions left on deposit and refundable to them when claimed, and are included in accounts payable.

- Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable, under OCERS' provisions, to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries; (b) beneficiaries of employees who have died; and (c) present employees and their beneficiaries. Benefits under OCERS are based on employees' "final compensation." For Tier I members, one year of service is used to calculate benefits, while for Tier II members, a three-year average is used to calculate benefits. The accumulated plan benefits for active employees are based on their average compensation. Benefits payable under all circumstances (retirement, death, disability, and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date. The actuarial present value of accumulated plan benefits is determined by the actuary, and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuation as of December 31, 1993, were:

  a. Life expectancy of participants is based on the 1983 Group Annuity Mortality Table.

  b. Retirement, disability, turnover, and mortality assumptions are based on OCERS' actual experience.

  c. The investment return, net of administrative expense, is assumed to be 8.0 percent.

  d. Retirees' benefits are assumed to increase 3 percent annually, once retired, in accordance with OCERS' cost-of-living provisions.

  e. Prior service cost is amortized over an initial 30-year period. The remaining period, as of December 31, 1993, was 14 years.

  f. Salaries are assumed to remain at current levels in the future.

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. In 1993, employer's contributions were 2.55% for General members and 17.93% for Safety members.

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of participation. For Tier I members, the normal rate of contribution is based on the member's age of 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. 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. For Tier II Safety members, the rate of contribution is calculated to provide an annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

26. DEFINED BENEFIT PENSION PLANS (Cont'd)

The County's actuarially determined employer contribution requirement for the year ended December 31, 1993, was $26.5 million, based on recommended contribution rates published in an actuarial study. The County's actual contribution was $41.4 million based on rates established in the previous annual actuarial study. The contribution requirement and actual contribution from County employees was $38.4 million. These actual employer and employee contributions represent 6.8% and 6.3% of covered payroll, respectively.

Changes in actuarial assumptions, benefit provisions, actuarial funding method and other factors which occurred during the year ended December 31, 1993 caused the differences in the actuarially determined employer contribution rate.

The County's 1993 contribution represented 94.2% of total contributions required of all participating entities.

The "pension benefit obligation" is a standardized disclosure measure of the actuarial present value of credited projected benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess OCERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. OCERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 1993, for OCERS as a whole, determined through an actuarial valuation performed as of that date, was $2,000.5 million. OCERS' net assets available for benefits on that date were $2,226.4 million, leaving an overfunded pension obligation of $225.9 million, categorized as follows (in millions):

	OCERS Pension Benefit Obligation	Allocation to County of Orange (94.2%) Based on 1993 Contributions
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving them	$ 899.2	$ 847.0
Current employees:		
Accumulated employee contributions including allocated investment income	369.2	347.8
Employer financed-vested	347.8	327.6
Employer financed-nonvested	384.3	362.0
Total pension benefit obligation	2,000.5	1,884.4
Net assets available for benefits, at market value	2,226.4	2,097.2
Overfunded pension benefit obligation	$ (225.9)	$ (212.8)

During the year ended December 31, 1993, OCERS experienced a net increase of $155.8 million in the pension benefit obligation. None of that change was attributable to plan amendments.

Trend information for the three years ended December 31, 1991, 1992 and 1993, respectively, is as follows: available assets were sufficient to fund 121.0 percent, 105.5 percent and 111.3 percent of the pension benefit obligation. The overfunded pension benefit obligation represented 46.3 percent, 14.4 percent and 31.2 percent of the annual payroll for employees covered by OCERS for 1991, 1992 and 1993, respectively. Presenting the overfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis purposes. In addition, for the three years ended December 31, 1991, 1992 and 1993, the County's contributions to the system, all made in accordance with actuarially determined requirements, were 12.5 percent, 7.5 percent and 5.7 percent, respectively, of annual covered payroll.

Ten-year historical trend information showing OCERS' progress in accumulating sufficient assets to pay benefits when due and other relevant information is presented in the OCERS Annual Financial Report as of December 31, 1993, which can be obtained from OCERS.

26. DEFINED BENEFIT PENSION PLANS (Cont'd)

In September 1994, the County sold $320,040 in taxable pension obligation bonds. The proceeds were paid to OCERS to fund the County's portion of the unfunded actuarially accrued liability (UAAL) as of June 30, 1994. See Note 29 for discussion of additional use of these monies.

Because of the need to reduce the size of the County workforce as a result of the bankruptcy (see Note 1), the County offered two early retirement incentive packages in January and March of 1995. The first incentive package offered eligible employees a payout of their pre-petition and post-petition vacation, sick leave, and compensatory time balances over three fiscal years. In the second incentive package, eligible employees could convert their vacation, sick leave, and compensatory time balances to a dollar value and purchase up to two years' retirement credit. Any residual dollar value would be paid over five fiscal years. Approximately $1.1 million related to these early retirement incentive packages has been included in the General Long-Term Debt Account Group in the fiscal year ended June 30, 1995.

The total cost savings to the County's Fiscal Year 1994-95 budget from these early retirement incentive packages was in excess of $3 million.

Defined Benefit Retirement Plan

In January, 1992, the County adopted a defined benefit retirement plan for employees performing services on the basis of less than half-time or as extra help. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The eligible employees of this plan are not covered by the Orange County Employee Retirement System.

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.

Each participant shall have his compensation reduced each pay day based upon the participant's attained age as of January 1 of each calendar year and recommended contribution rates. The reduction in compensation shall be contributed by the County to the administrator on a monthly basis. The County may prospectively increase or decrease the contribution rates by plan amendment effective on the first day of the plan year.

The plan's actuarial assumptions are an 8.0 percent investment return net of administrative expense, and life expectancy is based upon the Unisex Pension Mortality Table.

The Board of Supervisors has delegated the County Treasurer the authority to hold, invest, and reinvest the plan assets and plan income.

The number of employees, the covered payroll, and the amount of County contributions are not disclosed because the amounts are not material.

27. POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County makes health care benefits available for substantially all retired employees. These health care benefits are funded by insurance premiums paid by retirees enrolled in the health plans. The County recognizes the cost of these benefits by reporting as expenditures in various funds periodic insurance premiums and claims, which were $6,238 in fiscal year 1993-94.

28. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

28. DEFERRED COMPENSATION PLAN (Cont'd)

Two separate administrative arrangements exist within the framework of this deferred compensation plan. The County Treasurer administers the County-sponsored plan, and the Public Employees Benefit Services Corporation (PEBSCO) administers the National Association of Counties (NACO) plan. County employees can opt to invest in either or both of these plans.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of benefits under the plan), subject only to the claims of the County's general creditors, of which plan participants are included. Participants' rights under the plan are equal to those of general unsecured creditors of the County in an amount equal to the fair market value of the deferred account for each participant.

The County's deferred compensation plan is accounted for in the Deferred Compensation Fund, an agency fund, which was established to provide a convenient method of setting aside a portion of the County's assets to meet its obligations under the plan. Neither the existence of the plan nor the fund has been deemed to create a trust.

Deferred compensation fund assets are carried in the financial statements at market value. These assets are intended solely for deferred compensation benefits.

At June 30, 1994, approximately sixty-four percent of the total assets of $220,076 in this fund were invested with the County Treasurer, and the remaining thirty-six percent of the assets were held by PEBSCO.

The portion of the deferred compensation plan invested with the County Treasurer suffered losses due to the liquidation of investments following the bankruptcy (see Note 1). The Board of Supervisors, in Resolution 95-2, dated January 5, 1995, stated its intent to limit plan participants' investment losses to ten percent of December 31, 1994 account balances. The loss limitation was dependent upon the receipt of a favorable Private Letter Ruling from the Internal Revenue Service, which was received in October, 1995. The County is currently studying its available options with respect to the implementation of Resolution 95-2.

29. SUBSEQUENT EVENTS

In addition to the effects of the County's bankruptcy filing on December 6, 1994, as discussed in Note 1, the following events occurred subsequent to June 30, 1994:

A. On July 28, 1994, the County of Orange sold bonds which refunded Assessment District 87-1 (Golden Lantern), in the amount of $15,420. The district was renamed, at that time in accordance with the Improvement Act of 1915, Reassessment District No. 94-1 (Golden Lantern) Limited Obligation Refunding Bonds.

B. On August 24, 1994 the County of Orange sold bonds which refunded eight of the Community Facilities Districts (CFD 87-1, 87-3, 87-4, 87-5A, 87-5B, 87-5C, 87-5D, and 87-8) in the amount of $239,340. The refunded issue is known as the South Orange County Public Financing Authority Special Tax Revenue Bonds, 1994 Series C (Foothill Area.)

C. In July 1994, the County sold $169,000 of tax and revenue anticipation notes which were due and payable on July 19, 1995. As a result of the investment pool loss in Fiscal Year 1994-95, the notes were extended through June 30, 1996.

D. In August 1994, the County sold $31,000 of tax and revenue anticipation notes which were due and payable on August 10, 1995. As a result of the investment pool loss in Fiscal Year 1994-95, the notes were extended through June 30, 1996.

E. In July 1994, the County sold $600,000 of short-term taxable notes which were due and payable on July 10, 1995. As a result of the investment pool loss in Fiscal Year 1994-95, the notes were extended through June 30, 1996.

29. SUBSEQUENT EVENTS (Cont'd)

F. In July 1994, the County sold $111,000 of Teeter Plan taxable notes which were due and payable on June 30, 1995. In August 1994, the County sold $64,000 of Teeter Plan tax-exempt notes which were due and payable on June 30, 1995. In June 1995, the Orange County Special Financing Authority issued $155,000 in taxable and tax-exempt Teeter Plan Revenue Bonds, which were primarily used to purchase receivables representing amounts owed by delinquent taxpayers to the County. The County applied a portion of the proceeds of its sale of receivables, along with other available funds, to pay at maturity the 1994 Teeter Plan taxable and tax-exempt notes.

G. In July 1994, $299,660 in 1994-95 Pooled Tax and Revenue Anticipation Notes (the "Pooled TRANs") were issued on behalf of 27 school districts. The Pooled TRANs were not a General Fund obligation of the County, but were a limited obligation of the County. The Pooled TRANs were paid in full on the due date of July 28, 1995.

H. On August 2, 1994, the Orange County Flood Control District issued $100,000 in taxable notes, which were paid in full on the due date of August 1, 1995, using funds available in the Flood Control District Special Revenue Fund after allocation of its share of the investment pool loss.

I. In September 1994, the County sold $320,040 in taxable pension obligation bonds to fund the County's portion of the unfunded actuarially accrued liability (UAAL) of the Orange County Employees' Retirement System as of June 30, 1994.

J. In June 1995, the County issued Refunding Recovery Bonds in the amount of $278,790 to refund obligations which the County issued in partial satisfaction of claims of certain Pool Participants pursuant to the Comprehensive Settlement Agreement between funds of the County.

K. Effective July 3, 1995 the County school districts segregated their cash and investments held with the Treasurer into separate demand deposit accounts and custodial accounts.

L. In August 1995, the County reached an agreement with OCERS to implement new retirement rates for Fiscal Year 1995-96. The estimated $30 million normal cost for the Fiscal Year 1995-96 County contributions will be paid from the Pension Obligation Bond proceeds on deposit with OCERS in a segregated account.

M. In October 1995, the Board of Supervisors and the Treasury Oversight Committee approved the Treasurer's Money Market Investment Policy Statement, which does not allow for leverage or borrowing.

N. On December 20, 1995, the County filed an action against its former auditors, KPMG Peat Marwick, and related entities and partners, alleging claims for breach of contract, professional negligence and indemnity. The County is seeking damages in excess of $3 billion.

O. On January 19, 1996, the County submitted the Disclosure Statement in connection with the solicitation of votes on the Plan of Adjustment.

P. On January 24, 1996, Orange County, the Board of Supervisors and the Orange County Flood Control District settled all charges with the Securities and Exchange Commission arising out of its formal investigation into the events preceding Orange County's bankruptcy filing. The settlement includes the consent by the County, the Board of Supervisors and the Flood Control District to an administrative cease and desist order. The cease and desist order is based upon findings by the Securities and Exchange Commission that false and misleading statements were made in the offer and sale of municipal securities issued in 1993 and 1994. Neither the County, the Board of Supervisors nor the Flood Control District admitted or denied the Commission's findings.

COUNTY OF ORANGE
GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1995

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Report of Independent Auditors

Board of Supervisors
County of Orange, California

We have audited the accompanying general purpose financial statements of the County of Orange, California as of and for the year ended June 30, 1995, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further discussed in Note 1 to the financial statements, the County of Orange and the Orange County Investment Pool filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code on December 6, 1994 as a result of losses in the value of assets in the Orange County Investment Pool. In connection with the bankruptcy, the Orange County Investment Pool subsequently sustained and reported in the year ended June 30, 1995 a loss of $1.6 billion through the liquidation of the majority of its securities. The Orange County Investment Pool, as of June 30, 1994, was comprised substantially of the same securities held as of December 6, 1994. Due to the complex nature of a significant portion of the investments in the portfolio, management has not been able to determine market values for a significant portion of the investments in the portfolio as of June 30, 1994. As a consequence, the ultimate $1.6 billion loss reported in the year ended June 30, 1995 may be overstated by the portion of the loss, if any, attributable to fiscal 1994, and we were unable to otherwise ascertain whether any portion of the investment loss is attributable to fiscal year 1994.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the County of Orange, California at June 30, 1995 and, except for the effects of such adjustments, if any, to the combined statements

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of revenues, expenditures/expenses and cash flows, as listed in the table of contents on pages B-66 to B-74, as might have been determined to be necessary had we been able to ascertain the amount of possible overstatement of the 1995 investment loss attributable to fiscal 1994, the results of its operations and the changes in cash flows of the proprietary fund types and nonexpendable trust fund for the year then ended in conformity with generally accepted accounting principles.

As referred to above and more fully discussed in Note 1 to the financial statements, the County of Orange filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code on December 6, 1994, following considerable investment losses sustained by the Orange County Investment Pool in which most of the County's funds had been invested. As a result of the investment losses incurred, the subsequent liquidation of the pool investments and a related reduction in investment revenue, the County has experienced an operating shortfall in the 1995 fiscal year and is in default under the terms of a number of debt obligations. A balanced general fund operating budget is projected for the 1996 fiscal year by reducing service levels and the scope of operations. However, the principal and interest portion of the County's short-term notes due on June 30, 1996 and bankruptcy creditor claims have not been budgeted in 1996 for repayment. Management has developed its Plan of Adjustment ("the Plan"), which was filed in the Bankruptcy Court on December 21, 1995. The Plan anticipates that County debtholders, vendors, and certain County-administered accounts and administrative undisputed claims will be paid current and required debt reserves will be replenished from the issuance of debt. The Plan also provides for legislatively enacted redirected revenues and incremental revenues from the importation of out-of-County waste and Teeter Plan distribution of surplus cash flows over the next 20 years to pay debt service on the new long-term debt and any remaining claims under the Plan. Additionally, in accordance with the Joint Agreement for Resolution of All Claims Against the County of Orange ("Joint Agreement"), certain noncounty pool participants claims of $819,000,000 will become nonrecourse against the County and will be repaid solely from litigation proceeds relating to County claims initiated against various advisors. The Plan and Joint Agreement are subject to various approvals including the Bankruptcy Court. The general purpose financial statements do not include any adjustments relating to the amounts and classification of liabilities that might be necessary if the County of Orange, California is not able to meet its debts as they come due, or if such debts are adjusted under the provisions of Chapter 9 of the United States Bankruptcy Code.

Ernst + Young LLP

January 5, 1996,
except for items E and F of Note 29, as to which
the date is January 19, 1996 and January 24, 1996, respectively

GENERAL PURPOSE FINANCIAL STATEMENTS

COUNTY OF ORANGE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1995
(In Thousands)

ASSETS AND OTHER DEBITS	Total (Memorandum Only)	Governmental Fund Types: General	Governmental Fund Types: Special Revenue
Pooled Cash/Investments (Notes 1, 2 and 3)	$ 3,063,640	$ 88,421	$ 232,567
Imprest Cash Funds (Notes 3 and 18)	3,186	1,446	38
Restricted Investments with Trustee (Note 3)	440,642	3,210	18,634
Investments (Notes 1, 2 and 3)	25,748	--	--
Deposits In-Lieu of Cash	74,488	--	--
Receivables			
Accounts	253,911	21,971	20,910
Taxes (Note 2)	332,924	11,269	3,631
Interest/Dividends	25,386	4,665	6,752
Deposits	19,923	1,173	5,909
Notes (Note 4)	20,777	--	14,495
Advances	13,893	30	11,283
Allowance for Uncollectible Receivables	(1,632)	(830)	(38)
Due from Other Funds (Note 14)	554,940	157,230	291,243
Due from Other Governmental Agencies	124,083	54,971	14,180
Inventory of Materials and Supplies (Notes 2 and 18)	878	669	209
Prepaid Costs (Note 18)	38	13	--
Land and Improvements Held for Resale (Notes 2 and 18)	6,608	--	2,039
Land (Notes 2, 5 and 13)	245,968	--	--
Structures and Improvements (Notes 2, 5 and 13)	941,538	--	--
Accumulated Depreciation	(72,284)	--	--
Equipment (Notes 2, 5 and 13)	239,044	--	--
Accumulated Depreciation	(39,481)	--	--
Construction in Progress (Notes 2 and 5)	176,029	--	--
Bond Issuance Costs	3,629	--	--
Amount Available in Debt Service Funds	615,144	--	--
Amount to be Provided for Payment of General Long-Term Debt	2,550,328	--	--
Total Assets and Other Debits	$ 9,619,348	$ 344,238	$ 621,852
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities			
Accounts Payable	$ 140,506	$ 64,227	$ 10,966
Salaries and Employee Benefits Payable	17,798	14,707	301
Interest Payable	954	--	--
Deposits from Others	303,488	551	22,106
Monies Held for Others	1,305,753	--	473
Due to Other Funds (Note 14)	554,940	167,534	40,266
Due to Other Governmental Agencies	116,103	26,050	8,727
Unapportioned Taxes (Note 7)	664,389	--	--
Insurance Claims Payable (Notes 2 and 23)	106,806	862	--
Deferred Revenue	16,729	10,956	1,961
Notes Payable (Notes 8 and 9)	100,009	--	100,000
Landfill Site Closure Liability (Note 21)	117,637	--	--
Bonds Payable (Note 10)	2,263,051	--	--
Capital Lease Obligations Payable (Note 13)	3,218	--	--
Compensated Employee Absences Payable (Note 2)	56,164	--	--
Arbitrage Rebate Payable (Note 11)	382	--	--
Pool Participant Claims (Note 1)	818,968	--	--
County-Administered Account Claims (Note 1)	354,804	--	--
Estimated Litigation & Claims (Note 24)	842	--	--
Total Liabilities	6,942,541	284,887	184,800
Equity and Other Credits			
Investment in General Fixed Assets	1,056,734	--	--
Contributed Capital	87,509	--	--
Retained Earnings (Deficits) - Unreserved (Note 16)	120,804	--	--
Fund Balances (Note 16)			
Reserved (Note 18)	827,610	34,763	127,630
Unreserved			
Undesignated	584,150	24,588	309,422
Total Equity and Other Credits	2,676,807	59,351	437,052
Total Liabilities, Equity and Other Credits	$ 9,619,348	$ 344,238	$ 621,852

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

Governmental Fund Types (Cont'd)		
Debt Service	Capital Projects	
$ 433,816	$ 243,212	Pooled Cash/Investments (Notes 1, 2 and 3)
--	--	Imprest Cash Funds (Notes 3 and 18)
179,879	8,692	Restricted Investments with Trustee (Note 3)
1,259	--	Investments (Notes 1, 2 and 3)
--	--	Deposits In-Lieu of Cash
		Receivables
30,075	13,550	Accounts
417	--	Taxes (Note 2)
170	5,256	Interest/Dividends
--	11,289	Deposits
--	204	Notes (Note 4)
--	16	Advances
--	--	Allowance for Uncollectible Receivables
14,431	7,350	Due from Other Funds (Note 14)
--	1,169	Due from Other Governmental Agencies
--	--	Inventory of Materials and Supplies (Notes 2 and 18)
25	--	Prepaid Costs (Note 18)
--	4,569	Land and Improvements Held for Resale (Notes 2 and 18)
--	--	Land (Notes 2, 5 and 13)
--	--	Structures and Improvements (Notes 2, 5 and 13)
--	--	Accumulated Depreciation
--	--	Equipment (Notes 2, 5 and 13)
--	--	Accumulated Depreciation
--	--	Construction in Progress (Notes 2 and 5)
--	--	Bond Issuance Costs
--	--	Amount Available in Debt Service Funds
		Amount to be Provided for Payment of
--	--	General Long-Term Debt
$ 660,072	$ 295,307	Total Assets and Other Debits
		LIABILITIES, EQUITY AND OTHER CREDITS
		Liabilities
$ 1,236	$ 4,096	Accounts Payable
--	--	Salaries and Employee Benefits Payable
--	--	Interest Payable
--	3,522	Deposits from Others
--	--	Monies Held for Others
15,803	6,185	Due to Other Funds (Note 14)
991	517	Due to Other Governmental Agencies
--	--	Unapportioned Taxes (Note 7)
--	--	Insurance Claims Payable (Notes 2 and 23)
144	748	Deferred Revenue
--	--	Notes Payable (Notes 8 and 9)
--	--	Landfill Site Closure Liability (Note 21)
--	--	Bonds Payable (Note 10)
--	--	Capital Lease Obligations Payable (Note 13)
--	--	Compensated Employee Absences Payable (Note 2)
--	--	Arbitrage Rebate Payable (Note 11)
--	--	Pool Participant Claims (Note 1)
--	--	County-Administered Account Claims (Note 1)
--	--	Estimated Litigation & Claims (Note 24)
18,174	15,068	Total Liabilities
		Equity and Other Credits
--	--	Investment in General Fixed Assets
--	--	Contributed Capital
--	--	Retained Earnings (Deficits) - Unreserved (Note 16)
		Fund Balances (Note 16)
641,898	21,962	Reserved (Note 18)
		Unreserved
--	258,277	Undesignated
641,898	280,239	Total Equity and Other Credits
$ 660,072	$ 295,307	Total Liabilities, Equity and Other Credits

(Continued)

COUNTY OF ORANGE
COMBINED BALANCE SHEET (Cont'd)
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1995
(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types
ASSETS AND OTHER DEBITS	Enterprise	Internal Service	Trust and Agency
Pooled Cash/Investments (Notes 1, 2 and 3)	$ 174,525	$ 91,590	$ 1,799,509
Imprest Cash Funds (Notes 3 and 18)	49	1,468	185
Restricted Investments with Trustee (Note 3)	37,499	6,432	186,296
Investments (Notes 1, 2 and 3)	--	--	24,489
Deposits In-Lieu of Cash	31,724	--	42,764
Receivables			
Accounts	21,194	6,381	139,830
Taxes (Note 2)	--	--	317,607
Interest/Dividends	3,902	2,256	2,385
Deposits	1,552	--	--
Notes (Note 4)	--	--	6,078
Advances	--	--	2,564
Allowance for Uncollectible Receivables	(25)	--	(739)
Due from Other Funds (Note 14)	15,364	2,697	66,625
Due from Other Governmental Agencies	2,342	16	51,405
Inventory of Materials and Supplies (Notes 2 and 18)	--	--	--
Prepaid Costs (Note 18)	--	--	--
Land and Improvements Held for Resale (Notes 2 and 18)	--	--	--
Land (Notes 2, 5 and 13)	31,025	--	--
Structures and Improvements (Notes 2, 5 and 13)	409,373	--	--
Accumulated Depreciation	(72,284)	--	--
Equipment (Notes 2, 5 and 13)	19,079	50,133	--
Accumulated Depreciation	(11,538)	(27,943)	--
Construction in Progress (Notes 2 and 5)	36,235	--	--
Bond Issuance Costs	3,629	--	--
Amount Available in Debt Service Funds	--	--	--
Amount to be Provided for Payment of General Long-Term Debt	--	--	--
Total Assets and Other Debits	$ 703,645	$ 133,030	$ 2,638,998
LIABILITIES, EQUITY AND OTHER CREDITS			
Liabilities			
Accounts Payable	$ 15,240	$ 6,268	$ 38,473
Salaries and Employee Benefits Payable	351	178	2,261
Interest Payable	525	429	--
Deposits from Others	41,751	--	235,558
Monies Held for Others	--	--	1,305,280
Due to Other Funds (Note 14)	3,816	1,302	320,034
Due to Other Governmental Agencies	11	24	79,783
Unapportioned Taxes (Note 7)	--	--	664,389
Insurance Claims Payable (Notes 2 and 23)	--	105,944	--
Deferred Revenue	1,120	1,800	--
Notes Payable (Notes 8 and 9)	--	--	--
Landfill Site Closure Liability (Note 21)	117,637	--	--
Bonds Payable (Note 10)	316,233	13,713	--
Capital Lease Obligations Payable (Note 13)	--	--	--
Compensated Employee Absences Payable (Note 2)	1,519	501	--
Arbitrage Rebate Payable (Note 11)	--	--	--
Pool Participant Claims (Note 1)	--	--	--
County-Administered Account Claims (Note 1)	--	--	--
Estimated Litigation & Claims (Note 24)	--	--	--
Total Liabilities	498,203	130,159	2,645,778
Equity and Other Credits			
Investment in General Fixed Assets	--	--	--
Contributed Capital	61,726	25,783	--
Retained Earnings (Deficits) - Unreserved (Note 16)	143,716	(22,912)	--
Fund Balances (Note 16)			
Reserved (Note 18)	--	--	1,357
Unreserved			
Undesignated	--	--	(8,137)
Total Equity and Other Credits	205,442	2,871	(6,780)
Total Liabilities, Equity and Other Credits	$ 703,645	$ 133,030	$ 2,638,998

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

Account Groups		
General Fixed Assets	General Long Term Debt	
		ASSETS AND OTHER DEBITS
$ --	$ --	Pooled Cash/Investments (Notes 1, 2 and 3)
--	--	Imprest Cash Funds (Notes 3 and 18)
--	--	Restricted Investments with Trustee (Note 3)
--	--	Investments (Notes 1, 2 and 3)
--	--	Deposits In-Lieu of Cash
		Receivables
--	--	Accounts
--	--	Taxes (Note 2)
--	--	Interest/Dividends
--	--	Deposits
--	--	Notes (Note 4)
--	--	Advances
--	--	Allowance for Uncollectible Receivables
--	--	Due from Other Funds (Note 14)
--	--	Due from Other Governmental Agencies
--	--	Inventory of Materials and Supplies (Notes 2 and 18)
--	--	Prepaid Costs (Note 18)
--	--	Land and Improvements Held for Resale (Notes 2 and 18)
214,943	--	Land (Notes 2, 5 and 13)
532,165	--	Structures and Improvements (Notes 2, 5 and 13)
--	--	Accumulated Depreciation
169,832	--	Equipment (Notes 2, 5 and 13)
--	--	Accumulated Depreciation
139,794	--	Construction in Progress (Notes 2 and 5)
--	--	Bond Issuance Costs
--	615,144	Amount Available in Debt Service Funds
		Amount to be Provided for Payment of
--	2,550,328	General Long-Term Debt
$ 1,056,734	$ 3,165,472	Total Assets and Other Debits
		LIABILITIES, EQUITY AND OTHER CREDITS
		Liabilities
$ --	$ --	Accounts Payable
--	--	Salaries and Employee Benefits Payable
--	--	Interest Payable
--	--	Deposits from Others
--	--	Monies Held for Others
--	--	Due to Other Funds (Note 14)
--	--	Due to Other Governmental Agencies
--	--	Unapportioned Taxes (Note 7)
--	--	Insurance Claims Payable (Notes 2 and 23)
--	--	Deferred Revenue
--	9	Notes Payable (Notes 8 and 9)
--	--	Landfill Site Closure Liability (Note 21)
--	1,933,105	Bonds Payable (Note 10)
--	3,218	Capital Lease Obligations Payable (Note 13)
--	54,144	Compensated Employee Absences Payable (Note 2)
--	382	Arbitrage Rebate Payable (Note 11)
--	818,968	Pool Participant Claims (Note 1)
--	354,804	County-Administered Account Claims (Note 1)
--	842	Estimated Litigation & Claims (Note 24)
--	3,165,472	Total Liabilities
		Equity and Other Credits
1,056,734	--	Investment in General Fixed Assets
--	--	Contributed Capital
--	--	Retained Earnings (Deficits) - Unreserved (Note 16)
		Fund Balances (Note 16)
--	--	Reserved (Note 18)
		Unreserved
--	--	Undesignated
1,056,734	--	Total Equity and Other Credits
$ 1,056,734	$ 3,165,472	Total Liabilities, Equity and Other Credits

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1995
(In Thousands)

	Total (Memorandum Only)	Governmental Fund Types	
		General	Special Revenue
Revenues			
Taxes	$ 193,993	$ 110,123	$ 69,124
Licenses, Permits, and Franchises	12,347	5,612	6,735
Fines, Forfeitures and Penalties	50,007	39,600	2,473
Use of Money and Property	146,863	89,291	(4,193)
Investment Pool Loss (Note 1)	(375,960)	(24,099)	(78,954)
Intergovernmental Revenues	1,122,449	984,801	94,673
Charges for Services	238,092	226,142	11,817
Contributions From Property Owners	39,909	--	--
Other Revenues	167,928	44,322	70,016
Total Revenues	1,595,628	1,475,792	171,691
Expenditures			
Current			
General Government	577,962	126,065	436,127
Public Protection	566,414	514,340	52,074
Public Ways and Facilities	37,620	--	34,991
Health and Sanitation	222,733	222,733	--
Public Assistance	591,041	533,194	15,473
Education	19,639	--	19,639
Recreation and Cultural Services	32,493	--	32,493
Capital Outlay	149,721	22,935	32,115
Debt Service			
Principal Retirement	13,599	2,190	49
Interest	239,403	133,616	22,106
Total Expenditures	2,450,625	1,555,073	645,067
Excess (Deficit) of Revenues Over Expenditures	(854,997)	(79,281)	(473,376)
Other Financing Sources (Uses)			
Operating Transfers In (Note 15)	418,777	83,043	243,110
Operating Transfers Out (Note 15)	(418,777)	(242,953)	(81,502)
Payment to Pool Participants	(231,737)	--	--
Proceeds from Capital Lease Obligations (Note 13)	2,644	2,644	--
Bond Issuance Proceeds (Note 10)	1,544,432	200,000	318,300
Payment to Refunded Bond Escrow Agent (Note 10)	(426)	--	--
Excess (Deficit) of Revenues and Other Sources over Expenditures and Other Uses	459,916	(36,547)	6,532
Fund Balances - Beginning of Year	1,012,759	97,302	471,013
Adjustment For Creation of Joint Powers Authority (Note 19)	(60,988)	--	(49,823)
Residual Equity Transfers From Other Funds (Note 15)	28,485	--	28,485
Residual Equity Transfers (To) Other Funds (Note 15)	(29,769)	(1,404)	(19,155)
Fund Balances - End of Year	$ 1,410,403	$ 59,351	$ 437,052

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

Governmental Fund Types (Cont'd)		Fiduciary Fund Types	
Debt Service	Capital Projects	Expendable Trust	
$ 13,054	$ 1,692	$ --	Revenues
--	--	--	Taxes
16	7,918	--	Licenses, Permits, and Franchises
29,519	27,082	5,164	Fines, Forfeitures and Penalties
(207,019)	(61,649)	(4,239)	Use of Money and Property
707	1,242	41,026	Investment Pool Loss (Note 1)
--	133	--	Intergovernmental Revenues
--	39,909	--	Charges for Services
52,942	29	619	Contributions From Property Owners
(110,781)	16,356	42,570	Other Revenues
			Total Revenues
			Expenditures
			Current
15,770	--	--	General Government
--	--	--	Public Protection
--	--	2,629	Public Ways and Facilities
--	--	--	Health and Sanitation
--	--	42,374	Public Assistance
--	--	--	Education
--	--	--	Recreation and Cultural Services
--	60,298	34,373	Capital Outlay
			Debt Service
11,360	--	--	Principal Retirement
71,435	11,044	1,202	Interest
98,565	71,342	80,578	Total Expenditures
(209,346)	(54,986)	(38,008)	Excess (Deficit) of Revenues Over Expenditures
			Other Financing Sources (Uses)
85,672	415	6,537	Operating Transfers In (Note 15)
(73,836)	(18,572)	(1,914)	Operating Transfers Out (Note 15)
(231,737)	--	--	Payment to Pool Participants
--	--	--	Proceeds from Capital Lease Obligations (Note 13)
1,026,132	--	--	Bond Issuance Proceeds (Note 10)
--	(426)	--	Payment to Refunded Bond Escrow Agent (Note 10)
596,885	(73,569)	(33,385)	Excess (Deficit) of Revenues and Other Sources over Expenditures and Other Uses
45,013	374,183	25,248	Fund Balances – Beginning of Year
--	(11,165)	--	Adjustment For Creation of Joint Powers Authority (Note 19)
--	--	--	Residual Equity Transfers From Other Funds (Note 15)
--	(9,210)	--	Residual Equity Transfers (To) Other Funds (Note 15)
$ 641,898	$ 280,239	$ (8,137)	Fund Balances – End of Year

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENDITURES/ENCUMBRANCES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL ON BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1995
(In Thousands)

	General Fund		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 110,800	$ 110,123	$ (677)
Licenses, Permits, and Franchises	6,143	5,612	(531)
Fines, Forfeitures and Penalties	31,346	39,600	8,254
Use of Money and Property	127,377	(6,773)	(134,150)
Investment Pool Loss	(25,320)	(24,099)	1,221
Intergovernmental Revenues	984,682	984,801	119
Charges for Services	253,233	226,142	(27,091)
Other Revenues	42,590	44,322	1,732
Total Revenues	1,530,851	1,379,728	(151,123)
Expenditures/Encumbrances			
Current			
General Government	113,437	124,945	(11,508)
Public Protection	535,449	513,067	22,382
Health and Sanitation	224,550	221,417	3,133
Public Assistance	539,049	531,014	8,035
Total Current	1,412,485	1,390,443	22,042
Capital Outlay	35,768	19,705	16,063
Debt Service			
Principal Retirement	13,485	4,289	9,196
Interest	61,124	37,800	23,324
Total Expenditures/Encumbrances	1,522,862	1,452,237	70,625
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	7,989	(72,509)	(80,498)
Other Financing Sources (Uses)			
Operating Transfers In	77,138	83,043	5,905
Operating Transfers Out	—	(242,953)	(242,953)
Proceeds from Capital Lease Obligations	—	2,644	2,644
Bond Issuance Proceeds	79,908	200,000	120,092
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	165,035	(29,775)	(194,810)
Fund Balance - Beginning of Year	99,394	99,394	—
Residual Equity Transfers To Other Funds	—	(1,404)	(1,404)
Fund Balance - End of Year	$ 264,429	$ 68,215	$ (196,214)

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

	Budgeted Special Revenue Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 69,298	$ 69,124	$ (174)
Licenses, Permits, and Franchises	5,848	6,735	887
Fines, Forfeitures, and Penalties	2,611	2,473	(138)
Use of Money and Property	57,144	(23,406)	(80,550)
Investment Pool Loss	(78,950)	(78,954)	(4)
Intergovernmental Revenues	123,094	94,673	(28,421)
Charges for Services	11,196	11,817	621
Other Revenues	142,965	70,016	(72,949)
Total Revenues	333,206	152,478	(180,728)
Expenditures/Encumbrances			
Current			
General Government	163,488	434,577	(271,089)
Public Protection	73,428	52,805	20,623
Public Ways and Facilities	39,675	35,153	4,522
Education	24,171	18,911	5,260
Recreation and Cultural Services	35,029	31,014	4,015
Public Assistance	22,112	19,310	2,802
Miscellaneous	60	--	60
Total Current	357,963	591,770	(233,807)
Capital Outlay	203,939	22,836	181,103
Debt Service			
Principal Retirement	793	49	744
Interest	6,961	4,115	2,846
Total Expenditures/Encumbrances	569,656	618,770	(49,114)
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(236,450)	(466,292)	(229,842)
Other Financing Sources (Uses)			
Operating Transfers In	227,724	243,100	15,376
Operating Transfers Out	(200,558)	(80,848)	119,710
Bond Issuance Proceeds	27,129	318,300	291,171
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	(182,155)	14,260	196,415
Fund Balance - Beginning of Year	446,395	446,395	--
Adjustment For Creation of Joint Powers Authority	(49,823)	(49,823)	--
Residual Equity Transfers From Other Funds	2,631	28,485	25,854
Residual Equity Transfers To Other Funds	(21,726)	(19,155)	2,571
Fund Balance - End of Year	$ 195,322	$ 420,162	$ 224,840

(Continued)

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENDITURES/ENCUMBRANCES
AND CHANGES IN FUND BALANCES (Cont'd)
BUDGET AND ACTUAL ON BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1995
(In Thousands)

	Budgeted Debt Service Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 14,490	$ 13,054	$ (1,436)
Fines, Forfeitures, & Penalties	--	16	16
Use of Money and Property	332	991	659
Investment Pool Loss	(1,696)	(1,696)	--
Intergovernmental Revenues	177	707	530
Other Revenues	38,000	52,841	14,841
Total Revenues	51,303	65,913	14,610
Expenditures/Encumbrances			
General Government	400,201	247,361	152,840
Debt Service			
Principal Retirement	2,325	2,325	--
Interest	5,385	17,940	(12,555)
Total Expenditures/Encumbrances	407,911	267,626	140,285
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(356,608)	(201,713)	154,895
Other Financing Sources (Uses)			
Operating Transfers In	313	184	(129)
Operating Transfers Out	(75,506)	(72,935)	2,571
Bond Issuance Proceeds	422,992	426,132	3,140
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(8,809)	151,668	160,477
Fund Balance - Beginning of Year	9,707	9,707	--
Fund Balance - End of Year	$ 898	$ 161,375	$ 160,477

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

	Budgeted Capital Projects Funds		
	Revised Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Revenues			
Taxes	$ 1,800	$ 1,692	$ (108)
Fines, Forfeitures and Penalties	6,603	7,918	1,315
Use of Money and Property	19,810	16,070	(3,740)
Investment Pool Loss	(60,306)	(61,649)	(1,343)
Intergovernmental Revenues	293	1,242	949
Charges for Services	235	133	(102)
Contributions From Property Owners	63,830	39,909	(23,921)
Other Revenues	1,451	29	(1,422)
Total Revenues	33,716	5,344	(28,372)
Expenditures/Encumbrances			
Capital Outlay	326,047	60,780	265,267
Debt Service			
Principal Retirement	1,660	--	1,660
Interest	5,486	31	5,455
Total Expenditures/Encumbrances	333,193	60,811	272,382
Excess (Deficit) of Revenues Over Expenditures/Encumbrances	(299,477)	(55,467)	244,010
Other Financing Sources (Uses)			
Operating Transfers In	132,251	415	(131,836)
Operating Transfers Out	(204,523)	(18,572)	185,951
Payment to Refunded Bond Escrow Agent	(426)	(426)	--
Excess (Deficit) of Revenues and Other Sources Over Expenditures and Other Uses	(372,175)	(74,050)	298,125
Fund Balance - Beginning of Year	452,717	452,717	--
Adjustment For Creation of Joint Powers Authority	(11,165)	(11,165)	--
Residual Equity Transfer from Other Funds	6,450	--	(6,450)
Residual Equity Transfer to Other Funds	--	(9,210)	(9,210)
Fund Balance - End of Year	$ 75,827	$ 358,292	$ 282,465

COUNTY OF ORANGE
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE (DEFICITS) AND CONTRIBUTIONS
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 1995
(In Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Operating Revenues					
Use of Money and Property	$ 49,583	$ --	$ --	$ 20	$ 49,603
Licenses, Permits, and Franchises	83	--	--	--	83
Charges for Services	78,157	35,530	--	--	113,687
Insurance Premiums	--	62,495	--	--	62,495
Other Revenues	--	418	43	3	464
Contributions	--	--	--	796	796
Total Operating Revenues	127,823	98,443	43	819	227,128
Operating Expenses					
Salaries and Employee Benefits	17,965	17,617	--	260	35,842
Services and Supplies	7,477	19,877	--	--	27,354
Professional Services	21,537	8,894	--	--	30,431
Operating Leases	3,245	2,430	--	--	5,675
Insurance Claims	--	40,379	--	--	40,379
Other Charges	11,477	164	--	--	11,641
Waste Disposal Site Closing Costs	8,172	--	--	--	8,172
Depreciation and Amortization	17,302	5,171	--	--	22,473
Total Operating Expenses	87,175	94,532	--	260	181,967
Operating Income	40,648	3,911	43	559	45,161
Nonoperating Revenues (Expenses)					
Fines, Forfeitures, and Penalties	38	--	--	--	38
Intergovernmental Revenues	381	2	--	--	383
Interest Revenue	17,457	10,051	4	--	27,512
Investment Pool Loss (Note 1)	(49,117)	(28,072)	(47)	(270)	(77,506)
Interest Expense	(32,586)	(6,361)	--	--	(38,947)
Loss on Disposition of Fixed Assets	(14)	(106)	--	--	(120)
Other Revenue (Expense) - Net	245	(2)	--	--	243
Total Nonoperating Revenues (Expenses)	(63,596)	(24,488)	(43)	(270)	(88,397)
Net Income (Loss)	(22,948)	(20,577)	--	289	(43,236)
Add Depreciation Related To Assets Acquired with Contributed Capital	1,375	595	--	--	1,970
Retained Earnings/Fund Balance (Deficits) - Beginning of Year	165,289	(2,930)	--	1,068	163,427
Retained Earnings/Fund Balance (Deficits) - End of Year	$ 143,716	$ (22,912)	$ --	$ 1,357	$ 122,161

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

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Contributions:					
County					
Balances - Beginning of Year	$ 2,101	$ 24,800	$ --	$ --	$ 26,901
Cash Additions - Net	--	1,431	--	--	1,431
Fixed Assets - Depreciation - Net	(11)	(494)	--	--	(505)
Balances - End of Year	2,090	25,737	--	--	27,827
Federal Aviation Administration					
Balances - Beginning of Year	57,533	--	--	--	57,533
Cash Additions - Net	3,345	--	--	--	3,345
Fixed Assets - Depreciation	(1,364)	--	--	--	(1,364)
Balances - End of Year	59,514	--	--	--	59,514
State of California					
Balances - Beginning And End Of Year	122	--	--	--	122
City of San Clemente					
Balances - Beginning of Year	--	147	--	--	147
Fixed Assets - Depreciation	--	(101)	--	--	(101)
Balances - End of Year	--	46	--	--	46
Total Contributions					
Balances - Beginning of Year	59,756	24,947	--	--	84,703
Cash Additions - Net	3,345	1,431	--	--	4,776
Fixed Assets - Depreciation	(1,375)	(595)	--	--	(1,970)
Balances - End of Year	$ 61,726	$ 25,783	$ --	$ --	$ 87,509

COUNTY OF ORANGE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1995
(In Thousands)

	Proprietary Fund Types			Total
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Cash Flows From Operating Activities:				
Operating Income (Loss)	$ 40,648	$ 3,911	$ 43	$ 44,602
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:				
Depreciation	17,302	5,171	--	22,473
Provision for Waste Disposal Site Closure Costs	8,172	--	--	8,172
Fines, Forfeitures and Penalties	38	--	--	38
Other Revenue/(Expense) - Net	245	(2)	--	243
(Increases) Decreases In:				
Deposits In-Lieu of Cash	(3,724)	--	--	(3,724)
Accounts Receivable	(12,490)	(6,263)	(11)	(18,764)
Deposits Receivable	(1,552)	--	--	(1,552)
Notes Receivable	2	--	--	2
Due From Other Funds	(339)	(915)	--	(1,254)
Due From Other Governmental Agencies	(584)	3	--	(581)
Prepaid Expenses	--	68	--	68
Increases (Decreases) In:				
Accounts Payable	1,285	3,771	--	5,056
Salaries and Benefits Payable	(630)	(351)	--	(981)
Deposits From Others	3,062	--	157	3,219
Due to Other Funds	2,738	(5,031)	--	(2,293)
Due to Other Governmental Agencies	(189)	(178)	--	(367)
Insurance Claims Payable	--	1,031	--	1,031
Deferred Revenue	410	(171)	--	239
Compensated Employee Absences Payable	152	25	--	177
Total Adjustments	13,898	(2,842)	146	11,202
Net Cash Provided By Operating Activities	54,546	1,069	189	55,804
Cash Flows From Capital and Related Financing Activities:				
Intergovernmental Revenues	381	2	--	383
Acquisition of Capital Assets	(13,643)	(3,689)	--	(17,332)
Principal Paid on Bonds	(3,948)	(2,713)	--	(6,661)
Interest Paid on Long Term Debt and Other	(35,213)	(7,975)	--	(43,188)
Increase in Contributed Capital	3,345	1,431	--	4,776
Proceeds From Sale of Fixed Assets	325	215	--	540
Waste Disposal Site Closing Disbursements	(880)	--	--	(880)
Net Cash Used By Capital and Related Financing Activities	(49,633)	(12,729)	--	(62,362)
Cash Flows From Investing Activities:				
Interest on Investments	19,525	11,365	--	30,890
Decrease in Restricted Investments with Trustee	823	169	--	992
Decrease in Obligations Under Reverse Repurchase Agreements	(275,650)	(167,757)	--	(443,407)
Investment Pool Loss	(49,117)	(28,072)	(47)	(77,236)
Net Cash Used By Investing Activities	(304,419)	(184,295)	(47)	(488,761)
Net Increases (Decreases) In Cash and Cash Equivalents	(299,506)	(195,955)	142	(495,319)
Cash and Cash Equivalents - Beginning of Year	474,080	289,013	--	763,093
Cash and Cash Equivalents - End of Year	$ 174,574	$ 93,058	$ 142	$ 267,774

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

1. COUNTY BANKRUPTCY

On December 6, 1994, the County of Orange (the "County") and the Orange County Investment Pool (the OCIP) filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code following significant losses incurred by the OCIP.

OCIP Bankruptcy

The OCIP was a collection of internal accounting entries maintained by the County Treasurer-Tax Collector (the "Treasurer") to account for and invest the funds within his control. State law generally requires that all monies of the County and School Districts within the County be held by the Treasurer. In addition, the monies of approximately 190 other public agencies (the "Pool Participants") such as cities, transportation agencies, and special districts were voluntarily deposited with OCIP.

Most of the assets of the OCIP were held in one custodial bank account. However, in the recordkeeping, two pools and several specific investment funds were separately accounted for. Total assets under management prior to bankruptcy totaled approximately $20.6 billion. Approximately $13 billion of these assets were financed by borrowings arranged through a variety of commercial banks and investment banks via repurchase and reverse repurchase agreements whereby securities in the OCIP were pledged as collateral for the short-term borrowings. The unleveraged asset balance at the bankruptcy date was approximately $7.6 billion.

Despite the fact that these deposits were available on relatively short notice for withdrawal by Pool Participants, the OCIP invested a large portion of the assets in securities with an average duration of four years. The OCIP also purchased a variety of structured derivative instruments such as inverse-floaters, step-up callable notes, and other structured notes which were highly sensitive to interest rate fluctuations. At December 6, 1994, approximately 40% of the OCIP assets consisted of these securities. Using these securities as collateral, additional money was borrowed for investment by entering into, on behalf of the County, reverse repurchase agreements with broker-dealers. Reverse repurchase agreements using interest rate sensitive securities as collateral exposed the County to cash collateral calls in the event of interest rate fluctuations. Together with the leverage from reverse repurchase agreements, the purchase of long-term and structured securities limited OCIP's liquidity and resulted in substantial losses of market value when interest rates increased through most of 1994.

On December 1, 1994, the County announced that the OCIP had sustained a $1.5 billion loss in the value of its assets. In response to the OCIP announcement, many broker-dealers who loaned monies to the OCIP began liquidating the collateral they held in order to avoid large losses on their loans.

Due to the sensitivity of the OCIP to interest rate fluctuations, the County's immediate goal upon filing the petition in Bankruptcy Court was to eliminate exposure to further losses in the illiquid, volatile portfolio. In mid-December, the County commenced the orderly auction and sale of certain securities in the portfolio. As a result of the liquidation of these securities, which was completed on January 20, 1995, the investment loss of approximately $1.6 billion was recorded on the County's books and records. Liquidation of these securities significantly reduced the volatility of the remaining portfolio, shortened its average duration to less than one year, and restored its liquidity. The June 30, 1995 financial statements reflect an allocation of the investment loss to the various individual funds based upon the realized liquidated value of the securities held in the portfolio. Due to the complex nature of the structured derivative instruments in the OCIP, many of which were held by OCIP as of June 30, 1994 and December 6, 1994, the County has not been able to ascertain the market values of a significant portion of the investment in the OCIP at June 30, 1994. Accordingly, the amount of the investment loss recorded in fiscal year 1995 may be overstated, as some of the investment loss may be attributable to fiscal year 1994. The following summarizes the allocated investment loss by fund type:

Fund	Amount (in thousands)
General	$ 24,099
Special Revenue	78,954
Debt Service	207,019
Capital Projects	61,649
Expendable Trusts	4,239

1. COUNTY BANKRUPTCY (Cont'd)

Fund	Amount (in thousands)
Enterprise	$ 49,117
Internal Service	28,072
Nonexpendable Trust	47
Pension Trust	270
Agency	1,179,827
Total	$ 1,633,293

The filing of the bankruptcy petitions on December 6, 1994 stayed the Pool Participants' demands for withdrawals from the pools. Further, as a result of the undifferentiated $1.6 billion investment loss, distributions to Pool Participants were stayed. Later, Pool Participants asserted a variety of claims against the County, including breach of fiduciary duty, fraud and negligence, and asserted trust claims seeking the full amount of funds they had placed in the County treasury.

After extensive negotiations between the County and representatives of the Pool Participants, the County and the Pool Participants negotiated and entered into the Comprehensive Settlement Agreement re Orange County Investment Pools, which was approved by the Bankruptcy Court in an order dated May 2, 1995. The Comprehensive Settlement Agreement gave Pool Participants two options to resolve any claim to the Pools they may have had. In return for a release of claims against the County, Pool Participants who selected Option A received cash equal to approximately 77% of their December 6, 1994 investment balance with the Pools, Recovery Notes equal to approximately 3% of their December 6, 1994 balance (13% for school Pool Participants), Settlement Secured Claims equal to approximately 9% for the non-school Pool Participants, and a Repayment Claim for the remainder that is junior to certain other claims against the County. Pool Participants who chose Option B received cash equal to approximately 77% of their December 6, 1994 balance and retained all rights and claims they may have against the County and other parties. All Pool Participants chose either Option A or Option B. Approximately 98% of the Pool Participants chose Option A.

As previously indicated, the County as a part of the OCIP settlement agreed to various claims with non-county Pool Participants. The County issued recovery bonds totaling approximately $279 million as the first form of commitment by the County in order to liquidate claims. These bonds were issued in June 1995 and approximately $232 million of the proceeds were distributed to Option A Pool Participants. The remaining $819 million of Option A Pool Participant claims, as well as $355 million of claims attributed to the County-administered account investment losses, are recorded as County obligations in the General Long-Term Debt Account Group as of June 30, 1995.

In October and November 1995, the Option B Pool Participants commenced adversary proceedings against the County, asserting thirteen claims including, but not limited to, breach of contract, breach of fiduciary duty and breach of trust. In November 1995, the County filed a motion to dismiss these complaints. On January 12, 1996, the Bankruptcy Court granted the County's motion to dismiss eleven of the claims and ruled that the Option B Pool Participants should be afforded the opportunity to offer evidence concerning their ability to trace to identifiable trust property. The County will defend vigorously against the Option B complaints, and intends to seek summary judgment against the Option B Pool Participants. The County also will object to any proofs of claims filed by the Option B Pool Participants in the bankruptcy proceedings. As a result, no liabilities have been recognized for the Option B Pool Participant investment losses (approximately $44 million) as of June 30, 1995.

After consummation of the May 2, 1995 Comprehensive Settlement Agreement, Option A Pool Participants and the County further agreed to final treatment of Option A Pool Participants' remaining claims against the County. Representatives of the Option A Pool Participants have negotiated and agreed to the Joint Agreement for Resolution of All Claims Against the County of Orange ("Joint Agreement"). The Joint Agreement provides that Option A Pool Participants will make their remaining claims non-recourse as against the County, and secured by and to be paid from the proceeds from litigation relating to the $1.6 billion investment loss. This Joint Agreement requires ratification on the part of the majority of the Pool Participants and Bankruptcy Court approval. As of January 5, 1996, a majority of the Pool Participants had yet to ratify the Joint Agreement.

1. COUNTY BANKRUPTCY (Cont'd)

The District Attorney for the County has been conducting a criminal investigation relating to the bankruptcy. The former Treasurer has pleaded guilty to six felony counts, and charges are currently pending against others for violations of state laws. The County has engaged in an extensive investigation of certain events and transactions prior to the bankruptcy that could give rise to claims by the County focused on brokers who sold securities to the County and/or unlawfully liquidated securities purportedly held as collateral, former accountants, and attorneys who advised the County in connection with several of its borrowings. Two such claims aggregating $5 billion have been filed to date. No assurances can be given that this litigation will be successful.

County Bankruptcy

The County's financial health was closely tied to the OCIP, since most of the County's assets were invested in the OCIP. In addition, the County General Fund was very dependent on investment income from the OCIP to fund its operating budget. The fiscal year 1994-95 General Fund operating budget included $162 million of investment income. With the losses sustained by OCIP and resulting loss of investment income, the County General Fund revenues faced an approximate $200 million shortfall in fiscal year 1994-95. The County temporarily addressed this shortfall by obtaining bankruptcy court approval to not make its tax and revenue anticipation note set asides for Fiscal Year 1994-95.

To address the General Fund operating budget shortfall in the future, the County embarked on an aggressive effort to balance the budget for Fiscal Year 1995-96. This process was focused on preserving the health, safety and welfare of County residents while bringing the budgetary expenditures in line with anticipated revenue sources. By the end of December 1994, the County cut its General Fund spending by $40 million, resulting in the first round of County employee layoffs. In March 1995, further General Fund reductions were implemented. These cuts, representing a reduction to the discretionary portion of the General Fund of $188 million, or 41%, brought the County General Fund net cost spending level down to $275 million for the remainder of Fiscal Year 1994-95 and in preparation for the Fiscal Year 1995-96 budget.

The County is currently in default under the terms of a number of its debt obligations. Indenture trustees have drawn on the reserve accounts for various outstanding certificates of participation financings in order to meet current principal and interest payments. These withdrawals, totaling approximately $8.7 million as of June 30, 1995, have not been replenished as required by the terms of the documents pursuant to which the certificates of participation were issued. However, principal and interest payments on the County's outstanding certificates of participation have been paid when due. On September 1, 1994, the County issued County of Orange, California Taxable Pension Obligation Bonds, Series 1994A and 1994B (the "Pension Bonds"). The Series 1994B Bonds provide for a put on seven-days notice to the OCIP. The OCIP has defaulted on its obligation to purchase such bonds pursuant to such puts. In connection with the issuance of Series 1994A Pension Bonds, the County entered into an interest rate swap agreement with Credit Suisse Financial Products. The County is currently in default under the terms of the swap agreement and has not accrued or paid to Credit Suisse Financial Products the termination payment of $6 million specified in the swap agreement. In addition, the County is in technical default under the terms of various financing documents as a result of the bankruptcy filing and/or other conditions.

The County's short-term indebtedness consisted of, in part, 1994-95 Tax and Revenue Anticipation Notes ("TRANs"), Series A ($169 million), 1994-95 Tax and Revenue Anticipation Notes, Series B ($31 million), and 1994-95 Taxable Notes ($600 million). While the County is in default on these issues by means of a failure to perform certain covenants contained therein, the County successfully negotiated with representatives of its short-term noteholders to extend voluntarily the maturity dates of up to $800 million in short-term debt to June 30, 1996, in exchange for accruing additional interest equal to the contract rate on the short-term debt, plus an additional 95 basis points and granting a security interest on approximately $163 million of County property. County noteholders representing the entire $600 million taxable note issue voluntarily agreed to extend the maturity dates on their notes. Similarly, 100% of the Series B TRANs holders agreed to extend maturity dates on the Series B notes, and 99% of Series A TRANs holders agreed to extend maturity dates on their Series A Notes.

1. COUNTY BANKRUPTCY (Cont'd)

The Joint Agreement with the Pool Participants also outlined legislation that, if enacted, would transfer approximately $50 million in annual revenues to the County for the purpose of satisfying the County bankruptcy obligations ("Recovery Legislation"). In September 1995, the California Legislature approved the Recovery Legislation that consisted of several bills that, among other measures, redirects existing tax revenues from various other Orange County governmental jurisdictions to the County to provide a revenue stream to allow the County to meet its bankruptcy obligations.

The Recovery Legislation also provided for the appointment of a state trustee if the County did not file a Plan of Adjustment with the Bankruptcy Court by January 1, 1996. The Trustee must also be appointed if the Governor decides after May 1, 1996 that confirmation of the Plan of Adjustment in the County's bankruptcy does not appear likely by May 30, 1996. The Trustee would have the power and authority to vote in the County's bankruptcy case all the bankruptcy claims of all governmental agencies. The Recovery Legislation also anticipates that the revenue reallocation will commence on July 1, 1996, upon the effectiveness of the Plan of Adjustment.

On December 21, 1995, the County filed in bankruptcy court its Plan of Adjustment for the resolution of the County's outstanding creditor claims. The Plan of Adjustment calls for the issuance of $707 million of new and refunding certificates of participation in a series of public offerings which together provide sufficient proceeds to pay County debtholders, vendors, certain County-administered accounts and administrative undisputed claims in total, as well as replenish debt reserves for outstanding certificates of participation and fund a litigation reserve. Most remaining claims will be paid over twenty years with available cash under the Plan of Adjustment.

The Plan of Adjustment certificates of participation and refunding certificates of participation represent obligations to be payable from the County General Fund. The enacted Recovery Legislation provides these bondholders with statutory liens on motor vehicle license fees and sales tax revenues and, if the County so elects, the ability to have the amount of these fees and revenues necessary to pay each installment of principal and interest on these borrowings intercepted by the State Controller and paid directly to the trustee of the bonds.

The Plan of Adjustment provides that the legislatively enacted redirected revenues discussed above, along with County incremental revenues from the importation of out-of-County trash into its solid waste management system and the Teeter Plan distribution of surplus cash flows from the Orange County Special Financing Authority, will be used over twenty years to satisfy principal and interest payments on the Plan of Adjustment certificates of participation and the amortization of any remaining claims under the Plan of Adjustment. The Plan of Adjustment further provides that a representative be appointed to enforce, prosecute and collect upon all remaining Pool Participant related claims. These claims will be paid from distributions of net litigation proceeds as provided in the Joint Agreement.

The County, with an aggressive time schedule, anticipates that it will emerge from bankruptcy by July 1, 1996. This is subject to the County satisfying certain conditions discussed in the Plan of Adjustment. These conditions include bankruptcy court orders confirming the Plan of Adjustment, estimating the amount of Option B Pool Participant allowed claims and authorizing issuance of the certificates of participation; final issuance of all Plan of Adjustment debt issues; and obtaining other necessary agreements and/or waivers. County officers currently predict that these conditions will be satisfactorily met.

The financial statements do not include any adjustments relating to the amounts and classifications of liabilities that might be necessary if the County is not able to meet its debts as they come due, or such adjustments that will be necessary upon the effective date of any Plan of Adjustment for the County confirmed under Chapter 9 of the United States Bankruptcy Code.

2. 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 of Orange (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, judicial, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles, 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 therefore data from these units are combined with data of the primary government. The County has no component units which require discrete presentation.

The following entities are presented as blended component units in the General Purpose Financial Statements for the fiscal year ended June 30, 1995: Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Civic Center Authority, Orange County Special Financing Authority, Orange County Public Facilities Corporation, and certain special districts.

The County's General Purpose Financial Statements do not reflect the operations of the following entities which are not considered a part of the primary government, since the County does not have the ability to select the governing authorities or management staff, significantly influence operations, approve budgets or budgetary changes, or provide funding: Orange County Employees' Retirement System (OCERS), Orange County Transportation Authority, Orange County Fire Authority, Transportation Corridor Agencies, Santiago Library System, Marine Studies Institute, Law Library, school districts, cities and other special districts governed by local boards. These entities have governing boards other than the County Board of Supervisors and provide services to residents, generally within the geographic boundaries of the County.

B. Fund Accounting

The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary "fund types".

Governmental Fund Types:

General Fund - The general fund is used to account 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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary fund types and trust funds).

Proprietary Fund Types:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

Fiduciary Fund Types:

Trust and Agency Funds - Trust and agency funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the County. When these assets are held under the terms of a formal trust agreement, a pension trust, nonexpendable trust or expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the County is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

Account Groups:

General Fixed Assets - The general fixed assets account group is used to account for all fixed assets of the County, other than those accounted for in proprietary funds or similar trust funds.

General Long-Term Debt - The general long-term debt account group is used to account for the unmatured principal of bonds and notes, and other forms of noncurrent or long-term general obligation debt that are not a specific liability of any proprietary fund or similar trust funds.

The County maintains 785 individual funds. Certain similar special revenue, debt service, capital projects, enterprise, and trust and agency funds have been grouped on a functional basis in conformity with generally accepted accounting principles (GAAP) to enhance communication and understanding of the financial statements.

C. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types and nonexpendable trust and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type and similar trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

FINANCIAL STATEMENTS

The County's Financial Statements for Fiscal Years 1993-94 and 1994-95, included in this Official Statement, have been audited by Ernst & Young LLP, independent auditors, as stated in their reports herein. Attention is called to the scope limitation described in the auditor's report accompanying each of the Financial Statements. See APPENDIX B -- "AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS ENDED JUNE 30, 1994 AND JUNE 30, 1995."

VERIFICATION OF MATHEMATICAL ACCURACY

Ernst & Young LLP, independent accountants, upon delivery of the Series A Certificates, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them on behalf of the County, relating to (a) the sufficiency of moneys and the anticipated receipts from the federal securities to pay, when due, the principal (whether at maturity or upon earlier prepayment), interest and prepayment premium requirements evidenced and represented by the Refunded COPs, and (b) the "yield" on the federal securities and on the Series A Certificates considered by Special Counsel in connection with the opinion rendered by Special Counsel in the proposed form set forth in Appendix E.

CONTINUING DISCLOSURE

The County has covenanted for the benefit of the Owners and beneficial owners of the Certificates 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 1995-96 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 under the caption APPENDIX F -- "Summary of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

CERTAIN LEGAL MATTERS

The validity of the Lease and certain other legal matters are subject to the approval of Willkie Farr & Gallagher, New York, New York, Special Counsel. The opinion of Special Counsel will be delivered with the Series A Certificates in substantially the form set forth in Appendix E. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe, San Francisco, California. Certain legal matters will be passed upon for the Certificate Insurer by Kutak Rock, Omaha, Nebraska. Certain legal matters will be passed upon for the County and for the Corporation by the Office of County Counsel.

FINANCIAL ADVISORS

Salomon Brothers Inc and Metropolitan West Securities, Inc. have acted as Financial Advisors to the County in connection with the execution and delivery of the Series A Certificates.

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 Lease, the Site Lease, the Assignment Agreement and the Trust Agreement are available upon request from the County of Orange, Hall of Administration, 10 Civic Center Plaza, Santa Ana, California 92701, Attention: Director of Public Finance and Insurance.

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 Series A Certificates.

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

COUNTY OF ORANGE

By: /s/ Roger R. Stanton
Chairman of the Board of Supervisors

By: /s/ Janice M. Mittermeier
Chief Executive Officer

By: /s/ Kathleen E. Goodno
Acting Clerk of the Board of Supervisors

APPENDIX A

THE COUNTY OF ORANGE
DEMOGRAPHIC AND ECONOMIC OVERVIEW

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 many beaches, marinas and other recreational areas for use by residents and visitors.

The climate in the County is mild, with an average annual rainfall of 13 inches. The temperature ranges from 48 to 76 degrees.

Population

The County is the third most populous county in the State and the fifth most populous in the nation. During the period 1985 through 1995, the population of the County increased by approximately 23 percent, compared to 24 percent for the State and 10 percent for the United States.

TABLE A-1

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

Date	Orange County	State of California	United States
1985	2,143,600	26,113,000	238,466,000
1986	2,193,200	26,742,000	240,651,000
1987	2,243,500	27,388,000	242,804,000
1988	2,292,300	28,061,000	245,021,000
1989	2,344,200	28,771,000	247,342,000
1990	2,398,400	29,558,000	249,911,000
1991	2,450,200	30,325,000	252,643,000
1992	2,504,700	30,982,000	255,407,000
1993	2,557,300	31,552,000	258,120,000
1994	2,598,100	31,952,000	260,651,000
1995	2,641,400	32,344,000	262,755,000

Source: Orange County and State Statistics -- California State Department of Finance (E1 & E4 Reports). United State Statistics -- Bureau of Census (Statistical Abstract of U.S. 1995 and Census Bureau Press Release dated January 26, 1996).

Note: County and State figures are effective January 1 of each year. U.S. figures are effective July 1 of each year.

Population Projected Growth Through 2020

Table A-2 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 2020.

TABLE A-2

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

Year	Orange County	State of California	United States
2000	2,866,800	36,443,900	275,005,000
2005	2,997,600	39,424,100	287,092,000
2010	3,104,100	42,408,100	299,194,000
2015	3,198,400	45,574,200	311,833,000
2020	3,306,400	48,976,500	324,888,000

Source: Orange County and State Projections -- California State Department of Finance (P-3 Report). United States Projections -- Bureau of the Census (Statistical Abstract of U.S. 1995).

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 1995, the largest district, the Santa Ana Unified School District, had 50,268 students enrolled. Public school enrollment for the period 1989 through 1995 is presented in Table A-3.

TABLE A-3

COUNTY OF ORANGE PUBLIC SCHOOL ENROLLMENT

Grade Level	1989	1990	1991	1992	1993	1994	1995
K-8	249,535	261,360	272,102	280,538	285,661	294,369	303,679
9-12	110,678	114,219	118,796	119,127	116,603	117,880	121,185
Total Enrollment	360,213	375,579	390,898	399,665	402,264	412,249	424,864

Source: Orange County Department of Education.

Colleges and Universities

The County has a number of top-rated, college-level educational institutions including four Community College districts. The University of California at Irvine, one of the nine campuses of the University of California system, was opened in 1965 on a 1,500-acre site in the City of Irvine. The colleges and universities located within the County are listed in Table A-4.

TABLE A-4

COUNTY OF ORANGE COLLEGES AND UNIVERSITIES

NAME	LOCATION
Colleges and Universities	
California State University at Fullerton	Fullerton
University of California at Irvine	Irvine
Chapman University	Orange
West Coast University	Orange
Western State University College of Law	Fullerton
Concordia University	Irvine
National University	Irvine
Pepperdine University-Irvine	Irvine
Southern Calif-College of Optometry	Fullerton
University of LaVerne	Fountain Valley
Southern California College	Costa Mesa
Community Colleges	
Rancho Santiago College	Santa Ana
Orange Coast College	Costa Mesa
Saddleback College	Mission Viejo
Golden West College	Huntington Beach
Fullerton College	Fullerton
Coastline College	Fountain Valley
Irvine Valley College	Irvine
Cypress College	Cypress

Source: Focus Orange County, 1996 and Inside Prospects of California.

Industry Trends and Outlook

The combination of the County's easy access to the Pacific Rim and the passage of the North American Free Trade Agreement (NAFTA) is projected to be a boon to the County's economy. According to the UC Irvine 1996 Orange County Executive Survey, 42% of the companies surveyed conduct international business. Among these companies, 21% of their revenue is from international sales.

Mining Sector. Mining is the smallest industry in the County. Employment in this sector has declined over the past several years and is expected to reach a low of 700 by 1998 as oil companies scale back their oil and gas extraction in the County.

Construction Sector. The Orange County construction industry is composed of three groups; 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). It is projected that construction employment, which is typically cyclical in nature, will increase from 47,400 to 52,500 jobs in 1998.

Manufacturing Sector. Manufacturing jobs in the County have declined over the past several years. The bulk of this decline has been in the durable goods field, primarily in high-tech industries and in lumber, wood and furniture manufacturing industries. Due to continuing cutbacks in defense-related employment, these declines are expected to continue through the end of the 1992-98 forecast period. The nondurable goods field has shown a slow but steady increase, however, it is unlikely that this sector can generate enough growth to offset the expected continued decline in durable goods. The projected total of jobs in durable and nondurable goods by 1998 is 216,300.

Transportation and Public Utilities Sector. Transportation and public utility jobs are expected to continue to rise through 1998. The projected total number of jobs in transportation by 1998 is 37,800.

Wholesale Trade Sector. Wholesale trade jobs are expected to continue to rise through 1998. It is anticipated that employment in this sector will reach 80,000 by 1998.

Retail Trade Sector. Retail trade is the third largest industry in the County. The three largest industries within retail trade are eating and drinking establishments, food stores, and miscellaneous retail stores. Retail trade employment is expected to increase by 13,200 to a total of 214,400 by 1998. Many of the new jobs are expected to be concentrated in the southern part of the County as malls in that area continue to expand.

Finance, Insurance and Real Estate Sector. Orange County jobs in finance, insurance and real estate are expected to increase to 99,400 by 1998. This is due, in part, to the improvement in the previously sluggish real estate market and a stabilization of bank mergers.

Services Sector. The services industry has shown a gain every year since 1972, with the exception of 1990-91 when it had a minimal loss of 200 jobs. The largest areas of growth are expected to continue to be in health services, business services, and amusement and recreation. It is expected that employment in this sector will reach 348,700 by 1998.

Government Sector. The government job sector in the County has had modest growth in the past ten years. Budgetary constraints in government are expected to slow growth in this sector through 1998.

Source: Annual Planning Information Anaheim-Santa Ana Metropolitan Statistical Area (Orange County) 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 Orange County agricultural products increased by one percent from approximately $216,050,700 in 1993 to approximately $218,260,600 in 1994. 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 six-year summary of farm production in the County is provided in Table A-5.

TABLE A-5

COUNTY OF ORANGE
GROSS VALUE OF FARM PRODUCTION

Production Type	1989	1990	1991	1992	1993	1994
Livestock	$3,093,700	$2,667,700	$1,815,500	$2,622,600	$2,389,300	$1,828,600
Apiculture	142,300	226,500	169,300	141,000	138,600	17,300
Field Products	856,800	901,000	1,185,700	1,243,700	1,560,100	1,910,700
Nursery	132,635,000	135,111,300	141,626,900	131,395,900	117,404,400	127,988,400
Orchards	63,163,500	69,188,900	96,012,000	66,886,500	46,991,400	40,539,700
Vegetables	50,446,200	48,658,900	55,881,600	49,438,900	47,566,900	45,975,900
	$250,337,500	$256,754,300	$296,691,000	$251,728,600	$216,050,700	$218,260,600

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

Major Employers

Table A-6 lists the major employers in the County.

TABLE A-6

COUNTY OF ORANGE
MAJOR EMPLOYERS

Employer Name	Number of Employees
Disneyland	9,150
University of California, Irvine	8,370
Hughes Aircraft Company, Fullerton	6,800
McDonnell Douglas	6,000
FHP International Corporation	5,000
Food 4 Less	4,800
Santa Ana Unified School District	3,500
Knott's Berry Farm	3,500
United Parcel Service	3,300
Rockwell International	3,000
Hoag Memorial Presbyterian Hospital	2,700
University of California Medical Center	2,635
The Orange County Register	2,500
Beckman Instruments, Incorporated	2,500
Saint Joseph Hospital	2,400
California State University, Fullerton	2,300
Ingram Micro Incorporated	2,000
Disneyland Hotel	1,850

TABLE A-6

COUNTY OF ORANGE
MAJOR EMPLOYERS
(CONTINUED)

Employer Name	Number of Employees
Pacificare Health Systems	1,850
McGaw Incorporated	1,850
Saint Jude Medical Center	1,800
Fairview Development Center	1,800
Mission Hospital Regional Medical Center	1,700
Fluor Daniel Incorporated	1,700
Pacific Mutual Life Insurance Company	1,592
Fountain Valley Regional Hospital and Medical Center	1,500
Rockwell Telecommunications	1,500
U.S. Postal Service	1,500
American Restaurant Group	1,475
Allergan Incorporated	1,450
Baxter Healthcare Corporation C.V.G.	1,400
ISS Servisystem Incorporated	1,360
Kwikset Corporation	1,350
Loral Aeronutronic	1,300
Orange Coast College	1,300
Western Medical Center, Santa Ana	1,300
Saddleback Memorial Medical Center	1,270
Anaheim Hilton and Towers	1,200
Children's Hospital of Orange County	1,175
Automobile Club of Southern California	1,100
Bank of America	1,100

Source: Focus Orange County, 1996.

Note: Table does not include County Government workforce which was 15,335 as of September, 1995.

Labor Force, Employment and Unemployment

Table A-7 summarizes the labor force, employment and unemployment figures over the period 1988 through 1995 for the County and the State.

TABLE A-7

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
1988				
Orange County	1,369,700	1,328,900	40,800	3.0%
California	14,132,000	13,383,800	748,200	5.3
1989				
Orange County	1,409,900	1,368,400	41,500	2.9
California	14,517,400	13,780,000	737,400	5.1
1990				
Orange County	1,329,200	1,252,100	47,100	3.5
California	15,193,400	14,319,200	874,200	5.8
1991				
Orange County	1,291,700	1,223,100	68,600	5.2
California	15,176,600	14,004,200	1,172,400	7.7
1992				
Orange County	1,309,700	1,220,900	68,800	6.8
California	15,334,900	13,939,100	1,395,800	9.1
1993				
Orange County	1,328,400	1,236,600	59,800	6.8
California	15,359,500	13,918,300	1,441,200	9.4
1994				
Orange County	1,333,500	1,257,100	76,400	5.7
California	15,461,800	14,132,900	1,328,900	8.6
1995				
Orange County	1,322,600	1,255,300	67,500	5.1
California	15,415,500	14,205,900	1,209,600	7.8

Source: California Employment Development Department, Annual Planning Information.

Note: Figures may not add due to rounding.

Personal Income

Table A-8 summarizes the total effective buying income for the County, the State and the Nation. Between 1988 and 1994, the County's growth in median household effective buying income grew approximately 40 percent compared to 36 percent for the State and 51 percent for the Nation.

TABLE A-8

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

Year and Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
1988		
Orange County	$ 38,034,417	$37,096
California	426,174,001	30,088
United States	3,064,005,977	24,488
1989		
Orange County	39,243,128	37,614
California	444,988,647	30,713
United States	3,287,489,252	25,976
1990		
Orange County	43,950,506	41,179
California	477,784,771	33,342
United States	3,499,365,237	27,912
1991		
Orange County	47,229,731	46,655
California	490,749,649	36,943
United States	3,728,967,043	32,973
1992		
Orange County	49,156,539	47,774
California	509,152,667	37,686
United States	3,916,947,023	33,178
1993		
Orange County	50,945,788	49,750
California	528,958,745	39,330
United States	4,169,724,052	35,056
1994		
Orange County	53,418,965	51,898
California	552,074,838	40,969
United States	4,436,178,724	37,070

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

Taxable Sales

Between 1990 and 1995 the County experienced a growth in taxable sales of approximately 7.4 percent. Table A-9 summarizes the annual volume of taxable transactions since 1990.

TABLE A-9

COUNTY OF ORANGE
TAXABLE TRANSACTIONS
(In Thousands)

Type of Business	1990	1991	1992	1993	1994	1995
Apparel Group	$1,142,821	$1,152,107	$1,142,096	$1,165,259	$1,204,183	$1,256,205
General Merchandise	2,870,213	2,843,421	3,015,608	2,986,904	3,085,882	3,204,131
Specialty Stores	2,661,798	2,676,773	2,626,702	2,742,451	3,009,887	3,172,743
Food Stores	1,404,464	1,513,614	1,602,976	1,327,288	1,287,622	1,311,812
Eating and Drinking	2,296,063	2,288,942	2,270,637	2,306,451	2,387,239	2,468,734
Furniture and Appliances	1,050,264	986,218	942,858	952,045	1,052,817	1,107,764
Building Materials	1,280,521	1,123,620	1,073,302	1,086,582	1,103,482	1,094,297
New Motor Vehicles	2,621,333	2,091,055	2,025,065	2,130,075	2,240,958	2,280,547
Other Motor Vehicles	821,493	789,306	759,962	755,394	826,067	855,350
Service Stations	1,337,463	1,256,014	1,359,988	1,360,261	1,356,198	1,431,724
Total Retail Sales	17,486,433	16,721,070	16,819,194	16,812,710	17,554,335	18,183,307
Business & Personal Svcs	1,471,572	1,370,375	1,327,606	1,600,917	1,688,848	1,766,312
All Other Outlets	8,809,312	8,383,487	8,377,466	8,423,484	9,033,076	9,884,103
Total Taxable Sales	$27,767,317	$26,474,932	$26,524,266	$26,837,111	$28,276,259	$29,833,721

Source: The Chapman University Economic & Business Review.

Note: 1995 statistics are forecasted.

Housing Characteristics

The total number of housing units in the County was estimated by the California State Department of Finance to be 915,867 as of January 1, 1995. This compares to 875,072 reported in the 1990 Census. As of December 1995 the California Association of Realtors estimated the median value of an existing single-family home in the County to be $206,000, as compared to $175,620 for the State.

Building Permits

The total valuation of building permits issued in the County exceeded $1.9 billion in 1995. Table A-10 provides a summary of building permit valuations and the number of new dwelling units authorized in the County during the period 1991 through 1995.

TABLE A-10

COUNTY OF ORANGE
BUILDING PERMIT VALUATIONS AND PERMITS ISSUED

	1991	1992	1993	1994	1995
Valuation (In 000's)					
Residential	1,070,827	1,028,116	1,058,243	1,732,173	1,303,122
Non-Residential	842,084	655,230	604,644	695,283	592,965
Total:	$1,912,911	$1,683,346	$1,662,887	$2,427,456	$1,896,087
New Dwelling Units (#)					
Single-Family	3,604	3,581	4,441	7,758	5,981
Multi-Family	2,969	2,376	1,903	4,872	2,255
Total:	6,573	5,957	6,344	12,630	8,236

Source: Economic Sciences Corporation Annual Summary.

Water Supply

California experienced its sixth year of drought in 1992. Record rainfall during the month of March 1992 reduced the severity of the drought. Above average rainfalls during November 1992 through January 1993 and January 1994 through April 1995 further mitigated drought conditions.

Maintaining the County's water supply is the responsibility of the Orange County Water District (the "OCWD"), manager of the County's ground water basin, and the Municipal Water District of Orange County (the "MWDOC"), the County's largest manager of imported water. Half of the County's water is from local 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.

The OCWD was formed by an act of the State Legislature in 1933 to protect and manage the County's ground water basin, and its activities are primarily directed toward water conservation, replenishment of the ground water basin, reclamation of wastewater, and extensive ground water quality monitoring. The OCWD has expanded and improved its facilities for recharging the basin, and has begun rehabilitating previously unusable wells with surface contamination are being rehabilitated through water treatment technologies.

The MWDOC was formed by public vote in 1951 to manage imported water for cities and water agencies in the County. As a member of the Metropolitan Water District of Southern California ("Metropolitan"), the southland's water importer, MWDOC provides representation for a service area that includes approximately 70 percent of the County.

The MWDOC is also involved in conservation and the development of new water supplies. Working closely with its member agencies and Metropolitan, the district participates in planning for new sources of water and technical advice on conservation credits and local projects programs. These

programs are a source of funding for conservation activities and water reclamation, desalination, and water quality improvement projects.

Metropolitan has instituted a program of phased rate surcharges designed to reduce water delivery by 20 to 50 percent. Several cities in the County have introduced conservation measures to reduce demand for water.

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 in Southern California.

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, Knott's Berry Farm and the Spanish Mission of San Juan Capistrano. Also located within the County are the Anaheim Convention Center, the Anaheim Sports Area, Anaheim Stadium and the Art Colony at Laguna Beach with its annual art festival.

Disneyland occupies 230 acres in the City of Anaheim and is one of the major tourist attractions in the nation. Disneyland opened in 1955.

The Anaheim Convention Center is located adjacent to Disneyland. It is situated on 50 acres, with 12 acres under one roof and is the largest convention center on the West Coast. In 1995 the Anaheim Convention Center had a total of 919,616 delegates. Table A-11 summarizes the number of conventions held at the Center, as well as estimated attendance and delegate expenditures for the period 1986 through 1995.

TABLE A-11

COUNTY OF ORANGE
ANAHEIM CONVENTION CENTER ACTIVITY

Year	Conventions	Estimated Attendance	Delegate Expenditures
1986	294	925,000	$ 599,000,000
1987	266	934,503	1,272,793,000
1988	291	1,026,728	1,333,800,000
1989	326	1,062,347	1,124,000,000
1990	360	1,000,176	1,200,000,000
1991	364	1,064,502	1,304,000,000
1992	394	1,029,244	1,400,000,000
1993	356	950,916	1,236,190,800
1994	317	1,023,311	1,330,304,300
1995	341	919,616	1,195,500,800

Source: City of Anaheim Area Visitor and Convention Bureau.

Transportation

The County is situated in the most heavily populated area in California and has easy 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 57). The Newport Freeway provides easy access to the beach communities.

Rail freight service is provided by the Santa Fe Railway and the Southern Pacific Company. Amtrak provides passenger service to San Diego to the south and Los Angeles and Santa Barbara to the north. Bus service is provided by Continental Trailways Bus System and Greyhound Bus Lines. The Orange County Transportation Authority District 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. The airport originated as a private landing strip in the 1920's and became a publicly-owned facility in 1939. Regularly scheduled service to San Francisco, Oakland, San Jose and Sacramento is provided by various airlines. Major airlines, including American, Alaska, Delta, America West, Continental, Northwest and TWA, fly from the airport to major cities throughout the country.

The population growth of the County in the 1960s and 1970s and the resulting increase in business and industrial development dramatically increased the demand for air transportation over the past two decades. In 1970, approximately 871,350 passengers used the airport. While in 1994, over 6.7 million passengers were served.

A 22,000 square-foot terminal was built in 1967 to accommodate passengers. In 1982, through remodeling and additional construction, the facility was increased to 29,000 square feet. In September of 1990, a new 337,900 square-foot terminal building was completed. This two-story terminal building is served by a two-level circulating roadway for curbside passenger service. There are fourteen aircraft gates with enclosed loading bridges, five of which are capable of handling aircraft as large as a Boeing 767. In addition, there are two commuter gates without the enclosed loading bridges.

Natural Disasters; Seismic Activity/Fires

Natural disasters, including floods and earthquakes, can be 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 significant (Richter 7.0) earthquake occurring is estimated to be 1 to 2 percent 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.

In June 1992, an earthquake measuring 7.6 on the Richter Scale struck Southern California. The quake was centered in the Landers area of San Bernardino County. That same day a second earthquake measuring 6.7 on the Richter Scale struck Big Bear (a mountain community within San Bernardino County).

On October 26, 1993, a series of fires occurred in Southern California, including the County. It is estimated that in the County, over 300 homes and 18,700 acres of land were burned.

On January 17, 1994, an earthquake measuring 6.7 on the Richter Scale struck Southern California. The quake was centered in the Northridge area of Los Angeles County and caused isolated damage in the County. The County declared a local emergency due to the damage and potential for aftershocks which could have caused physical injury or further damage to structures previously weakened by the original quake.

During the months of January through April 1995, California experienced a series of winter storms that caused considerable damage within the County. The County proclaimed two separate local emergencies because of substantial flooding and the threat to lives and property. The first storm period was from January 4 through February 10, 1995. For a description of what constitutes secured and unsecured property, see "Ad Valorem Property Taxation" below.

Secured and Unsecured Taxes

Tables A-12 and A-13 provide a list of the 10 largest secured and unsecured taxpayers in the County for Fiscal Year 1994-95.

TABLE A-12

COUNTY OF ORANGE
TOP TEN SECURED TAXPAYERS
FISCAL YEAR 1994-95

Taxpayers	Secured Taxes Paid
1. The Irvine Company	$ 35,467,869
2. SCE Company	17,520,941
3. Mission Viejo Company	15,905,583
4. Pacific Bell	15,569,124
5. Irvine Apt Communities	11,643,030
6. Walt Disney Productions	8,886,450
7. Rancho Santa Margarita	8,327,713
8. Rockwell International	6,622,739
9. Hughes Aircraft	5,486,107
10. Marriott International	4,722,801
TOTAL	$130,152,357

TABLE A-13

COUNTY OF ORANGE
TOP TEN UNSECURED TAXPAYERS
FISCAL YEAR 1994-95

Taxpayers	Unsecured Taxes Paid
1. Cox Communications	$2,280,018
2. American Airlines	1,412,655
3. Comcast Cable	1,322,091
4. United Airlines	1,145,279
5. TWI Cable	1,121,299
6. Silicon System	861,386
7. Xerox Corporation	843,549
8. 3D4 Paragon Cable	703,103
9. Ricoh Electronics	597,323
10. IBM	586,171
TOTAL	$10,872,874

Source: County of Orange Comprehensive Annual Financial Report for year ended June 30, 1995.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. Basis of Accounting (Cont'd)

The modified accrual basis of accounting is followed for the general, special revenue, debt service, capital projects, expendable trust and agency funds. 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 to finance expenditures of the fiscal period. Revenues which 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 notes and leases receivable that are measurable and available and where collectibility is assured. Revenues which are not considered susceptible to accrual include minor licenses and permits.

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 fiscal year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures during the fiscal year when they would normally be liquidated with expendable available financial resources. The related long-term obligation is recorded in the general long-term debt account group at year end. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding.

The accrual basis of accounting is followed for enterprise, internal service, nonexpendable trust, and pension trust funds. Generally, revenues are recognized when earned and expenses are recognized when incurred. Grants are recorded as nonoperating revenues when earned, except for those restricted for capital acquisitions, which are recorded as contributions to equity.

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. 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). The governmental funds are comprised of multiple fund-agency units, with the exception of the "Parking Facilities," "Public Library," "Master Lease Program," "Taxable Note Repayment," "Pension Obligation Bond," and "Restricted Refinancing Proceeds" special revenue funds; the "Public Facilities Corporation Bonds," "Pension Obligation Bonds," "Refunding Recovery Bonds," "Orange County Special Financing Authority," and "Note Repayment" debt service funds; and the "Public Library" capital projects fund, which are comprised of individual fund-agency units.

Each year the initial adopted budget is increased for unanticipated revenues, offset by an equal amount of increased appropriations for new reimbursement contracts not in the original budget. 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 which represents a Department or an Agency. Final appropriations reflected in the "Revised Budget" columns of the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis - All Governmental Fund Types include supplemental appropriations of $598,154.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. Budget Adoption and Revision (Cont'd)

Annual budgets were adopted for the individual funds comprising the following governmental fund type functional groupings (listed by fund type/functional grouping):

General

Special Revenue
- Parking Facilities
- Roads, Airport Land Use
- Public Library
- Flood Control District
- Harbors, Beaches & Parks District
- Service Areas, Lighting & Maintenance Districts
- Redevelopment, Other Environmental Management
- Other Public Protection
- Contingencies, Economic Uncertainty
- Community Services
- Taxable Note Repayment
- Pension Obligation Bonds
- Designated Special Revenue Funds
- Restricted Refinancing Proceeds

Debt Service
- Redevelopment Agency Bonds
- General Obligation, Other Revenue Bonds
- Pension Obligation Bonds
- Refunding Recovery Bonds
- Orange County Special Financing Authority

Capital Projects
- Criminal Justice Facilities
- Public Library and Fire Department
- Flood Control District
- Harbors, Beaches & Parks District
- Redevelopment Agency
- Special Assessment Districts and Service Areas
- Public Facilities Corporation

Excluded from the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on a Budgetary Basis are the following governmental fund type functional groupings for which annual budgets were neither legally required nor adopted (listed by fund type/functional grouping):

Special Revenue
- Master Lease Programs

Debt Service
- Public Facilities Corporation Bonds / Master Lease
- Note Repayment

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. Reconciliation of Actual Operations on a Budgetary Basis to Modified Accrual Basis

The accompanying Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget (more fully described in Note 2.D) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of resultant basis, timing, and entity differences in the corresponding ending fund balances as reported on the combined financial statements for the year ended June 30, 1995 is presented below:

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Fund balances, as reported on the Combined Statement of Revenues, Expenditures/ Encumbrances and Changes in Fund Balances (budgetary basis)	$ 68,215	$ 420,162	$ 161,375	$ 358,292
Adjustments:				
Effects of encumbrances on expenditures	(8,864)	(1,693)	–	(78,053)
For nonbudgeted funds (entity differences)	–	18,583	480,523	–
Fund balances, as reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis)	$ 59,351	$ 437,052	$ 641,898	$ 280,239

F. Encumbrances and Appropriations

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the General, Special Revenue and Capital Projects Funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures which will ultimately result if the unperformed contracts in process at year-end are completed. Encumbrances at year-end do not constitute GAAP basis expenditures or liabilities. Only unencumbered, unexpended appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures.

G. Cash and Investments

The County maintains a cash and investments pool for the purpose of increasing interest income through pooled investment activities (see Notes 1 and 3).

Investments have been valued at cost, which approximates market, except those of the Deferred Compensation Agency Fund, which are valued at market (see Note 28).

H. Inventory of Materials and Supplies

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving 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 when issued to user departments/agencies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

I. Land and Improvements Held for Resale

These assets, held by the County's development agency, are valued at the lower of cost or estimated net realizable value.

J. General Fixed Assets

The General Fixed Assets Account Group records, at cost, the fixed assets which are not accounted for in an enterprise or internal service or similar trust fund. Such assets include land, buildings, building improvements, furniture, fixtures and equipment. Gifts and contributions of fixed assets are recorded at fair market value when received. No depreciation is provided on general fixed assets. Expenditures for streets, roads, bridges, curbs, gutters, sidewalks, flood channels, lighting systems, and similar assets are included in construction in progress but are not transferred or capitalized to other asset categories upon completion, because they are immovable and of value only to the County.

K. Property, Plant and Equipment of Enterprise and Internal Service Funds

Fixed assets purchased by the enterprise and internal service funds are capitalized at cost, while contributed assets are recorded at their fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Estimated useful lives of property, plant and equipment are as follows:

Structures and Improvements	10 to 45 years
Equipment	2 to 20 years

L. 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 estimated future amounts to be paid on known claims and incurred but not reported claims. See Note 23.

The County bankruptcy (see Note 1) has resulted in lower cash reserves; however, liability expenses cannot be measured until the bankruptcy process concludes, and the County does not anticipate that this will affect its ability to remain self-insured in the future.

M. Property Taxes

Real and personal property taxes are determined by applying approved rates to properties' assessed values established by the County. Property taxes are levied annually and, when collected, are periodically apportioned to the taxing entities. Property taxes receivable are recorded as of the date levied in agency funds. 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 but not distributed within 60 days after the fiscal year end.

Unsecured and supplemental property 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

M. Property Taxes (Cont'd)

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
Property tax lien date is March 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 June 30.	3436
Power to sell is effective five years after tax default.	3691

Alternate Method of Tax Apportionment - Teeter Plan

By a resolution, dated June 29, 1993, the County's Board of Supervisors elected to operate under the Alternate Method of Tax Apportionment. This is an alternative procedure for the distribution of property tax and/or direct assessment levies on the secured roll. This is an accrual method which recognizes taxes receivable as an expendable resource and, subsequently, simplifies the tax apportionment process.

A "Tax Losses Reserve" fund was created to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property. The "Tax Resources" fund was established as a control for the funds to which delinquent taxes are apportioned and from which current delinquencies will be paid.

When the choice to apportion taxes using this method was made, the current delinquent abstracts were distributed as if they had been collected. This was done only in the initial year, fiscal year 1993-94, and is referred to as the "Teeter Plan buyout." Thereafter, all delinquent taxes belong to the County. The dollar value of the delinquent abstracts ad valorem taxes was determined, and 95% of the amount was apportioned to the taxing agencies. The remaining 5% was credited to the Tax Losses Reserve Fund, and 100% of delinquent assessments were apportioned to the levying funds.

In June 1995, the delinquent taxes were sold to the Orange County Special Financing Authority.

See Notes 9 and 10 for discussion of refinancing of "Teeter" notes.

N. Accounting Reclassifications

Certain reclassifications have been made to the amounts previously reported to conform to the current year's report presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

O. Compensated Employee Absences

Compensated absences (vacation, compensatory time off, and sick leave) are accrued as an expense and liability in the proprietary fund when incurred. In the governmental fund types, only those amounts that are expected to be liquidated with expendable available financial resources are accrued as current year expenditures. Compensated absences that exceed this amount are reported in the General Long-Term Debt Account Group and are not recorded as expenditures.

The estimate recorded at June 30, 1995, in the General Long Term Debt Account Group is $54,144 compared with $54,024 at June 30, 1994. Most of this amount will be ultimately paid from the General Fund.

As a result of the County's bankruptcy (see Note 1), most of this amount constitutes a pre-petition claim of the County's employees, which will be a part of the eventual settlement with County creditors.

P. Total Columns on Combined Financial Statements

The "Total" columns on the accompanying combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. They do not represent and are not comparable to consolidated financial information. Data in these columns do not purport to present financial position, results of operations, or cash flows of the County in conformity with generally accepted accounting principles.

Q. Statement of Cash Flows

The County presents statements of cash flows in conformity with Governmental Accounting Standards Board Statement No. 9. For purposes of the statement of cash flows, the County considers "Pooled Cash/Investments" and "Imprest Cash Funds" as cash and cash equivalents. Cash and cash equivalents are defined as short-term, highly liquid investments which are readily convertible to cash or mature within three months of original purchase.

R. Effect of New Pronouncements

In May 1990, the Governmental Accounting Standards Board (GASB) issued its Statement No. 11, "Measurement Focus and Basis of Accounting - Governmental Fund Operating Statements," which will modify the measurement focus and basis of accounting for governmental fund operating statements. GASB Statement No. 17, "Measurement Focus and Basis of Accounting - Governmental Fund Operating Statements: Amendment of the Effective Dates of GASB Statement No. 11 and Related Statements," issued in June 1993, deferred the effective date for the application of the requirements of Statement 11 to periods beginning approximately two years after an implementation standard is issued. The County is not permitted to elect early adoption of Statement 11 and has not been able to complete all of the complex analysis required to estimate the full impact of the new Statement.

In November 1994, the GASB issued Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers." This Statement establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This statement is effective for periods beginning after June 15, 1997. The County has elected not to early adopt this statement as of June 30, 1995, and has not completed all of the analyses required to estimate the full impact of this new statement.

3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS

Deposits and investments (including repurchase agreements) totaled $3,533,216 as of June 30, 1995. Each fund's portion of this total is reflected in the balance sheet accounts entitled Pooled Cash/Investments, Imprest Cash Funds, Restricted Investments with Trustee, and Investments.

As discussed in Note 1, the Treasurer maintains the OCIP for the County and other non-County entities for the purpose of increasing interest income through pooled investment activities. This pool contains deposits, repurchase agreements, and other investments with an average maturity of less than 90 days. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the Treasurer.

A. Deposits

Monies which are deposited 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.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, they may be held by the trust department of the same institution. 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 and negotiable certificates of deposit 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.

At year-end, the carrying amount overdraft of the County's demand deposits was $28,071. The related bank balance for the County's demand deposits was $52,711, of which $550 was insured by FDIC insurance with the remainder collateralized as described above. The overdraft is a reflection of the outstanding checks as of June 30, 1995. The County had $78,565 in maturing securities and revenues of $34,962 the following business day to cover these outstanding checks. In addition, the County had imprest cash funds in the amount of $3,186 of which $225 was insured by FDIC insurance with the remainder collateralized as described above.

On July 3, 1995, the Treasurer established separate bank and custody accounts for the County's school participants in the OCIP.

B. Investments

The investment policies are governed by State statutes. In addition, the County has its own written investment policies. As of June 30, 1995, permissible investments include obligations of the U.S. Treasury and U.S. agencies including U.S. Treasury strips, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Investors Service, bankers' acceptances, money market mutual funds, negotiable certificates of deposits and repurchase agreements, among others.

On July 3, 1995, the Treasurer established a separate investment pool for the County's school participants in the OCIP.

As of June 30, 1995 the Treasurer's investment policy does not allow for borrowing, leveraging or the purchase of derivative type products. The average maturity of the investment pool shall not exceed 90 days. During the fiscal year, the investment strategy and policies changed as a result of the County's bankruptcy filing (see Note 1). However, during fiscal year 1994-95 the OCIP had certain derivative products, which are discussed in Note 1.

3. DEPOSITS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS (Cont'd)

B. Investments (cont'd)

Repurchase agreements can be purchased from entities prescribed in California State Government Code Section 53635 and 53601. Securities underlying a repurchase agreement must have a market value of at least 102 percent of the cost of the repurchase agreement. The securities underlying the agreements must be delivered to the County's custodial banks except in the case of overnight repurchase agreements, in which case delivery of the underlying securities is not required by the County, but the underlying securities must be segregated by an independent financial institution. The County has also entered into written master repurchase agreements that outline obligations of both the County and the dealers.

The County has also entered 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.

Investments are categorized below to indicate the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the County's name. Uncategorized investments are identified as "n/a".

	Category			Carrying	Market
	1	2	3	Amount	Value
Repurchase agreements	$ 150,442	$ –	$ –	$ 150,442	$ 150,442
U.S. Government securities, corporate and foreign bonds and debentures	2,845,306	–	–	2,845,306	2,853,378
Negotiable certificates of deposit	55,143	–	–	55,143	55,134
Municipal notes	3,691	–	–	3,691	3,888
Investments with Trustees:					
Repurchase agreements	–	41,385	–	41,385	41,385
U.S. Government securities	–	220,550	–	220,550	220,551
Guaranteed investment contracts	n/a	n/a	n/a	47,745	47,745
Mutual funds	n/a	n/a	n/a	34,256	34,256
Fixed annuities	n/a	n/a	n/a	53,671	53,671
Mutual funds	n/a	n/a	n/a	64,988	64,988
Guaranteed investment contracts	n/a	n/a	n/a	4,688	4,688
State Investment Pool (LAIF)	n/a	n/a	n/a	36,236	36,236
Total investments	$ 3,054,582	$ 261,935	$ –	$ 3,558,101	$ 3,566,362

As discussed in Note 1, the June 30, 1995 financial statements reflect the investment loss to the portfolio based upon the realized liquidated value of the securities held in the portfolio.

Local Agency Investment Fund's (LAIF) investment portfolio includes 4% of derivative securities in the form of structured notes or asset-backed securities. The County's exposure to credit, market, or legal risk as it relates to the investment in LAIF is not available.

C. Reverse Repurchase Agreements

The County's investment pool did not have any reverse repurchase agreements as of June 30, 1995. During Fiscal Year 1994-95, the County had significant activity under various reverse repurchase agreements. See Note 1 for discussion of this activity.

4. NOTES RECEIVABLE

Deferred Loan Program

The County processes loans under a Federal Department of Housing and Urban Development (HUD) program which allows individuals to borrow funds free of interest for rehabilitation of real property. Loans made to qualifying individuals are collateralized by the property rehabilitated. Repayment occurs upon a change of property ownership or earlier at the borrower's option. The committed funds are disbursed periodically upon satisfaction of certain lending requirements and, when disbursed, are reflected as notes receivable in the Deferred Loan Program Fund, an agency fund. The notes are not expected to be repaid within one year. Funds collected upon repayment are used to issue new loans. Should the program cease to exist, all collections on future notes would be due and payable to HUD.

Formal Assurance Loan Program

This program allows individuals to borrow funds at an interest rate of 3% for the rehabilitation of real property. Loans made to qualifying individuals are secured by the property rehabilitated. Repayment of the loans occurs on a monthly basis.

At June 30, 1995, the amounts committed and disbursed are as follows:

	Deferred Loan Program	Formal Assurance Loan Program	Total
Loan commitments	$ 5,086	$ 1,607	$ 6,693
Less undisbursed amounts	576	114	690
Notes receivable	$ 4,510	$ 1,493	$ 6,003

An additional $75 in notes receivable relates to loans made through the Orange County Housing Authority (an expendable trust fund) to developers, for the purpose of providing low to moderate income housing.

5. CHANGES IN GENERAL FIXED ASSETS

The Schedule of Changes in General Fixed Assets includes general fixed assets of the County other than those accounted for in proprietary funds or similar trust funds. Additions, retirements and transfers in the County's general fixed assets during the fiscal year were as follows:

	Balance July 1, 1994	Transfers and Additions	Transfers and Retirements	Balance June 30, 1995
Land	$ 213,354	$ 8,351	$ 6,762	$ 214,943
Structures and Improvements	450,874	92,705	11,414	532,165
Equipment	184,548	26,836	41,552	169,832
Construction in Progress	229,948	23,505	113,659	139,794
Total	$ 1,078,724	$ 151,397	$ 173,387	$ 1,056,734

Construction in progress is composed of the following:

Project Title	Project Authorization	Expenditures to Date	Committed	Remaining Authorization
Civic Center Development Report & Design	$ 11,699	$ 9,089	$ 76	$ 2,534
Sheriff-Tent Replacement-Musick Facility	6,796	921	–	5,875
GSA-New Communications Center	16,210	1,102	–	15,108
HCA Remodel 1719/1725 W 17th St.	9,353	6,118	157	3,078

5. CHANGES IN GENERAL FIXED ASSETS (Cont'd)

Project Title	Project Authorization	Expenditures to Date	Committed	Remaining Authorization
Probation-Juvenile Hall 30 Bed Expansion/Security Fence	$ 8,951	$ 624	$ 2	$ 8,325
Sheriff-South County Substation	7,700	2	–	7,698
Theo Lacy Jail Expansion	190,418	60,930	2	129,486
Muni/South Court Master Plan *	6,213	1,415	–	4,798
Central Court Master Plan *	5,224	3,927	52	1,245
Loma Ridge Communications Center	12,682	6,956	–	5,726
Sunset Harbor-Phase II	13,849	357	–	13,492
Upper Newport Bay Coastal Development Plan	6,902	386	44	6,472
Fairview/Talbert Grassland Habitat	5,194	1,285	–	$ 3,909
Retention Facility	5,311	1,432	–	3,879
Elementary School	10,150	7,694	–	2,456
All Other Projects **	109,362	37,556	596	71,210
Total	$ 426,014	$ 139,794	$ 929	$ 285,291

* Project suspended due to bankruptcy (See Note 1).
** "All Other Projects" represents projects with individual appropriations of less than $5 million.

6. COUNTY PROPERTY ON LEASE TO OTHERS

The County has noncancellable operating leases for certain buildings which are not material to the County's general operations. The Airport derives a substantial portion of its revenues from noncancellable operating leases with air carriers and concessionaires. The Airport's property under operating leases, consisting primarily of structures and improvements, at June 30, 1995, approximates $47,727.-

The County's General Fund, Special Revenue Funds and Enterprise Funds 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 operating leases as of June 30, 1995, are as follows:

	General Fund	Special Revenue Funds	Enterprise Funds
FY 1995-96	$ 584	$ 4,498	$ 26,893
FY 1996-97	574	4,392	26,589
FY 1997-98	224	3,939	26,411
FY 1998-99	170	3,836	26,386
FY 1999-2000	165	3,473	26,368
Subsequent years	1,236	38,303	96,641
Total future minimum rentals	$ 2,953	$ 58,441	$ 229,288

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately $26 (General Fund), $2,782 (Special Revenue Funds), and $14,789 (Enterprise Funds) for the year ended June 30, 1995.

7. UNAPPORTIONED TAXES

The County records collections of significant disputed property taxes within the unapportioned taxes liability category in its financial statements. Upon final disposition of the disputes, the amounts are either refunded to taxpayers or distributed to the County or other taxing entities. At June 30, 1995, approximately $24.1 million of disputed property taxes and interest earnings were included in unapportioned taxes.

8. NOTES PAYABLE

The Orange County Housing Authority is obligated for the repayment of several notes, primarily from the purchase of real property. The total original principal amount was $351 with an outstanding balance of $9 at June 30, 1995, as reflected in the General Long-Term Debt Account Group. The outstanding balance at June 30, 1994, was $10; principal payments are due through the fiscal year 2000.

9. SHORT-TERM NOTES PAYABLE

Tax and Revenue Anticipation Notes

During the year ended June 30, 1995, the County of Orange issued non-taxable tax and revenue anticipation notes in the amount of $169,000 (Series A). Related interest expenditures as of June 30, 1995 were $7,901. The notes were scheduled to mature on July 19, 1995. The County entered into an agreement with the noteholders, approved by the Bankruptcy Court, in which the County agrees to make its best efforts to repay the notes by June 30, 1996. Consequently, the notes were reclassified as long-term debt in default. (See Notes 1 and 10.)

The County issued additional non-taxable tax and revenue anticipation notes in the amount of $31,000 (Series B). Related interest expenditures as of June 30, 1995 were $1,165. The notes were scheduled to mature on August 10, 1995. The County entered into an agreement with the noteholders, approved by the Bankruptcy Court, in which the County agrees to make its best efforts to repay the notes by June 30, 1996. Consequently, the notes were reclassified as long-term debt in default. (See Notes 1 and 10.)

The monies provided by these non-taxable notes were made available for General Fund expenditures and capital expenditures, and to discharge other obligations or indebtedness of the County. The interest thereon was paid from funds received by the County during Fiscal Year 1994-95.

The County also issued taxable notes in the amount of $600,000. Related interest expenditures as of June 30, 1995 were $34,113. The notes were scheduled to mature on July 10, 1995. The County entered into an agreement with the noteholders, approved by the Bankruptcy Court, in which the County agrees to make its best efforts to repay the notes by June 30, 1996. Consequently, the notes were reclassified as long-term debt in default. (See Notes 1 and 10.)

Teeter Financing

The County also issued "Teeter Plan" taxable notes in the amount of $111,000, proceeds of which were used to redeem $104,836 of Teeter taxable notes recorded in the Taxable Note Repayment Special Revenue Fund in Fiscal Year 1993-94. Related interest expenditures as of June 30, 1995 were $6,700.

The County also issued "Teeter Plan" tax-exempt notes in the amount of $64,000. Related interest expenditures as of June 30,1995 were $2,573.

In June 1995, the "Teeter Plan" taxable and tax-exempt notes were paid off with the proceeds of a $155,000 twenty-year bond issue, the "Teeter Plan Revenue Bonds", issued by the Orange County Special Financing Authority; with funds set aside in the Taxable Note Repayment Fund; and with available delinquent property tax collections. The Teeter Plan Revenue Bonds are designed to finance the alternative method of property tax allocation, or "Teeter Plan", which pays the full tax levy to property tax receiving agencies, with no reduction for delinquencies.

9. SHORT-TERM NOTES PAYABLE (Cont'd)

Orange County Flood Control District Taxable Notes

The Orange County Flood Control District issued $100,000 in taxable notes dated August 2, 1994. These notes were paid in full on the due date of August 1, 1995, using funds available in the Flood Control District Special Revenue Fund after allocation of its share of the Orange County Investment Pool loss. This note was not in default, and therefore was not required to be covered by the note extension agreement for the other County notes described above under "Tax and Revenue Anticipation Notes".

1994-95 Pooled School Tax and Revenue Anticipation Notes

In July 1994, $299,660 in 1994-95 Pooled Tax and Revenue Anticipation Notes (the "Pooled TRANs") were issued on behalf of twenty-seven school districts. The Pooled TRANs were secured by a pledge of the repayment of notes of the school districts, which were in turn secured by pledges of tax and other revenues of the individual school districts. The Pooled TRANs were also secured by a Standby Purchase Agreement between the participating school districts, the County, and the County Treasurer-Tax Collector as fund manager of the Orange County Investment Pool, in the event that amounts on deposit in the school district note repayment funds were not sufficient. The Pooled TRANs were not a General Fund obligation of the County, but were a limited obligation of the County payable solely from amounts on deposit in the school district note repayment funds, and from the Standby Purchase Agreement, if necessary.

All of the twenty-seven participating school districts had sufficient funds in their note repayment funds as of June 30, 1995 to repay the Pooled TRANs in their entirety. The Pooled TRANs were paid on the due date of July 28, 1995 in full, with related interest of $14,496. Balances in the school district note repayment funds are reflected in the Trust and Agency Funds as of June 30, 1995. No demand was made upon the standby purchase agreement to purchase any of the school district notes.

10. LONG-TERM OBLIGATIONS

General Obligation Bonds Payable

General obligation bonds are not collateralized. Revenue for retirement of these bonds is provided from ad valorem taxes on property within the district of the governmental unit issuing the bonds.

The amount of 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, 1995, the statutory limit was approximately $2.2 billion.

General obligation bonds outstanding and related activity for the year ended June 30, 1995 were as follows:

Description	Balance July 1, 1994	Retirements	Balance June 30, 1995
County Improvement Serial Bonds:			
Date Issued: July 1, 1957			
Interest Rates: 1.00% to 4.25%			
Original Amount: $7,510			
Maturing in installments through July 1, 1997	$ 785	$ (195)	$ 590
County Flood Control District Improvement Bonds:			
Date Issued: February 1, 1957			
Interest Rates: 0.25% to 4.25%			
Original amount: $42,620			
Maturing in installments through February 1, 1996	2,190	(1,095)	1,095

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1994	Retirements	Balance June 30, 1995
County Sanitation District			
No. 12 Sewer Bonds:			
Date Issued: January 1, 1963			
Interest Rate: 4.50%			
Original amount: $1,810			
Maturing in installments through July 1, 1995	$ 220	$ (110)	$ 110
	$ 3,195	$ (1,400)	$ 1,795

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

Orange County Public Facilities Corporation (OCPFC) revenue bonds are primarily secured by facilities constructed with the bond proceeds. The outstanding OCPFC balance includes $12,212 in the Telephone Internal Service Fund (which includes accrued interest of $429) and $81,922 in the Waste Management Enterprise Fund (which includes accrued interest of $524). Revenue for interest payments and bond retirements is serviced by the Telephone Internal Service Fund and the Waste Management Enterprise Fund; the remainder is serviced by revenues generated from lease payments made by the General Fund on the constructed facilities. The General Fund is reimbursed for a portion of these lease payments by other County funds.

Airport Enterprise Fund revenue bonds are secured and serviced primarily by a pledge of the net revenues of the Airport and its rights to receive net revenues.

Orange County Financing Authority and the Orange County Development Agency (OCDA) revenue bonds are secured and serviced by a pledge of OCDA's allocation of property taxes derived from the total incremental taxable value of properties within the redevelopment areas.

Master Lease Equipment Obligations are serviced by base rental payments on acquired equipment. The outstanding Master Lease Equipment Obligations balance includes $100 in the Transportation, $62 in the Reprographics, and $1,768 in the Telephone Internal Service Funds.

In prior years, various Certificates of Participation, Tax Allocation Bond and Revenue Bond issues have been advance refunded. These are considered defeased, and the long-term debt liability has been removed from the related General Long-Term Debt Account Group and Enterprise Funds. At June 30, 1995, $209,576 of defeased debt remained outstanding.

During Fiscal Year 1994-95, the County of Orange issued the following new long-term obligations:

Refunding Recovery Bonds, 1995 Series A

In June 1995, the County of Orange issued Refunding Recovery Bonds, 1995 Series A, in the amount of $278,790, with interest rates ranging from 5% to 6.5%. The Bonds were issued to refund obligations which the County issued in partial satisfaction of claims of certain Pool Participants pursuant to the Comprehensive Settlement Agreement between funds of the County and are additionally secured by a pledge of certain motor vehicle license fees collected by the State of California and allocated to the County pursuant to California Government Code Section 11001. The County has elected to participate in an "intercept program", whereby the State Controller will pay Motor Vehicle License Fees directly to a trustee who will pay principal of and interest on the Bonds. The scheduled payment of principal of and interest on the Bonds when due is guaranteed under a financial guaranty insurance policy issued by the MBIA Insurance Corporation.

10. LONG-TERM OBLIGATIONS (Cont'd)

Pension Obligation Bonds, Series 1994A and B (in default)

In September 1994, the County of Orange issued $320,040 in taxable Pension Obligation Bonds (Series 1994A of $209,840; Series 1994B of $110,200). The Series 1994A Bonds have interest rates ranging from 6.15% to 8.21% and the Series 1994B Bonds bear interest at a weekly interest rate payable on the first business day of each calendar month. The 1994 Series Bonds were issued to refund the County's obligation under a debenture issued in favor of OCERS to amortize the County's unfunded actuarial accrued liability to OCERS.

Orange County Special Financing Authority, Teeter Plan Revenue Bonds, 1995 Series A Through E

In June 1995, the Orange County Special Financing Authority issued $155,000 in taxable (1995 Series A of $32,375) and tax exempt (1995 Series B through E of $122,625) Teeter Plan Revenue Bonds, with interest rates of 6.85% (Series A) and ranging from 5.85% to 6.35% (Series B through E). The 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 of Orange Teeter Plan program, to be received by the Authority, the County, and a trustee. The 1995 Series Bonds were primarily used to purchase receivables representing amounts owed by delinquent taxpayers to the County. The County applied a portion of the proceeds of its sale of receivables, along with other available funds, to pay at maturity the 1994 Teeter Plan Notes. The scheduled payment of principal of and on the 1995 Series Bonds when due, are supported by an irrevocable direct-pay letter of credit issued by The Industrial Bank of Japan, Limited, Los Angeles Agency.

Extension of 1994-95 County of Orange Tax and Revenue Anticipation Notes, Series A and B (in default)

On July 7, 1995, the County of Orange extended the Tax and Revenue Anticipation Notes, Series A and B in the amounts of $169,000 and $31,000, respectively. The interest on the Series A is 5.45% and the Series B is variable, based on 70% of the one month London Interbank Offered Rate (LIBOR) plus 95 basis points and reset two business days prior to the first business day of the month. The notes were extended as a result of investment loss suffered by the County. The County received approval from 99% of the Series A note holders and from 100% of the Series B note holders to extend these notes through June 30, 1996. The funding to repay the notes is detailed in the Plan of Adjustment which was submitted to Bankruptcy Court on December 21, 1995. (See Notes 1 and 9.)

Extension of 1994-95 County of Orange Taxable Notes (in default)

On July 7, 1995, the County of Orange extended the Taxable Notes in the amount of $600,000 with a variable interest rate based on one month London Interbank Offered Rate (LIBOR) plus 95 basis points and reset two business days prior to the first business day of the month. The notes were extended as a result of the investment loss suffered by the County. The County received approval from 100% of the note holders to extend the notes through June 30, 1996. The funding to repay the notes is detailed in the Plan of Adjustment which was submitted to Bankruptcy Court on December 21, 1995. (See Notes 1 and 9.)

10. LONG-TERM OBLIGATIONS (Cont'd)

The following long-term obligations, with the exception of the Refunding Recovery Bonds and the Teeter Plan Revenue bonds issued in June 1995, the 1992 OCFA Revenue Bonds Series A and B, and the 1993 OCDA Revenue Bonds are considered to be in technical default as described in Note 1.

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 1995, were as follows:

Description	Balance July 1, 1994	Issuances and Discount Amortization	Assignments/ Retirements	Balance June 30, 1995
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: July 1, 1986 Interest Rates: 6.75% to 7.50% Original amount: $36,965 Maturing in installments through July 1, 2001.	$ 16,265	$ 22	$ (2,870)	$ 13,417
Airport Enterprise Fund Revenue Bonds: Date Issued: July 23, 1987, $68,440 refunded on July 1, 1993. Interest Rates: 6.00% to 8.12% Original amount: $233,676 Maturing in installments through July 1, 2018.	165,955	94	(1,500)	164,549
Master Lease Schedule No. 1, 1988 Equipment Project Purchaser Certificates: Date Issued: September 1, 1988 Interest Rates: 7.20% Original amount: $13,475 Maturing in installments through September 1, 1995	2,750	–	(1,850)	900
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: December 1, 1988 Interest Rates: 6.80% to 7.875% Original amount: $88,146 Maturing in installments through December 1, 2013.	83,266	12	(1,880)	81,398
Airport Enterprise Fund Subordinated Airport Revenue Certificates of Participation: Date Issued: October 1, 1990 Interest Rates: 6.50% to 7.80% Original amount: $6,420 Maturing in installments through July 1, 2000.	4,935	–	(565)	4,370

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1994	Issuances and Discount Amortization	Assignments/ Retirements	Balance June 30, 1995
Master Lease Schedule No. 2, 1990 Equipment Project Purchaser Certificates: Date Issued: January 3, 1991 Interest Rates: 7.00% Original amount: $16,475 Maturing in installments through September 1, 2000.	$ 13,975	$ –	$ (2,000)	$ 11,975
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: April 1, 1991 Interest Rates: 5.60% to 6.50% Original amount: $31,380 Maturing in installments through June 1, 2021.	30,420	–	(470)	29,950
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: August 1, 1991 to refund prior December 22, 1987 bond issue Interest Rates: 5.40% to 7.05% Original amount: $33,579 Maturing in installments through December 1, 2018.	29,644	–	(1,355)	28,289
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: November 15, 1991 Interest Rates: 4.90% to 7.30% Original amount: $86,035 Maturing in installments through August 1, 2021.	84,200	–	(1,200)	83,000
Orange County Financing Authority Revenue Bonds Series A: Date Issued: June 1, 1992 to refund prior June 1, 1989 Orange County Development Agency bond issue Interest Rates: 4.50% to 6.55% Original amount: $28,082 Maturing in installments through September 1, 2022	28,082	–	(50)	28,032
Orange County Public Facilities Corporation Revenue Bonds: Date Issued: June 1, 1992 and delivered July 7, 1992 to refund prior April 1, 1989 bond issue Interest Rates: 4.70% to 6.375% Original amount: $102,735 Maturing in installments through June 1, 2019.	99,175	–	(1,880)	97,295

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1994	Issuances and Discount Amortization	Assignments/ Retirements	Balance June 30, 1995
Orange County Financing Authority Revenue Bonds Series B: Date Issued: July 1, 1992 Interest Rates: 5.10% to 7.40% Original amount: $3,185 Maturing in installments through September 1, 2000.	$ 2,885	$ –	$ (345)	$ 2,540
Orange County Public Facilities Corporation Revenue Bonds Master Lease Program: Date Issued: February 1, 1993 Interest Rates: 3.40% to 5.50% Original amount: $24,780 Maturing in installments through September 1, 2003	24,780	–	(215)	24,565
Airport Enterprise Fund Revenue Bonds: Date issued: July 1, 1993 to refund $68,440 of the 1987 Airport Revenue bond issue Interest rate: 3.00% to 5.50% Original amount: $77,022 Maturing in installments through July 1, 2018.	77,105	87	(660)	76,532
Orange County Development Agency Revenue Bonds: Date issued: August 1, 1993 to refund prior September 1, 1987 bond issue Interest rate: 3.250% to 6.125% Original amount: $57,965 Maturing in installments through September 1, 2023.	57,965	–	(530)	57,435
County of Orange Taxable Pension Obligation Bonds - Series 1994A Date issued: September 1, 1994 Interest rate: 6.15% to 8.21% Original amount: $209,840 Maturing in installments through September 1, 2004	–	209,840	–	209,840
County of Orange Taxable Pension Obligation Bonds - Series 1994B Date issued: September 28, 1994 Interest rate: variable Original amount: $110,200 Maturing in installments through September 1, 2008	–	110,200	–	110,200

10. LONG-TERM OBLIGATIONS (Cont'd)

Description	Balance July 1, 1994	Issuances and Discount Amortization	Assignments/ Retirements	Balance June 30, 1995
County of Orange				
Refunding Recovery Bonds				
Date issued: June 1, 1995				
Interest rate: 5.0% to 6.50%				
Original amount: $278,790				
Maturing in installments through June 1, 2015	$ –	$ 278,790	$ –	$ 278,790
Orange County Special Financing Authority				
Teeter Plan Revenue Bonds				
Series A through E				
Date issued: June 1, 1995				
Interest rate: 5.85% to 6.85%				
Original amount: $155,000				
Maturing in installments through November 1, 2001	–	155,000	–	155,000
County of Orange Tax and Revenue				
Anticipation Notes - Series 1994A:				
Date issued: July 5, 1994				
Interest rate: 5.45%				
Original amount: $169,000				
Maturing on June 30, 1996	–	169,000	–	169,000
County of Orange Tax and Revenue				
Anticipation Notes - Series 1994B:				
Date issued: August 11, 1994				
Interest rate: variable				
Original amount: $31,000				
Maturing on June 30, 1996	–	31,000	–	31,000
County of Orange				
Taxable Notes 1994				
Date issued: July 8, 1994				
Interest rate: variable				
Original amount: $600,000				
Maturing on June 30, 1996	–	600,000	–	600,000
Deferred Amount on Refunding (1993 Airport Revenue Bonds)	(10,979)	363		(10,616)
Total	$ 710,423	$ 1,554,408	$ (17,370)	$ 2,247,461

10. LONG-TERM OBLIGATIONS (Cont'd)

Demand Obligations Payable

The General Long-Term Debt Account Group includes $13,800 of demand obligations indebtedness; revenue for related debt retirements and interest payments is provided by lease payments from the General Fund.

Demand obligations outstanding and related activity for the year ended June 30, 1995, were as follows:

Description	Balance July 1, 1994	Issuances	Retirements	Balance June 30,1995
Orange County Public Facilities Corporation				
1985 Refunding Certificates of Participation:				
Date Issued: December 30, 1985				
Interest Rate: 12.00% Maximum Variable				
Original amount: $33,851				
Maturing in installments through December 1, 2015.	$ 13,900	$ –	$ (100)	$ 13,800

The 1985 certificates were issued by OCPFC to provide funds to refund, on December 1, 1987 (the "cross-over date"), 1984 certificates which had also been issued by OCPFC. The 1984 certificates were issued to finance the rehabilitation of two three-story office buildings located in Santa Ana, California, the expansion and remodeling of an existing courthouse located in Newport Beach, California, and the acquisition and improvement of a refuse disposal site and access road located within the County. One of the office buildings in Santa Ana was not rehabilitated, resulting in a prepayment in a prior year of $2,675.

Some of the proceeds from the OCPFC Revenue Bonds dated December 1, 1988 were used to refund $16,640 of the 1985 Certificates designated for the acquisition and improvement of the refuse disposal site and access road.

Proceeds of the 1985 issuance, along with accumulated interest earnings, were used to retire the 1984 certificates on December 1, 1987. Each 1985 certificate was secured, prior to the cross-over date, by a pledge of and lien upon the escrow fund established to retire the related issue of 1984 certificates, and is now secured by a pledge of payments under the related 1985 lease agreements.

The 1985 certificates shall be purchased upon demand of the holder at a price equal to the principal amount thereof plus accrued interest, upon no more than seven days' notice and delivery to the trustee or paying agent. The remarketing agent has agreed to make a good faith attempt to remarket any repurchased bonds at a price equal to the principal amount thereof plus any accrued interest to the purchase date.

The 1985 certificates are secured by irrevocable letters of credit issued by the Dai-Ichi Kangyo Bank, Limited. The letters of credit permit the trustee to draw up to an amount sufficient to pay principal of the related certificates when due, to pay the purchase price of the related certificates that are required to be purchased pursuant to "puts" or are subject to mandatory purchase and that are not remarketed, and to pay not less than 62 days of accrued interest. As of June 30, 1995, there were no outstanding draws on the letters of credit.

OCPFC demand bonds are reported as long-term debt because they met all four conditions for such treatment specified in Governmental Accounting Standards Board Interpretation No. 1, as follows:

The 1985 Reimbursement Agreement between the County and Dai-Ichi Kangyo Bank (the "Bank") provides for the registration of any unremarketed certificates in the name of the Bank. The obligation of the County to reimburse the Bank is satisfied by making the regularly scheduled long-term interest payments for up to five years following a purchase drawing. Holders other than Dai-Ichi Kangyo Bank may "put" certificates to the County's paying agent. If not remarketed, the certificates are acquired by the Bank and a "conversion" occurs because the Bank holds the certificates long-term without the ability to "put" to the County for payment.

10. LONG-TERM OBLIGATIONS (Cont'd)

The expiration date of the 1985 issue letters of credit (and the associated Reimbursement Agreement) is June 30, 1996.

The 1985 Reimbursement Agreement is not cancelable by Dai-Ichi Kangyo Bank prior to its expiration date, except with respect to events of default, the existence of which can be objectively determined by the County and the Bank.

Dai-Ichi Kangyo Bank was the largest bank in the world on both an asset and deposit basis on the date of issuance of the 1985 letters of credit and thus is expected to be financially capable of honoring the Reimbursement Agreement.

Fees associated with the 1985 demand bonds primarily consist of letter of credit fees. Prior to December 15, 1995 the County was required to pay annually to Dai-Ichi Kangyo Bank amounts ranging from 1/5 to 1/4 of one percent of the letter of credit amount. After December 15, 1995 and through the expiration date the County is required to pay annually 0.6% of the letter of credit amount.

Debt Service Requirements to Maturity

The following is a schedule of all long-term debt service requirements to maturity by bond type on an annual basis (in thousands):

Fiscal Year(s) Ending June 30	General Obligation Bonds	Revenue Bonds	Demand Bonds	Total
1996	$ 1,433	$ 973,736	$ 1,392	$ 976,561
1997	200	127,282	1,368	128,850
1998	202	148,939	1,248	150,389
1999	–	160,374	1,328	161,702
2000	–	157,575	1,304	158,879
2001-2005	–	727,732	6,832	734,564
2006-2010	–	542,326	6,824	549,150
2011-2015	–	407,109	6,984	414,093
2016-2020	–	199,784	1,456	201,240
2021-2024	–	38,174	–	38,174
Total	1,835	3,483,031	28,736	3,513,602
Less: Interest	40	1,216,406	14,936	1,231,382
Deferred Amount on Refunding	–	10,616	–	10,616
Discount	–	8,548	–	8,548
Principal Payable	$ 1,795	$ 2,247,461	$ 13,800	$ 2,263,056

10. LONG-TERM OBLIGATIONS (Cont'd)

The following is a schedule of all long-term debt service requirements to maturity by fund type and account group on an annual basis (in thousands):

Fiscal Year(s) Ending June 30	Enterprise Funds	Internal Service Funds	General Long-Term Debt Account Group	Total
1996	$ 28,997	$ 4,072	$ 943,492	$ 976,561
1997	30,802	4,291	93,757	128,850
1998	30,640	3,943	115,806	150,389
1999	30,649	3,594	127,459	161,702
2000	31,464	–	127,415	158,879
2001-2005	148,332	–	586,232	734,564
2006-2010	147,055	–	402,095	549,150
2011-2015	137,246	–	276,847	414,093
2016-2020	82,356	–	118,884	201,240
2021-2024	–	–	38,174	38,174
Total	667,541	15,900	2,830,161	3,513,602
Less: Interest	332,210	2,116	897,056	1,231,382
Deferred Amount on Refunding	10,616	–	–	10,616
Discount	8,482	66	–	8,548
Principal Payable	$ 316,233	$ 13,718	$ 1,933,105	$ 2,263,056

There is an additional $5 in Internal Service Funds for Master Lease acquisitions recorded as controlled equipment.

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 the 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 of Orange or any political subdivision thereof is pledged to the payment of the bonds. Accordingly, such obligations are not included in the accompanying general purpose financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and the Marks-Roos Local Bond Pooling Act of 1985, and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facility District. 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. 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 general purpose financial statements.

The County is acting as an agent of the special 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.

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts and Service Areas" Capital Projects Fund. Because the County is not obligated in any manner for special assessment district and community facilities district debt, related debt service transactions are recorded within the "Deposit Fund-Local Boards, Commissions, Authorities and Districts," an Agency Fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 1995, are $759,015.

11. ARBITRAGE REBATE PAYABLE

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the Federal government at least every five years.

During the current year, the County performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. In accordance with these regulations, 90% of the amount due to the Internal Revenue Service (IRS) at the end of each five year period has been paid. The remaining 10% has been recorded as a liability in the General Long-Term Debt Account Group and will be paid after all bonds have been redeemed. Any rebate amounts identified as the result of interim reports are also recorded as a liability in the General Long-Term Debt Account Group. The County has determined that an arbitrage rebate liability of $382 at June 30, 1995 is due to the IRS and is comprised of the following:

Orange County Development Agency Revenue Bonds, 1987	$ 71
Orange County Development Agency Revenue Bonds, 1989	45
Orange County Public Facilities Corporation Revenue Bonds, 1989	258
Master Lease Schedule No. 1, 1988	8
	$ 382

During Fiscal Year 1994-1995, the County made arbitrage rebate payments of $403.

12. HOUSING REVENUE BOND PROGRAM

The County first issued housing bonds in 1980. Since then, a total of over $2,624,343 of such bonds have been issued. Housing bonds provide funds for the purchase of loans collateralized by first lien deeds of trust, certain reserve funds and other monies on single-family residences and multiple rental units located in certain areas of the County.

The bonds are payable solely from payments made on the purchased loans. It is the County's opinion that these bonds are not payable from any other revenues or assets of the County, and neither the faith and credit nor the taxing power of the County, the State of California, or any political subdivision thereof, are obligated to pay principal and interest on the bonds. Consequently, the transactions of these revenue bond programs are not included in the financial statements of the various funds and account groups of the County.

13. LEASES

Commitments Under Operating Leases

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

	Equipment	Real Property	Total
FY 1995-96	$ 5,523	$ 56,735	$ 62,258
FY 1996-97	816	54,192	55,008
FY 1997-98	259	53,977	54,236
FY 1998-99	103	49,694	49,797
FY 1999-2000	31	45,857	45,888
Subsequent years	–	277,375	277,375
Total	$ 6,732	$ 537,830	$ 544,562

Total rent expenditures for operating leases incurred for FY 94-95 were $52,369.

13. LEASES (Cont'd)

Capital Leases

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

	General Fixed Assets Account Group
Equipment	$ 4,163
Structures and Improvements	618
Total	$ 4,781

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, 1995:

	General Long-Term Debt Account Group
FY 1995-96	$ 2,320
FY 1996-97	991
FY 1997-98	39
FY 1998-99	39
FY 1999-2000	15
Total minimum lease payments	3,404
Less: amount representing interest	(186)
Present value of net minimum lease payments	$ 3,218

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

The following is a summary of changes in capital lease obligations for the General Long-Term Debt Account Group:

	Lease Principal Outstanding July 1, 1994	Obligations Incurred During Year	Lease Principal Paid/Reduced During Year	Lease Principal Outstanding June 30, 1995
Total capital lease obligations	$ 2,762	$ 2,644	$ 2,188	$ 3,218

Due to the bankruptcy (see Note 1), the County has discontinued, renegotiated or restructured certain leases in an effort to obtain more favorable terms and cost savings to the County.

14. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables by fund are as follows:

	Due From Other Funds	Due To Other Funds
General Fund	$ 157,230	$ 167,534
	157,230	167,534
Special Revenue Funds		
Parking Facilities	27	787
Roads, Airport Land Use	1,721	2,725
Public Library	1	491
Flood Control District	100,665	2,063
Harbors, Beaches & Parks District	4,121	2,402
Service Areas, Lighting & Maintenance Districts	–	31
Redevelopment, Other Environmental Management	1,559	6,314
Other Public Protection	2,015	3,779
Contingencies, Economic Uncertainty	–	114
Community Services	120	403
Taxable Note Repayment	13,794	21,157
Designated Special Revenue Funds	108,049	–
Restricted Refinancing Proceeds	59,171	–
	291,243	40,266
Debt Service Funds		
Redevelopment Agency Bonds	–	1,742
General Obligation, Other Revenue Bonds	232	419
Pension Obligation Bonds	13,642	13,642
Refunding Recovery Bonds	557	–
	14,431	15,803
Capital Projects Funds		
Criminal Justice Facilities	831	3,622
County, Public Library, & Fire Department	–	38
Flood Control District	6,516	1,982
Redevelopment Agency	3	492
Special Assessment Districts, Service Areas	–	51
	7,350	6,185
Enterprise Funds		
Airport	82	1,662
Waste Management	15,282	2,154
	15,364	3,816
Internal Service Funds		
Unemployment Insurance	–	3
County Indemnity Health Plan	–	241
Workers' Compensation	–	216
Property & Casualty Risk	–	494
Transportation	1,151	201
Reprographics	802	13
Self-Insured Benefits	–	12
Telephone	744	122
	2,697	1,302

14. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)

	Due From Other Funds	Due To Other Funds
Trust and Agency Funds		
Civic Center Authorities	$ 17	$ 23
Transportation Corridors	1	–
Deposit Fund - Local Boards, Commissions, Authorities and Districts	50	110,039
Unapportioned Tax and Interest Funds	2,003	56,510
Clearing and Revolving Fund	4,946	5,061
Departmental Funds	59,582	147,464
Orange County Fire Authority Funds	26	937
	66,625	320,034
Total	$ 554,940	$ 554,940

15. OPERATING TRANSFERS AND RESIDUAL EQUITY TRANSFERS

Operating transfers in totaling $418,777 are comprised of $83,043 into the General Fund, $243,110 into the Special Revenue Funds, $85,672 into the Debt Service Funds, $415 into the Capital Projects Funds, and $6,537 into the Expendable Trust Funds. Operating transfers out totaling $418,777 are comprised of $242,953 out of General Fund, $81,502 out of the Special Revenue Funds, $73,836 out of the Debt Service Funds, and $18,572 out of the Capital Project Funds, and $1,914 out of the Expendable Trust Funds.

Residual equity transfers in totaling $29,769 are comprised of $28,485 into the Special Revenue Funds, and $1,284 into the Internal Service Funds (disclosed as an increase in contributed capital). Residual equity transfers out totaling $29,769 are comprised of $1,404 out of the General Fund, $19,155 out of the Special Revenue Funds, and $9,210 out of the Capital Projects Funds.

16. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS

The following funds have deficit fund balances/retained earnings:

Fund	Deficit (In Thousands)
Special Revenue	
Contingencies, Economic Uncertainty	54
Internal Service	
Workers' Compensation	16,025
Property and Casualty Risk	26,157
Transportation	1,382
Expendable Trusts	
Transportation Corridors	10,276

The deficit in the Contingency, Economic Uncertainty funds was caused by excess transfers out of these funds which should have been made from the General Fund. The portion that should not have been transferred out will be restored during the subsequent fiscal year.

Deficits in the Workers' Compensation and Property and Casualty Risk Funds result from accruals of actuarially-determined, incurred but not reported losses. These funds will receive sufficient funding from other funds to cover disbursements during the years when they become payable. The County's long-term objective is to achieve 100% funding of these deficits.

Although the Transportation Internal Service Fund had a deficit in unreserved retained earnings, total fund equity is not in a deficit since it includes contributed capital of $17,532.

16. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS (Cont'd)

The Transportation Corridors deficit equity balance is the result of an $11 million advance from the road fund for the construction of the Foothill Corridor. This advance is expected to be repaid with future bond proceeds, at which time the deficit will be eliminated.

17. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded appropriations in the following areas for the year ended June 30, 1995:

Fund	Account	Appropriations	Expenditures
General Fund:			
	General Government	$ 113,437	$ 124,945
	Operating Transfers Out	–	242,953
	Residual Equity Transfers to Other Funds	–	1,404
Pension Obligation Bond Special Revenue Fund:			
	General Government	–	318,300
Pension Obligation Bond Debt Service Fund:			
	Interest	–	12,555
Harbors, Beaches, & Parks Capital Projects Fund:			
	Residual Equity Transfers to Other Funds	–	9,210

In the General Fund, general government expenditures in excess of appropriations occurred in the Data Systems Development agency. Unbudgeted operating transfers out consist of a transfer of fund balance to a designated special revenue fund and a transfer to the Taxable Note Repayment Fund. Unbudgeted residual equity transfers to other funds included transfers to the Transportation and Telephone Internal Service Funds, and the special revenue fund for Community Services.

The special revenue funds' general government expenditures in excess of appropriations occurred in the Pension Obligation Bond Fund. For budgetary purposes, the bonds are amortized over the life of the bonds; however, for financial reporting purposes the entire amount of the bonds is reported as an expenditure in the current year.

The expenditures in excess of appropriations in the debt service funds is a result of unbudgeted Pension Obligation Bonds interest.

In the capital projects funds, the expenditures in excess of appropriations was caused by an unbudgeted residual equity transfer from the Harbors, Beaches Parks Capital Projects Fund to the Harbors, Beaches, & Parks Special Revenue Fund.

18. RESERVED FUND BALANCES

Fund balances which are not available for appropriation at June 30, 1995 are reserved for the following purposes:

	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency
Fund Balance Reserved					
Encumbrances	$ 32,576	$ 61,190	$ –	$ 13,623	$ –
Imprest Cash Funds	1,446	38	–	–	–
Deposits with Others	–	–	–	252	–
Long-Term Receivables	–	3,244	–	3,314	–
Employees' Retirement	–	–	–	–	1,357
Inventory of Materials and Supplies	669	209	–	–	–
Prepaid Costs	13	–	25	–	–
Equipment Replacement	–	3,254	–	–	–
Construction	–	27,439	–	–	–
Land and Improvements Held for Resale	–	2,039	–	4,569	–
Low and Moderate Income Housing	–	346	–	–	–
Transportation Corridor Agency Loan	–	11,000	–	–	–
OCHA Operations	–	4,600	–	–	–
Redevelopment Loans	–	–	–	204	–
Debt Service	–	–	641,873	–	–
Future Construction Loans	–	13,882	–	–	–
General Reserve	–	339	–	–	–
Other Reserves	59	50	–	–	–
Reserved Fund Balance	$ 34,763	$ 127,630	$ 641,898	$ 21,962	$ 1,357

General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves, revenue anticipation notes, or a combination of both 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. Other reserves consist of a variety of amounts including repair and maintenance contracts, and replacement of materials.

19. FUND TYPE RECLASSIFICATIONS

Governmental Funds

Effective July 1, 1994, due to the formation of the Orange County Fire Authority, the County reclassified fund balances of $49,823 from certain Special Revenue Funds and $11,165 from Capital Projects Funds to an Agency Fund. Three funds previously accounted for in the "Fire Department" Special Revenue grouping, amounting to $49,823 in fund balance, are now accounted for in the "Orange County Fire Authority" Agency grouping. Two funds previously accounted for in the "Public Library & Fire Department" Capital Projects grouping, amounting to $11,165 in fund balance, are now accounted for in the "Orange County Fire Authority" Agency grouping. These reclassifications were necessary because the Fire Authority (formerly the Fire Department) is no longer part of the County's reporting entity; therefore, the County is acting in the capacity of an agent for these funds.

20. ENTERPRISE FUNDS

A. Airport

The Airport Enterprise Fund was established to account for self-supporting services rendered at John Wayne Airport. The Airport's staff coordinates and administers the general business activities related to the John Wayne Airport, including concessions, fixed base operations, leased property, and aircraft tiedown facilities. Copies of the financial statements may be obtained from Airport Accounting Services.

B. Waste Management

This fund was established to provide monies for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate fees, which users pay based primarily on tonnage. Copies of the financial statements may be obtained from the Integrated Waste Management Department.

C. Segment Information for Enterprise Funds

	Airport	Waste Management	Total Enterprise Funds
Operating revenues	$ 60,411	$ 67,412	$ 127,823
Depreciation and amortization	13,562	3,740	17,302
Operating income	21,934	18,714	40,648
Net loss	(4,834)	(18,114)	(22,948)
Net current capital contributions	1,981	(11)	1,970
Plant, property and equipment:			
Additions	7,516	9,010	16,526
Deletions	561	2,768	3,329
Net working capital	57,497	138,824	196,321
Total assets	410,089	293,556	703,645
Bonds and other long-term liabilities: Payable from operating revenues	234,835	199,035	433,870
Total equity	139,933	65,509	205,442

21. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE 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 thirty 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 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.

All active waste disposal sites are owned by IWMD, with the exception of the Santiago Canyon site, which is leased. In 1990, IWMD closed its Coyote Canyon landfill as this site had reached its maximum capacity.

The $117,637 reported as the balance of the landfill closure and postclosure care liability at June 30, 1995 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date less actual costs disbursed related to the closure of the Coyote Landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of $231,898 as the proposed capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 1995. 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.

21. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE COSTS (Cont'd)

In compliance with the California Integrated Waste Management Board, 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 Frank R. Bowerman, Prima Deschecha, and Santiago Canyon landfill sites into a restricted escrow fund, held by the County. An irrevocable letter of credit amounting to $14,508 has been issued by a bank for the closure care costs of Olinda/Olinda Alpha in lieu of an escrow arrangement. As of June 30, 1995, $14,949 has been set aside for these costs and is included as restricted assets in the accompanying balance sheets as due from the County of Orange. The state mandated formula under which these contributions are computed will 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 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.

Due to the bankruptcy in December 1994 (see Note 1), the amounts in the restricted escrow funds became insufficient to meet the Financial Assurance requirements of California Code of Regulations Title 14. In order to renew the state operating permit without penalty, IWMD successfully requested and received drawdowns of pre-petition funds from the County and, in September 1995, reported to the State Board that the escrow accounts had been restored to full compliance with State regulations.

22. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At June 30, 1995, major contracts entered into by proprietary fund types for equipment, land, structures and improvements, and other commitments were as follows:

Project Title	Remaining Commitments
Airport	
Runway/Taxiway Expansion and Strengthening	$ 1,818
Integrated Waste Management	
Olinda Landfill Gas Recovery	1,216
FRB - Groundwater Protection	1,032
Total	$ 4,066

23. SELF-INSURANCE

The County is exposed to various risks related to loss 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 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, and the Workers' Compensation Program, which ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are entirely 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, and natural disasters. Tort liability is self-insured, and insurance is purchased for property and other special risks.

23. SELF-INSURANCE (Cont'd)

Independent actuarial studies are secured annually for these ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering inflation, recent claims settlement trends including frequency and payout, interest earnings, and changes in legal and economic factors.

All County departments having employees contribute to the Workers' Compensation Fund according to the State Controller's method of cost allocation based on employee classifications and claims experience. All departments having any loss experience in property or casualty are similarly charged for their pro rata share of the ISF costs.

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 $1 million 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, July 1, 1993	$ 33,538	$ 62,706	$ 5,908	$ 102,152
Claims and Changes in Estimates	9,933	11,775	28,317	50,025
Claim Payments	(10,774)	(8,733)	(27,757)	(47,264)
Unpaid Claims, June 30, 1994	32,697	65,748	6,468	104,913
Claims and Changes in Estimates	10,668	5,852	29,402	45,922
Claim Payments	(10,847)	(5,220)	(28,824)	(44,891)
Unpaid Claims June 30, 1995	$ 32,518	$ 66,380	$ 7,046	$ 105,944

There is an additional $862 in the General Fund for claims payable to management employees for unreimbursed medical expenses, accidental death and dismemberment insurance, health insurance, professional organization fees and, in lieu of the aforementioned, actual cash disbursements.

24. ESTIMATED LIABILITY - OTHER LITIGATION AND CLAIMS

The County records estimates of liabilities for litigation and claims expected to be paid primarily from the General Fund. Estimated liabilities for litigation and claims totaling $842 have been recorded in the General Long-Term Debt Account Group at June 30, 1995, as none of these liabilities are expected to be liquidated with expendable available financial resources.

The County is a defendant in various lawsuits related to the bankruptcy (see Note 1). The outcome of these lawsuits is not presently determinable and no estimate of loss can be made.

25. 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 results of operations of the funds of the County.

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.

As the owner and operator of a number of landfill sites, IWMD has potential exposure to environmental liability. IWMD may be required to perform corrective action for contaminate releases at any of its inactive landfills, even if the County no longer owns the site. IWMD is in the process of evaluating its potential exposure to remediation liabilities on closed landfill sites. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

A number of entities have filed proofs of claims through the bankruptcy court that assert purported environmental claims. One claim is for an amount exceeding $1 billion. The County intends to vigorously defend this and all such claims. The ultimate outcome of such claims cannot be reasonably determined. However, management believes it has sufficient reserves for any ultimate claim.

See Note 1 for discussion of other contingencies related to the bankruptcy.

26. DEFINED BENEFIT PENSION PLANS

Orange County Employees' Retirement System

Substantially all County employees participate in the Orange County Employees' Retirement System (OCERS), a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system.

At December 31, 1994, total OCERS membership consisted of:

Retirees and beneficiaries currently receiving benefits:	5,816
Active employees, including those pending retirement or withdrawal, and terminated employees entitled to benefits but not yet receiving them:	
Fully Vested	12,896
Partially Vested	–
Nonvested	7,601
Total	26,313

The covered payroll (regular salaries only) for County employee members of OCERS for the year ended December 31, 1994, was $636.8 million; the County's total payroll for all employees was $721.9 million.

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. If an employee terminates before rendering five years of service, the employee forfeits the right to

26. DEFINED BENEFIT PENSION PLANS (Cont'd)

receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee 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.

Significant accounting policies of OCERS are as follows:

- During the year, OCERS maintains its books on the accrual basis of accounting.

- Quoted market prices are used to value United States Government securities, corporate and foreign bonds and debentures, equity securities, and domestic and international common stocks. Mortgage notes are valued at an amount equal to the unpaid principal balance of the loans. Real estate equity investments are stated at market value as determined by independent appraisals. The equity index, open end and venture capital funds, and limited partnership investments are carried at market value, as determined by the investment managers.

- Unclaimed monies represent terminated members' contributions left on deposit and refundable to them when claimed, and are included in accounts payable.

- Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable, under OCERS' provisions, to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries; (b) beneficiaries of employees who have died; and (c) present employees and their beneficiaries. Benefits under OCERS are based on employees' "final compensation." For Tier I members, one year of service is used to calculate benefits, while for Tier II members, a three-year average is used to calculate benefits. The accumulated plan benefits for active employees are based on their average compensation. Benefits payable under all circumstances (retirement, death, disability, and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date. The actuarial present value of accumulated plan benefits is determined by the actuary, and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuation as of December 31, 1994, were:

  a. Life expectancy of participants is based on the 1983 Group Annuity Mortality Table.

  b. Retirement, disability, turnover, and mortality assumptions are based on OCERS' actual experience.

  c. The investment return, net of administrative expense, is assumed to be 8.0 percent.

  d. Retirees' benefits are assumed to increase 3 percent annually, once retired, in accordance with OCERS' cost-of-living provisions.

  e. Prior service cost is amortized over an initial 30-year period. The remaining period, as of December 31, 1994, was 13 years.

  f. Salaries are assumed to remain at current levels in the future.

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. From January through June 1994, employer's contributions were 2.55% for General members and 17.93% for Safety members. From July 1994 through December 1994, employer's contributions were 3.91% for General members and 24.76% for Safety members.

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of participation. For Tier I members, the normal rate of contribution is based on the member's age of 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. For Tier

26. DEFINED BENEFIT PENSION PLANS (Cont'd)

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. For Tier II Safety members, the rate of contribution is calculated to provide an annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

The County's actuarially determined employer contribution requirement for the year ended December 31, 1994, was $40.8 million, based on recommended contribution rates published in an actuarial study. The County's actual contribution was $50.5 million based on rates established in the previous annual actuarial study. The contribution requirement and actual contribution from County employees was $40.9 million. These actual employer and employee contributions represent 7.9% and 6.4% of covered payroll, respectively.

Changes in actuarial assumptions, benefit provisions, actuarial funding method and other factors which occurred during the year ended December 31, 1994 caused the differences in the actuarially determined employer contribution rate.

The County's 1994 contribution represented 94.1% of total contributions required of all participating entities.

In addition, in September 1994, the County sold $320,040 in taxable pension obligation bonds. The proceeds of $318,300 (net of issuance costs and underwriters' discount) will be used to fund the County's portion of the Unfunded Actuarial Accrued Liability (UAAL). See Note 29 for discussion of additional use of these monies. This amount is not included in the following calculation of the pension benefit obligation.

The "pension benefit obligation" is a standardized disclosure measure of the actuarial present value of credited projected benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess OCERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers. OCERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at December 31, 1994, for OCERS as a whole, determined through an actuarial valuation performed as of that date, was $2,214.2 million. OCERS' net assets available for benefits on that date were $2,498.5 million, leaving an overfunded pension obligation of $284.3 million, categorized as follows (in millions):

	OCERS Pension Benefit Obligation	Allocation to County of Orange (94.1%) Based on 1994 Contributions
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving them	$ 1,002.3	$ 943.2
Current employees:		
Accumulated employee contributions including allocated investment income	413.1	388.7
Employer financed-vested	382.3	359.7
Employer financed-nonvested	416.5	391.9
Total pension benefit obligation	2,214.2	2,083.5
Net assets available for benefits, at market value	2,498.5	2,351.1
Overfunded pension benefit obligation	$ (284.3)	$ (267.6)

During the year ended December 31, 1994, OCERS experienced a net increase of $213.7 million in the pension benefit obligation. None of that change was attributable to plan amendments.

Trend information for the three years ended December 31, 1992, 1993 and 1994, respectively, is as follows: available assets were sufficient to fund 105.5 percent, 111.3 percent and 112.8 percent of the pension benefit obligation. The overfunded pension benefit obligation represented 14.4 percent, 31.2 percent and 37.0 percent of the annual payroll for employees covered by OCERS for 1992, 1993 and 1994, respectively. Presenting the overfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation for analysis

26. DEFINED BENEFIT PENSION PLANS (Cont'd)

purposes. In addition, for the three years ended December 31, 1992, 1993 and 1994, the County's contributions to the system, all made in accordance with actuarially determined requirements, were 7.5 percent, 5.7 percent and 6.6 percent, respectively, of annual covered payroll.

Ten-year historical trend information showing OCERS' progress in accumulating sufficient assets to pay benefits when due and other relevant information is presented in the OCERS Comprehensive Annual Financial Report as of December 31, 1994, which can be obtained from OCERS.

Because of the need to reduce the size of the County work force as a result of the bankruptcy (see Note 1), the County offered two early retirement incentive packages in January and March 1995. The first incentive package offered eligible employees a payout of their pre-petition and post-petition vacation, sick leave, and compensatory time balances over three fiscal years. In the second incentive package, eligible employees could convert their vacation, sick leave, and compensatory time balances to a dollar value and purchase up to two years' retirement credit. Any residual dollar value would be paid over five fiscal years. Approximately $1.1 million related to these early retirement incentive packages is included in the General Long-Term Debt Account Group.

The total cost savings to the County's Fiscal Year 1994-95 budget from these early retirement incentive packages was in excess of $3 million.

Defined Benefit Retirement Plan

In January 1992, the County adopted a defined benefit retirement plan for employees performing services on the basis of less than half-time or as extra help. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. The eligible employees of this plan are not covered by the Orange County Employee Retirement system.

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.

Each participant shall have his compensation reduced each pay day based upon the participant's attained age as of January 1 of each calendar year and recommended contribution rates. The reduction in compensation shall be contributed by the County to the administrator on a monthly basis. The County may prospectively increase or decrease the contribution rates by plan amendment effective on the first day of the plan year.

The plan's actuarial assumptions are an 8.0 percent investment return net of administrative expense, and life expectancy is based upon the Unisex Pension Mortality Table.

The Board of Supervisors has delegated the County Treasurer the authority to hold, invest, and reinvest the plan assets and plan income.

The number of employees, the covered payroll, and the amount of County contributions are not disclosed because the amounts are not material.

27. POSTRETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the County makes health care benefits available for substantially all retired employees. These health care benefits are funded by insurance premiums paid by retirees enrolled in the health plans. The County recognizes the cost of these benefits by reporting as expenditures in various funds periodic insurance premiums and claims, which were $7,728 in fiscal year 1994-95.

28. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457, which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or certain other cases.

28. DEFERRED COMPENSATION PLAN (Cont'd)

Two separate administrative arrangements exist within the framework of this deferred compensation plan. The County Treasurer administers the County-sponsored plan, and the Public Employees Benefit Services Corporation (PEBSCO) administers the National Association of Counties (NACo) plan. County employees can opt to invest in either or both of these plans.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the County (without being restricted to the provisions of benefits under the plan), subject only to the claims of the County's general creditors, of which plan participants are included. Participants' rights under the plan are equal to those of general unsecured creditors of the County in an amount equal to the fair market value of the deferred account for each participant.

The County's deferred compensation plan is accounted for in the Deferred Compensation Fund, an agency fund, which was established to provide a convenient method of setting aside a portion of the County's assets to meet its obligations under the plan. Neither the existence of the plan nor the fund has been deemed to create a trust.

Deferred compensation fund assets are carried in the financial statements at market value. These assets are intended solely for deferred compensation benefits.

At June 30, 1995, approximately 49% of the total assets in this fund were invested with the County Treasurer, and the remaining 51% of the assets were held by PEBSCO.

The portion of the deferred compensation plan invested with the County Treasurer suffered losses due to the liquidation of investments following the bankruptcy (see Note 1). The Board of Supervisors, in Resolution 95-2, dated January 5, 1995, stated its intent to limit plan participants' investment losses to ten percent of December 31, 1994 account balances. The loss limitation was dependent upon the receipt of a favorable Private Letter Ruling from the Internal Revenue Service, which was received in October 1995. The County is currently studying its available options with respect to the implementation of Resolution 95-2.

29. SUBSEQUENT EVENTS

The following events occurred subsequent to June 30, 1995:

A. Effective July 3, 1995 the County school districts segregated their cash and investments held with the Treasurer into separate demand deposit accounts and custodial accounts. See Notes 1 and 3.

B. In August 1995, the County reached an agreement with OCERS to implement new retirement rates for Fiscal Year 1995-96. The estimated $30 million normal cost for the Fiscal Year 1995-96 County contributions will be paid from the Pension Obligation Bond proceeds on deposit with OCERS in a segregated account.

C. In October 1995, the Board of Supervisors and the Treasury Oversight Committee approved the Treasurer's Money Market Investment Policy Statement, which does not allow for leverage or borrowing.

D. On December 20, 1995, the County filed an action against its former auditors, KPMG Peat Marwick, and related entities and partners, alleging claims for breach of contract, professional negligence and indemnity. The County is seeking damages in excess of $3 billion.

E. On January 19, 1996, the County submitted the Disclosure Statement in connection with the solicitation of votes on the Plan of Adjustment.

F. On January 24, 1996, Orange County, the Board of Supervisors and the Orange County Flood Control District settled all charges with the Securities and Exchange Commission arising out of its formal investigation into the events preceding Orange County's bankruptcy filing. The settlement includes the consent by the County, the Board of Supervisors and the Flood Control District to an administrative cease and desist order. The cease and desist order is based upon findings by the Securities and Exchange Commission that false and misleading statements were made in the offer and sale of municipal securities issued in 1993 and 1994. Neither the County, the Board of Supervisors nor the Flood Control District admitted or denied the Commission's findings.

COUNTY OF ORANGE
CALIFORNIA

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

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SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the legal documents which may not be described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Site Lease, the Lease, the Assignment Agreement, the Trust Agreement and the First Supplemental Trust Agreement for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meanings set forth in the Trust Agreement.

Definitions of Certain Terms

"Additional Certificates Required Documents" means the amendments to the Site Lease and the Lease required by the Trust Agreement, collectively.

"Additional Payments" means all costs of operating, maintenance and managing the Leased Facilities required to be paid under the Lease.

"Amortized Value" means the value as of any given date obtained by dividing the total amount of the premium or the discount at which the Investment Securities were purchased by the number of days remaining to the first call date (if callable) or the maturity date (if not callable) at the time of such purchase and by multiplying the amount so calculated by the number of days having passed from the date of such purchase; and (i) in the case of Investment Securities purchased at a premium, by deducting the product thus obtained from the purchase price and (ii) in the case of Investment Securities purchased at a discount, by adding the product thus obtained to the purchase price.

"Base Rental Payments" means all amounts payable to the Corporation as Base Rental Payments pursuant to the Lease.

"Base Rental Payment Schedule" means the schedule of Base Rental Payments payable to the Corporation pursuant to the Lease and attached to the Lease.

"Bradley-Burns Sales Tax Revenues" means (a) amounts collected by the State Board of Equalization that are (i) derived from that portion of the taxes imposed by the County in excess of 1% pursuant to Part 1.5 of Division 2 of the California Revenue and Taxation Code and (ii) permitted to be deposited to the general fund of the County and (b) amounts collected by the State Board of Equalization that are derived from the taxes imposed by the County pursuant to Part 1.5 of Division 2 of the California Revenue and Taxation Code, other than that portion of those taxes specified in Section 29530.5 of the Government Code.

"Case" means the County's case under Chapter 9 of the Bankruptcy Code, numbers SA94-22272-JR, which is pending in the Bankruptcy Court.

"Certificate Insurance Policy" means any policy or policies of insurance or financial guaranty insuring payment of the amounts of principal and interest represented by the Certificates and issued by the Certificate Insurer.

"Certificate" or "Certificates" means any of the certificates of participation authorized, executed and delivered pursuant to the Trust Agreement and the related Series Trust Agreement.

"Certificate Insurer" or "MBIA" means MBIA Insurance Corporation and its successors and assigns.

"Certificate Payment Date" means each date on which a scheduled Principal Components payment (whether by payment of principal scheduled to mature or a Sinking Fund Installment scheduled to be paid) shall be required to be made on any of the Outstanding Certificates according to their respective terms.

"Certificate Reserve Account Requirement" means the least of (i) the maximum amount of Base Rental Payments remaining to be made during any twelve-month period, (ii) 125% of the average of all such remaining annual Base Rental Payments, and (iii) 10% of the aggregate proceeds from the sale of the Certificates; provided, however, that all or a part of such Certificate Reserve Account Requirement may be provided by a Reserve Guaranty.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable regulations promulgated by the United States Treasury Department.

"Corporation" means Orange County Public Facilities Corporation or any surviving, resulting or transferee entity.

"Costs of Issuance" means all costs incurred in connection with the execution, delivery and sale of each Series of the Certificates, including, but not limited to, the County's administrative costs relating to the execution and delivery of such Series of the Certificates, including costs related to the refunding of any certificates of participation or bonds, notes, warrants or other evidences of indebtedness of the County, attorneys' fees and expenses (including fees and expenses of Special Counsel and fees and expenses of counsel to the Trustee, as well as other specialized counsel fees and expenses incurred in connection with the transactions contemplated by the Trust Agreement and the Series Trust Agreements), any fees of the title insurer and other costs or fees relating to title insurance, costs relating to filing and recording the Lease and the Site Lease, costs related to obtaining any business or rental interruption insurance, any rating agency fees, consultant fees including actuary fees and auditing fees, accountant fees related to the issuance of the Certificates, fees of any financial advisors to the County with respect to the transactions contemplated by the Trust Agreement and the Series Trust Agreements, the Trustee's fees and expenses, any premium for or other fees or expenses incurred in connection with a Certificate Insurance Policy, cost of reproducing and binding documents, printing and distribution expenses for the Certificates and any preliminary and final offering materials, closing costs, filing and recording fees.

"Coverage Test" means the calculation performed by the County to determine that the most recent collections of Bradley-Burns Sales Tax Revenues and Motor Vehicle License Fees and any additional amounts (which are permitted to be used in the calculation by the Certificate Insurer, the subject of a pledge or lien in favor of the Owners and subject to an intercept program) for any twelve consecutive calendar months ended not more than six months prior to the date of delivery of one or more Series of Certificates have been at least 1.25 times the sum of (i) the maximum annual amount of the interest components and the Principal Components of all Certificates, after taking into account each Series of Certificates proposed to be delivered, (ii) the maximum annual debt service on the Recovery Bonds, and (iii) the maximum annual amount due on all other bonds or certificates of participation secured on a parity with the Certificates, in each case, to be paid in any single twelve-month period ending on June 30 during which any Certificate is expected to be Outstanding. For the purposes of calculating amounts due with respect to any obligation which bears interest at a variable rate, the interest rate shall be deemed to be an interest rate equal to The Bond Buyer Revenue Bond Index for bonds maturing on a date that is the earlier of 20 years from the date of calculation or the actual maturity date of the obligation.

"Credit Facility" means a letter of credit, line of credit, Certificate Insurance Policy, surety bond, standby purchase agreement or standby payment agreement or similar obligation or instrument issued by a bank, insurance company or similar financial institution or by the State or the Federal Government or any agency, authority, instrumentality or subdivision thereof.

"Default Rate" means the rate of interest publicly announced by Citibank, N.A. at its principal office in New York, New York as its prime rate (any change in such prime rate of interest to be effective on the date such change is announced by Citibank, N.A.) plus two (2) percent.

"Defeasance Obligations" means (a) any of the obligations described in clause (1) of the definition of Investment Securities and (b) Refunded Municipal Obligations.

"Delivery Date" means the date on which the Series A Certificates are initially executed and delivered.

"DTC" means The Depository Trust Company and its successors and assigns.

"Event of Default" shall have the meaning given to such term in the summary of the Lease herein.

"Fair Rental Value" means, when used with respect to any item comprising the Leased Facilities as of any date of calculation, the annual dollar amount (based on an appraisal method acceptable to the Certificate Insurer) set forth next to such item on Exhibit D attached to the Lease, as amended, supplemented or modified.

"Government Code" means the Government Code of the State of California.

"Initial Period" means a period beginning on the date of execution and delivery of a Series of Certificates and ending, with respect to interest represented by such Series of Certificates, on the first Interest Payment Date and, with respect to Principal Components represented by such Series of Certificates, on the first Certificate Payment Date.

"Initial Series of Certificates" or "Series A Certificates" means the County of Orange, California, 1996 Series A Certificates of Participation authorized and executed and delivered pursuant to the Trust Agreement and the First Supplemental Trust Agreement.

"Insufficiency Amount" shall mean the Principal Insufficiency Amount together with the Interest Insufficiency Amount.

"Insurance Agreement" means the insurance agreement by and among the County, the Trustee and the Certificate Insurer, dated as of June 1, 1996, as from time to time amended and supplemented wherein, among other things, the County agrees to reimburse MBIA for any payments made under the 1996 Series A Certificate Insurance Policy.

"Insurance and Condemnation Fund" means the fund by that name established in the Trust Agreement.

"Insurance Paying Agent" means State Street Bank and Trust Company, N.A. in New York, New York or its successors under the 1996 Series A Certificate Insurance Policy.

"Insured Certificates" means any Certificates for which the interest and Principal Components evidenced and represented thereby are insured by a Certificate Insurance Policy.

"Interest Account Requirement" means an amount equal to one-sixth of the maximum amount of interest represented by a Series of Certificates payable on any Interest Payment Date during the remaining term of the Certificates.

"Interest Insufficiency Amount" means, in the event the Trustee determines pursuant to the First Supplemental Trust Agreement that there will be insufficient funds in the Interest Account to pay the interest evidenced and represented by the 1996 Series A Certificates on the next succeeding Interest Payment Date, the pro rata amount of the interest insufficiency applicable to the Series A Certificates.

"Interest Payment Dates" means the date or dates on which interest evidenced and represented by such Certificates becomes due and payable, being the date or dates specified in the Series Trust Agreement authorizing the execution and delivery thereof.

"Investment Securities" means any of the following investments and any additional investments approved in writing by the Certificate Insurer; provided that the County shall provide written notice to each Rating Agency promptly after the Certificate Insurer approves any additional investments:

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. Farmers Home Administration (FmHA)
      Certificates of beneficial ownership

   b. Federal Housing Administration Debentures (FHA)

   c. General Services Administration
      Participation certificates

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

   e. U.S. Maritime Administration
      Guaranteed Title XI financing

   f. U.S. Department of Housing and Urban Development (HUD)
      Project Notes
      Local Authority Bonds

3. Bond, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

   a. Federal Home Loan Bank System
      Senior debt obligations (consolidated debt obligations)

   b. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
      Participation Certificates (mortgage-backed securities)
      Senior Debt Obligations

   c. Federal National Mortgage Association (FNMA or "Fannie Mae")
      Mortgage-backed securities and senior debt obligations (excluded are stripped mortgage securities which are valued greater than par on the portion of unpaid principal)

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

   e. Resolution Funding Corp. (REFCORP) obligations Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form are acceptable.

f. Farm Credit System
Consolidated systemwide bonds and notes

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of AAAm-G; AAAm; or AAm, and if rated by Moody's, having a rating of Aaa; Aa1; or Aa2.

5. Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must have a one year or less maturity. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1" or better by Standard & Poor's and "Prime-1" by Moody's. The collateral must be held by a third party and the Certificate holders 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 acceptable to MBIA.

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+" by Standard & Poor's.

11. Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee 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 Trustee in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria or be approved by the Certificate Insurer.

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

i) Primary dealers on the Federal Reserve reporting dealer list which fall under the jurisdiction of the SIPC and which are rated "A" or better by Standard & Poor's and Moody's, or

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

b. The written repurchase agreements must include the following:

i) 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).

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

iii) The collateral must be delivered to the municipal entity, the trustee (if the 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).

iv) The trustee has a perfected first priority security interest in the collateral.

v) Collateral is free and clear of third-party liens and in the case of SIPC broker was not acquired pursuant to a repo or reverse repo.

vi) Failure to maintain the requisite collateral percentage, after a two day restoration period, will require the trustee to liquidate collateral.

vii) Valuation of Collateral

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

b) 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 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. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by Standard & Poor's. If, however, the issue is only rated by Standard & Poor's (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals to satisfy this condition.

"Lease" means the Master Lease, dated as of June 1, 1996, by and between the Corporation and the County, as it may from time to time be supplemented, modified or amended pursuant to the provisions thereof and of the Trust Agreement.

"Leased Facilities" means that certain real property, together with all buildings and other improvements located thereon, situated in the County, described in Exhibit A to the Lease and any additional property added to the Lease but excluding any property substituted or released therefrom.

"Lease Supplement" means a written supplement to the Lease in the form contained in the Lease and providing for the substitution of New Property for a Replaced Site, the withdrawal of all or a portion of the Leased Facilities or the addition of any improved or unimproved real property to the Lease Facilities.

"Legislation" means legislation authorizing the delivery of one or more additional Series of Certificates for a purpose other than assisting the County in satisfying its obligations under the Plan and secured by the Pledged Revenues.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer be a nationally recognized securities rating

organization, then the term "Moody's Investors Service" shall be deemed to refer to any other nationally recognized securities rating agency selected by the County and approved by the Certificate Insurer.

"Motor Vehicle License Fees" means all moneys credited to the Motor Vehicle License Fees Account in the Transportation Tax Fund of the State of California to which the County is entitled under Chapter 5 (commencing with Section 11001) of Part 5 of Division 2 of the California Revenue and Taxation Code.

"Motor Vehicle License Fees Account" means the Motor Vehicle License Fee Account in the Transportation Tax Fund of the State of California referred to in Chapter 5 (commencing with Section 11001) of Part 5 of Division 2 of the California Revenue and Taxation Code.

"1996 Series A Certificate Insurance Policy" means the MBIA financial guaranty insurance policy which shall insure the payment of Principal Components and interest evidenced and represented by the Series A Certificates in accordance with the terms thereof.

"New Property" shall having the meaning given to such term in the summary of the Lease herein.

"Outstanding," when used as of any particular time with reference to Certificates, means all Certificates except (1) Certificates canceled by the Trustee or delivered to the Trustee for cancellation; (2) Certificates paid or deemed to have been paid within the meaning of the defeasance provisions of the Trust Agreement; and (3) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement; provided that Certificates paid by the Certificate Insurer pursuant to a Certificate Insurance Policy shall be deemed to be Outstanding.

"Owner" means any person who shall be the registered owner of any Outstanding Certificate.

"Partial Termination Option" means the option of the County to terminate the Lease with respect to any part of the Leased Facilities, as provided for in the Lease.

"Paying Agent" means the Paying Agent designated from time to time pursuant to the 1996 Series A Supplemental Trust Agreement.

"Payment Agreement" means a written agreement which provides for an exchange of payments based on interest rates, or for ceilings or floors on such payments, or an option on such payments, or any combination, entered into on either a current or forward basis.

"Pension Bonds" means all bonds issued by the County under that Trust Agreement, dated as of September 1, 1994, as supplemented by that First Supplemental Trust Agreement, dated as of June 1, 1996, by and between the County and the Pension Bond Trustee, as such Trust Agreement may from time to time be supplemented, modified or amended in accordance with its terms.

"Pension Bonds Trustee" means U.S. Trust Company of California, N.A., or its successor, as trustee for the Pension Bonds.

"Permitted Encumbrances" means (a) all easements, encumbrances, restrictions, covenants, conditions, encroachments and other matters that affect one or more Leased Facilities and that (i) are described in the Lease or (ii) do not substantially interfere with the quiet enjoyment, use and occupancy of one or more of the Leased Facilities, and (b) all deed and grant restrictions either existing on the date of the Lease or thereafter granted or consented to by the County, or other legal restrictions applicable to the Leased Facilities, that in each case do not substantially interfere with the quiet enjoyment, use and occupancy of one or more of the Leased Facilities.

"Plan" means the County's Modified Second Amended Plan of Adjustment, Case No. SA 94-22272 JR, confirmed by an order of the United States Bankruptcy Court for the Central District of California entered on May 16, 1996.

"Pledged Revenues" means the Bradley-Burns Sales Tax Revenues automatically pledged pursuant to Sections 25350.8 and 25350.10 of the Government Code and the Motor Vehicle License Fees automatically pledged pursuant to Section 25350.6 of the Government Code.

"Prepayment Price" means the unpaid principal amount represented by the Certificates to be prepaid or such other amount as shall be specified in the Series Trust Agreement authorizing the execution and delivery of such Certificate, plus the applicable premium payable upon either optional or mandatory prepayment (other than by Sinking Fund Installments) thereof.

"Principal Account Requirement" means an amount equal to one-twelfth of the maximum annual amount of Principal Components represented by a Series of Certificates payable on any Certificate Payment Date during the remaining term of the Certificates.

"Principal Component" means, as of any date of calculation and with respect to any Series, (a) the principal amount represented by Certificates of such Series scheduled to be paid 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 Certificates of such Series, or (c) if such future dates coincide as to different Certificates of such Series, the sum of such principal amount and such unsatisfied balance of Sinking Fund Installments due on such future date; in each case, in the amounts and on the dates as provided in the Series Trust Agreement authorizing such Series.

"Principal Insufficiency Amount" means, in the event the Trustee determines pursuant to the First Supplemental Trust Agreement that there will be insufficient funds in the Principal Account to pay the Principal Component evidenced and represented by the Series A Certificates on the next succeeding Certificate Payment Date, the pro rata amount of the Principal Component insufficiency applicable to the Series A Certificates.

"Property Ratio Requirement" means an amount equal to 120% of the maximum Base Rental Payments payable during any twelve-month period.

"Rating Agency" means Moody's, so long as it provides a rating on the Certificates and Standard and Poor's, so long as it provides a rating on the Certificates.

"Recovery Bonds" means all bonds issued by the County under the Trust Agreement, dated as of June 1, 1995, by and between the County and First Interstate Bank of California, as such Trust Agreement may from time to time be supplemented, modified or amended in accordance with its terms.

"Refunded Certificates of Participation" means (a) $13,500,000 aggregate principal amount of Series 1985 Refunding Certificates of Participation (Office and Courthouse Projects) due December 1, 2005, (b) $81,740,000 aggregate principal amount of Series 1991 Certificates of Participation (Civic Center Expansion Project) due August 1 in the years 1996 through 2006, inclusive, 2010, 2018 and 2021, and (c) $29,460,000 aggregate principal amount of Series 1991 Certificates of Participation (Loma Ridge/Data Center Projects) due June 1 in the years 1997 through 2002, inclusive, 2008 and 2021.

"Refunded Municipal Obligations" means 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 each Rating Agency 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 guaranteed by the United States of America 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.

"Refunding Certificates" means any Certificate executed and delivered pursuant to the Trust Agreement for the purpose of refunding any Outstanding Certificates.

"Replaced Sites" shall have the meaning given thereto in the summary of the Lease herein.

"Representation Letter" means the Representation Letter from the County, the Trustee and the Paying Agent to DTC, dated the Closing Date of delivery of the 1996 Series A Certificates and all amendments thereto.

"Reserve Guaranty" means an insurance policy or surety bond in form and substance acceptable to the Certificate Insurer and provided by an insurer whose claims-paying ability is rated in either of the two highest rating categories by each Rating Agency, or a letter of credit or other similar credit facility the long-term unsecured debt of the issuer of which is rated in either of the two highest rating categories by each Rating Agency.

"Restricted Properties" means all County improved and unimproved real property classified as such in the Lease Agreement, which classification has been based on the following: such property is improved and unimproved real property which was acquired by the County by dedication, gift, bequest, devise, transfer, condemnation, purchase or otherwise and which is: (i) designated as a park or for park purposes and which is used for park, recreation, public access, open space or similar purpose; (ii) designated as a historical park or historical site; (iii) County jails; or (iv) restricted or limited as to use or assignment by deed, irrevocable offer of dedication, recorded covenants, conditions and restrictions, contract, agreement, statutory or constitutional provisions or otherwise, which use restriction or limitation would otherwise prohibit the use of the property as a Leased Facility but for designation as a Restricted Property.

"Series" means any Series of the Certificates authorized pursuant to the Trust Agreement and executed and delivered pursuant to a Series Trust Agreement.

"Series of Certificates" means all Certificates designated as being of the same series executed and delivered in a simultaneous transaction, and any Certificates thereafter delivered in lieu thereof or in substitution therefor pursuant to the Trust Agreement.

"Series Trust Agreement" means a Supplemental Trust Agreement providing for the execution and delivery of a Series of the Certificates pursuant to the Trust Agreement.

"Sinking Fund Installment" means, as of any date of calculation and with respect to any Term Certificates, each amount of principal evidenced and represented thereby scheduled to be paid other than upon the final Certificate Payment Date thereof, which schedule is established pursuant to a Series Trust Agreement providing for the execution and delivery of such Term Certificates.

"Special Counsel" means an attorney or firm of attorneys of nationally recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Code, appointed and paid by the County and consented to by both the Trustee and the Certificate Insurer.

"Standard & Poor's" means Standard & Poor's, a division of The McGraw Hill Companies, Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term Standard & Poor's Ratings Group shall be deemed to refer to any other nationally recognized securities rating agency selected by the County and approved by the Certificate Insurer.

"State" means the State of California.

"State Board of Equalization" means the State Board of Equalization and all successors to the rights, duties and obligations of the State Board of Equalization under the California Revenue and Taxation Code.

"State Intercept Program" means the program which the Board of Supervisors has elected to participate in by providing a notice to the State Controller pursuant to Sections 25350.55(a)(4), 25350.7(b) and 25350.9(b) of the Government Code of the State whereby the State Controller will pay directly to the Trustee the amount of Base Rental Payments from the Pledged Revenues.

"Statement of the County" means an instrument signed by the Chairman of the Board of Supervisors or the Chief Executive Officer of the County or by any other duly authorized officer.

"Supplemental Trust Agreement" means any Series Trust Agreement or any agreement amending or supplementing the terms of the Trust Agreement or of any Series Trust Agreement or any Supplemental Trust Agreement.

"Term" shall have the meaning given thereto in the summary of the Lease herein.

"Term Certificates" means Certificates the retirement or the prepayment of which shall be provided for from Sinking Fund Installments.

"Trust Estate" shall mean all right, title and interest of the Trustee in and to the Base Rental Payments and in, to and under the Lease and the Site Lease.

"Trustee" means Wells Fargo Bank, N.A., and any successor appointed under the Trust Agreement.

"Uninsured Certificates" means all Certificates other than Insured Certificates.

"Verification Report" means a report of an independent certified public accountant verifying that the principal of and increment, earnings or interest on Defeasance Obligations deposited with the Trustee, together with any moneys so deposited, will be sufficient to pay when due the Principal Component or Prepayment Price of the Certificates to be prepaid from the Base Rental Payments being prepaid by the County in accordance with the Lease, together with the accrued interest represented by such Certificates to the maturity or prepayment date thereof, as the case may be.

"Written Request of the County" means an instrument in writing signed by the Chief Executive Officer of the County or his or her designee, or by any other officer of the County duly authorized by the Board of Supervisors in writing to the Trustee for that purpose.

THE SITE LEASE

The Site Lease is entered into by and between the Corporation and the County and pursuant to its terms the County agrees to lease to the Corporation and the Corporation agrees to lease from the County the Leased Facilities, subject to Permitted Encumbrances.

The term of the Site Lease shall commence on the Delivery Date and shall expire on the earlier of July 1, 2026 or the day following the expiration or termination of the Lease; provided, however, if the Term of the Lease is extended, the term of the Site Lease shall be extended to the earlier to occur of the date that occurs one day after the extended expiration date of the Lease or the date that occurs one day after the termination of the Lease, except that the term of the Site Lease shall in no event be extended beyond an additional 10 years; provided, further, that if the Lease is terminated due to an Event of Default thereunder, the term of the Site Lease shall expire on July 1, 2026 (or such earlier or later date upon which the Certificates shall be paid in full).

The County has the right at any time, subject to the terms of the Lease, to substitute, withdraw or add other improved or unimproved real property for, from or to the Leased Facilities. In the event of a substitution or withdrawal (including, without limitation, as a result of the exercise of the termination option set forth in the Lease (the "Partial Termination Option")), the parties to the Site Lease agree to execute the appropriate documents evidencing (i) the termination of the Site Lease with respect to the Replaced Sites or the portion of the Leased Facilities with respect to which the County has exercised the Partial Termination Option, as applicable, and (ii) in the case of a substitution or addition, the leasing of the New Property by the County to the Corporation; provided that such termination, substitution or addition shall occur automatically at the time that the same occurs under the Lease.

The Corporation shall pay to the County an amount set forth in the Site Lease as and for rental thereunder.

Except as otherwise provided in the Lease, the Corporation shall not use the Leased Facilities for any purpose other than to lease the Leased Facilities to the County for the purposes set forth in the Lease. The Corporation covenants that during the term of the Site Lease, it will use the Leased Facilities for public and County purposes so as to afford the public the benefits contemplated by the Lease and the Site Lease.

THE LEASE

The Lease is entered into by and between the Corporation and the County and pursuant to its terms the Corporation leases to the County the Leased Facilities, subject only to the Permitted Encumbrances. The County represents that the Leased Facilities are essential to the County and covenants that during the Term it will use the Leased Facilities for public and County purposes so as to afford the public the benefits contemplated by the Lease.

Term

The term of the Lease shall commence on the Delivery Date and expire on the earlier of (i) the day immediately preceding the date upon which the term of the Site Lease expires or is terminated or (ii) July 1, 2026, unless such term is extended or sooner terminates as provided (the "Term"). If on July 1, 2026, the Certificates shall not be fully paid, then the term of the Lease shall be extended until ten (10) days after all Certificates shall be fully paid, except that the term of the Lease shall in no event be extended beyond ten (10) additional years. If prior to July 1, 2026, all Certificates shall be fully paid, or provision therefor made, the Lease shall terminate.

Substitutions, Withdrawals and Additions of Leased Facilities

The County shall have the right to withdraw property from the Leased Facilities and to substitute other improved or unimproved real property ("New Property") for all or a portion of the Leased Facilities, provided that (w) in place of improved or unimproved real property (each, a "Replaced Site") that is not Restricted Property, the County shall substitute only New Property that is non-Restricted Property), (x) the County has provided the Trustee and the Certificate Insurer with a written lease supplement (a "Lease Supplement") and amendments to certain exhibits to the Lease, (y) the County has provided each Rating Agency at least 30-days' notice of such substitution or withdrawal, and (z) the County has obtained and provided to the Trustee each of the following: (i) written consent of the Certificate Insurer, (ii) a certificate of any licensed California real estate appraiser having at least five (5) years experience selected by the County setting forth his findings that (A) after taking into account the substitutions, the fair rental value of the New Property equals or exceeds the Fair Rental Value of the Replaced Sites or, in the case of a withdrawal without a substitution, the Property Ratio Requirement remains satisfied; and (B) the useful life of the New Property will be at least equal to the remaining useful life of the Replaced Sites; (iii) certificates of insurance applicable to the Leased Facilities which comply with certain requirements of the Lease (see "Insurance" below) and (iv) an opinion of Special Counsel addressed to the Trustee and the Certificate Insurer to the effect that such substitution or withdrawal is permitted under this Lease and will not have an adverse effect on the validity of the obligation of the County to make Base Rental Payments under the Lease or the interest component of the Base Rental Payments for federal income tax purposes.

Automatically, on the date upon which the Trustee executes the Lease Supplement, the New Property, if any, shall constitute "Leased Facilities" for all purposes of the Lease and the Lease shall terminate with respect to the Replaced Sites and shall terminate with respect to the withdrawn Leased Facilities, if any.

The County shall be required to add property as part of the Leased Facilities in connection with the execution and delivery of any additional Series of Certificates except Refunding Certificates. The County shall provide to the Trustee and the Certificate Insurer a Lease Supplement. Automatically, on the date upon which the Trustee executes the Lease Supplement, the added real property shall constitute "Leased

Facilities" for all purposes of the Lease. In addition, the Site Lease shall be amended to include the additional property as part of the Leased Facilities.

Base Rental Payments; Use Of Proceeds

The County agrees to pay or cause to be paid to the Corporation, as Base Rental Payments for the use and occupancy of the Leased Facilities (subject to certain provisions of the Lease concerning rental abatement and eminent domain), rental payments with principal and interest components, payable in accordance with the Base Rental Payment Schedule.

At such time as (i) additions or withdrawals are made to the Leased Facilities, (ii) prepayments of Base Rental Payments are made or (iii) the County shall exercise the Partial Termination Option with respect to any part of the Leased Facilities, the Base Rental Payment Schedule shall be amended to reflect an amended schedule of principal components and interest components of Base Rental Payments.

If the Term shall have been extended as discussed above under "Term", Base Rental Payment installments shall continue to be due monthly to and including the date of expiration or earlier termination of the Lease.

Any Bradley-Burns Sales Tax Revenues and Motor Vehicle License Fees or other amounts collected by the Trustee pursuant to the Trust Agreement providing for the pledge of the Pledged Revenues and the utilization of the State Intercept Program shall be valid and effectual to satisfy and discharge the obligation of the County under the Lease to make Base Rental Payments under the Lease.

The payments of Base Rental Payments payable for each rental period shall constitute the total base rental for said rental period and shall be paid by the County in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of, the Leased Facilities. Such Base Rental Payments payable for each twelve-month period beginning July 1 shall represent an amount equal to or less than the aggregate Fair Rental Value of the Leased Facilities for each such period, taking into consideration other obligations of the parties under the Lease, the uses and purposes served by the Leased Facilities and the benefits accrued to the County and the general public.

Any installment of Base Rental Payments not paid when due shall bear interest at the Default Rate from the date when the same is due under the Lease until the same shall be paid ("Defaulted Interest"). Payments of Defaulted Interest, if any, shall be paid pursuant to the terms of the Trust Agreement.

The County covenants to take such action necessary to include Base Rental Payments and Additional Payments due under the Lease in its annual budgets and to make necessary annual appropriations for all such Base Rental Payments and Additional Payments required to provide funds in such year for such Base Rental Payments and Additional Payments.

It shall be the duty of each and every appropriate public official of the County to take such action and do such things as are permitted by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements in the Lease agreed to be carried out by the County including the covenant to budget and appropriate amounts necessary to make Base Rental Payments.

The obligation of the County to pay Base Rental Payments and Additional Payments under the Lease shall constitute a current expense and shall not in any way be construed to be a debt of the County in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the County. Base Rental Payments and Additional Payments due shall be payable only from current funds which are budgeted and appropriated or on deposit in the Base Rental Payments Fund or Funds or Certificate Reserve Account or Accounts or otherwise legally available for the purpose of paying Base Rental Payments and Additional Payments due as consideration for use of the Leased Facilities, including Pledged Revenues intercepted pursuant to the State Intercept Program. The Lease shall not create an immediate indebtedness for any aggregate payments which may become due under the Lease in the event that the term of

the Lease is continued or discontinued. The County has not pledged the full faith and credit of the County, the State of California or any agency or department thereof to the payment of the Base Rental Payments and Additional Payments or any other payments due under the Lease.

Abatement

With certain exceptions, the County's obligation to make Base Rental Payments shall be abated during any period in which by reason of any damage to or destruction of any of the Leased Facilities or condemnation of less than all of the Leased Facilities, there is substantial interference with the use and occupancy of any of the Leased Facilities, if and to the extent that the aggregate Fair Rental Value of that portion of the Leased Facilities not damaged, destroyed or condemned is less than the Base Rental Payments due under the Lease following such damage, destruction or condemnation. Such abatement shall continue until the substantial completion of repair, reconstruction or replacement of the Leased Facilities so affected. In the event of any such damage, destruction or condemnation, the Lease shall continue in full force and effect and the County waives any right to terminate the Lease by virtue of any such damage, destruction or condemnation.

The County shall promptly notify the Trustee, the Certificate Insurer and each Rating Agency of any damage to or destruction or condemnation of any of the Leased Facilities which causes substantial interference with the use and occupancy of the Leased Facilities which would result in an abatement of Base Rental Payments.

Maintenance; Alterations

All maintenance and repair, both ordinary and extraordinary, of the Leased Facilities shall be the responsibility of the County, which shall at all times maintain or otherwise arrange for the maintenance of the Leased Facilities in good condition, and the County shall pay for or otherwise arrange for the payment of all services supplied to the Leased Facilities.

The County shall, at its own expense, have the right to remodel or make any additions, alterations, modifications and improvements to one or more of the Leased Facilities or any portion thereof. The County or any sublessee may at any time and from time to time, in its sole discretion, install or permit to be installed other items of equipment or other personal property in or upon the Leased Facilities.

Insurance

The County shall procure or cause to be procured and maintain or cause to be maintained, throughout the Term, insurance against loss or damage to any structures constituting any part of the Leased Facilities resulting from fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance ("Blanket Insurance"). The extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such Blanket Insurance may be in the form of (i) a blanket policy covering all property of the County from the perils referred to above and shall be in an amount not less than $200,000,000 per occurrence, without any aggregate limitation thereunder, or (ii) a single, combined blanket policy covering (A) all property of the County from the perils referred to above in an amount not less than $200,000,000 per occurrence, without any aggregate limitation thereunder, and (B) the rental interruption insurance required under the Lease, as discussed below.

The County shall procure or cause to be procured and maintain or cause to be maintained, throughout the Term, insurance against loss or damage to any structures constituting any part of the Leased Facilities by earthquake only if such insurance is commercially available with respect to the Leased Facilities on the open market from reputable insurance companies at reasonable cost (subject to a reasonable deductible).

In the event of any damage to or destruction of any part of the Leased Facilities, caused by the perils covered by such insurance, the County, except as provided in the Lease, shall cause the proceeds of such insurance to be utilized for the repair, reconstruction or replacement of the damaged or destroyed portion of the Leased Facilities. Any balance of said proceeds not required for such repair, reconstruction or replacement

shall be treated by the Trustee as Base Rental Payments and applied in the manner provided by the Lease and by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay an aggregate principal amount represented by Outstanding Certificates equal to the amount of Outstanding Certificates attributable to the portion of the Leased Facilities so destroyed or damaged and provided the principal amount to be prepaid exceeds $50,000, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Facilities and thereupon shall cause said proceeds to be sued for the prepayment of Outstanding Certificates pursuant to the provisions of the Trust Agreement and all applicable Series Trust Agreements.

Except as hereinafter provided, the County shall procure or cause to be procured and maintain or cause to be maintained, throughout the Term, a standard comprehensive general liability insurance policy or policies including a contractual liability endorsement and personal injury liability coverage in respect of the Leased Facilities and the conduct or operation of business therein with limits of not less than $1,000,000 combined single limit for bodily injury and property damage liability in any one occurrence. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance carried by the County. As an alternative to providing such liability insurance, or any portion thereof, the County may provide a self-insurance method or plan of protection if and to the extent such self-insurance method or plan of protection shall afford reasonable protection to the Corporation, its members, directors, officers, agents and employees and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by public entities in the State of California other than the County.

The County shall procure or cause to be procured on behalf of the Trustee and maintain or cause to be maintained rental interruption or use and occupancy insurance to cover loss, total or partial, of the Base Rental Payments due to the Trustee from the Leased Facilities as the result of any of the hazards covered by the Blanket Insurance, except for loss caused by earthquake, in a per occurrence amount not less than the next scheduled 24 months of Base Rental Payments, but never to exceed $120,000,000; provided that the requirements for such insurance shall be met if the County obtains the single, combined blanket insurance policy referred to above. Any proceeds of such insurance shall be payable to the Trustee as beneficiary and shall be applied to make Base Rental Payments under the Lease attributable to such portion of the Leased Facilities for a period of time during which the payment of Base Rental Payments under the Lease is abated; provided that the Trustee shall pay the County any proceeds received from any such insurance policy for any rental period for which Base Rental Payments have been paid by the County to the Trustee. Such insurance may not be maintained by the County in the form of self-insurance.

The County shall obtain title insurance in the form of a CLTA leasehold title policy or policies insuring the Trustee's leasehold interest in the Leased Facilities at the time the Lease is executed and delivered and, with respect to additional or substituted Leased Facilities, shall obtain endorsements to such policy or policies adding the additional or substituted Leased Facilities to the coverage provided by the policy when each such property is added to or substituted for the Leased Facilities. Any proceeds of such insurance shall be payable to the Trustee as beneficiary and shall be applied to prepay Base Rental Payments under the Lease.

The County will deliver to the Trustee and the Certificate Insurer each year a written certificate of an insurance broker selected by the County setting forth the insurance policies then in force pursuant to the Lease, whether such policies satisfy the requirements of the Lease, the names of the insurers which have issued the policies, the amounts thereof and the property and risks covered thereby and, if any self-insurance program is being provided, the annual report of an actuary, independent insurance consultant or other qualified person containing the information required for such self-insurance program.

Eminent Domain

If one or more Leased Facilities or any portion thereof shall be taken by eminent domain, condemnation or similar proceedings or actions, then, except as provided below, the Lease shall terminate, as of the date of the taking, condemnation or other action or proceeding with respect to the Leased Facilities or portion thereof so taken or condemned, and the Lease shall continue in full force and effect as to the portion of the Leased Facilities not taken or condemned.

So long as any of the Certificates shall be Outstanding, any award made in eminent domain proceedings for taking the Leased Facilities or any portion thereof shall be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Lease; provided, however, that in the event of a condemnation of less than all of the Leased Facilities, the County may use any award from such proceedings to replace the condemned Leased Facilities, with any surplus funds to be paid to the Trustee and applied to the prepayment of the Base Rental Payments as provided in the Lease. Notwithstanding anything contained herein, pursuant to California law, proceeds from any eminent domain proceedings with respect to County parks or parklands must be applied to the purchase of new, or the improvement of existing, County parks or parklands. Any award made in eminent domain proceedings for taking the Leased Facilities or any portion thereof after all of the Base Rental Payments have been fully paid, or provision therefor made, shall be paid to the County.

Risk of Loss

The County assumes all risks and liabilities from any cause whatsoever, whether or not covered by insurance, for loss or damage to any equipment and for injury to or death of any person or damage to any property, whether such injury or death be with respect to agents or employees of the County or of third parties, and whether such property damage be to the County's property or the property of others. The Corporation, the Trustee and their respective directors, officers, agents and employees shall not be liable to the County or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Leased Facilities.

Defaults and Remedies

If the County fails to make any Base Rental Payment when the same becomes due or the County fails to keep, observe or perform any other term, covenant or condition to be kept or performed by the County for a period of 30 days after notice has been given to the County by the Trustee or the Certificate Insurer or for such additional time as is reasonably required, in the sole discretion of the Trustee, at the direction of the Certificate Insurer, to correct the same, or upon the happening of any of the events specified below (any such case above being an "Event of Default"), the Corporation or its assignee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease, shall consult with the Certificate Insurer with respect to such remedies and will act at the direction of the Certificate Insurer. Nevertheless, there shall be no right to accelerate the payment of Base Rental Payments under any circumstances, and in no event shall the Corporation (or any assignee thereof) be entitled to recover, after termination of the Lease, damages in respect of any Base Rental Payments that would have been payable under the Lease after the time of award, if any, of damages in respect of the Base Rental Payments or other amounts hereunder that are due at the time of award, had the Lease not been terminated (whether pursuant to Section 1951.2 and following of the California Civil Code of otherwise). Upon any such Event of Default, the Corporation, in addition to rights and remedies at law, shall have the option to:

(1) terminate the Lease, re-enter the Leased Facilities and remove all persons in possession thereof and all personal property situated upon the Leased Facilities. In the event of such termination, the County agrees to surrender possession of the Leased Facilities and to pay all damages recoverable at law that the Corporation may incur by reason of the Event of Default by the County; or

(2) without terminating the Lease, (i) collect each installment of Base Rental Payments as it becomes due and enforce any other terms of the Lease to be kept or performed by the County, regardless of whether or not the County has abandoned the Leased Facilities, or (ii) exercise any and all rights of re-entry upon the Leased Facilities and repossess the same. In the event the Corporation does not elect to terminate the Lease as discussed in (1) above, the County shall remain liable and agrees to keep or perform all covenants and conditions in the Lease and, if the Leased Facilities are not re-let, to pay the full amount of the Base Rental Payments as they become due to the end of the Term or, in the event that the Leased Facilities are re-let, to pay any deficiency in Base Rental Payments that results therefrom. Should the Corporation elect to enter or re-enter (with the written consent of the Certificate Insurer), the County irrevocably appoints the Corporation as the agent and attorney-in-fact of the County to re-let the Leased Facilities, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the

Corporation may deem advisable, and to remove all persons in possession thereof and all personal property whatsoever, if any, situated upon the Leased Facilities and to place such personal property in storage in any warehouse or other suitable place located in the County of Orange, California, for the account of and at the expense of the County. The County waives the right to any rental obtained by the Corporation in excess of the Base Rental Payments and Additional Payments and conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-letting the Leased Facilities or any part thereof.

If (i), except as provided in the Lease, the County's interest in the Lease is assigned or transferred without the consent of the Corporation (or its assignee) and the Certificate Insurer, or (ii) other than in connection with the Case, the County shall file any petition or institute any bankruptcy or reorganization proceeding, or (iii) the County shall abandon or vacate the Leased Facilities, then an Event of Default shall have occurred under the Lease.

In addition to the other remedies described herein, upon the occurrence of an Event of Default, the Corporation shall be entitled to proceed to protect and enforce the rights vested in the Corporation by the Lease or by law. The provisions of the Lease and the duties of the County and of its trustees, officers or employees shall be enforceable by the Corporation by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

NOTWITHSTANDING ANYTHING TO THE CONTRARY, NEITHER THE CORPORATION, ANY ASSIGNEE OF THE CORPORATION, THE TRUSTEE, THE CERTIFICATE INSURER, NOR THE OWNERS SHALL BE PERMITTED TO USE, MAINTAIN, OPERATE, OCCUPY, LEASE, HYPOTHECATE, ENCUMBER OR SELL ANY LEASED FACILITIES WHICH ARE RESTRICTED PROPERTIES. IN THE EVENT OF A DEFAULT BY THE COUNTY, AVAILABLE REMEDIES WITH RESPECT TO RESTRICTED PROPERTIES SHALL BE LIMITED TO COLLECTION OF EACH INSTALLMENT OF BASE RENTAL PAYMENTS AS SUCH SHALL BECOME DUE AND SUCH OTHER REMEDIES PERMITTED BY THE LEASE NOT INCONSISTENT WITH THE LIMITATIONS OF THE PRECEDING SENTENCE.

To the extent that as a result of future changes in statutory or case law, deed, contract, agreement, offer of dedication or recorded covenants, conditions or restrictions, or other instrument, the restrictions and limitations on the use, maintenance, operation, occupancy, lease, hypothecation, encumbrance or sale that caused a given Leased Facility to constitute a Restricted Property no longer restrict or limit such Leased Facility, the County shall promptly amend Exhibit A thereto to reclassify such Leased Facility.

Such rights and remedies as are given to the Corporation under the Lease have been assigned to the Trustee under the Assignment Agreement. Such rights and remedies shall be exercised by the Trustee at the direction of the Certificate Insurer as provided in the Trust Agreement.

Prepayment; Partial Termination Option

The County shall prepay from insurance and eminent domain proceeds (except as discussed herein under "Eminent Domain" and "Insurance" and in the Lease) all or any part of Base Rental Payments then unpaid so that the aggregate annual Base Rental Payments that shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual Base Rental Payments unpaid prior to the prepayment date, in a prepayment amount equal to the amount required to prepay the Principal Components of the Certificates as provided in the related Series Trust Agreements plus accrued interest to the date of prepayment.

The County may prepay from any source of available funds all or any portion of Base Rental Payments by depositing with the Trustee moneys or Defeasance Obligations sufficient to make such Base Rental Payments, and pay the applicable prepayment premium, if any, when due; provided that (i) in the event of partial prepayment, the County furnishes evidence satisfactory to the Trustee and the Certificate Insurer that, after such prepayment, the Property Ratio Requirement is met, and (ii) the County furnishes the Trustee and the Certificate Insurer with (A) an opinion of Special Counsel that such deposit will not cause interest evidenced by

and payable with respect to any Certificates to be includable in gross income for federal income tax purposes and (B) a Verification Report. If following such prepayment the Leased Facilities are damaged or destroyed or taken by eminent domain, the County is not entitled to abatement of such prepaid Base Rental Payments and shall not be entitled to any reimbursement of such Base Rental Payments (other than from the proceeds of any applicable insurance policy).

When (1) there shall have been deposited with the Trustee at or prior to the due dates of the Base Rental Payments in trust for the benefit of the Owners of the Certificates and irrevocably appropriated and set aside to the payment of such Base Rental Payments, sufficient moneys and Defeasance Obligations, not redeemable prior to maturity, to pay when due all principal, premium and interest components of the Base Rental Payments, and (2) provision shall have been made to the satisfaction of the Trustee and the Certificate Insurer for the payment of their fees and expenses and any other amounts due to such parties under the Trust Agreement so long as any of such Certificates shall remain unpaid, then and in that event the Lease shall thereupon terminate, become void and be completely discharged and satisfied (except for the right of the Corporation and the obligation of the County to have such moneys and such Defeasance Obligations applied to the payment of the Base Rental Payments).

The County shall have the option to terminate the Lease with respect to any part of the Leased Facilities upon payment of moneys or Defeasance Obligations, not redeemable prior to maturity, in an amount sufficient to provide funds to pay the aggregate amount for the remaining Term (or to the date upon which any Certificates may be prepaid pursuant to the Trust Agreement or any Series Trust Agreement, together with a prepayment premium, if any) of the part of the total Base Rental Payments attributable to such part of the Leased Facilities. Any such payment shall be treated as Base Rental Payments and shall be applied to pay the interest and principal components of any Certificates and to prepay such Certificates if such Certificates are subject to prepayment; provided that (i) the County furnishes evidence satisfactory to the Trustee and the Certificate Insurer that after such prepayment, the Property Ratio Requirement is met, and (ii) the County furnishes the Trustee and the Certificate Insurer with (A) an opinion of Special Counsel that such deposit will not cause interest evidenced by and payable with respect to any Certificates to be includable in gross income for federal income tax purposes and (B) a Verification Report.

Liens

In the event the County shall at any time during the Term cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Leased Facilities, the County shall pay, when due, all sums of money that may become due for any labor, services, materials, supplies or equipment furnished to or for the County in, upon or about the Leased Facilities and shall keep the Leased Facilities free of any and all mechanics, or materialmen's liens or other liens against the Leased Facilities or the Corporation's interest therein, except Permitted Encumbrances. In the event any such lien attaches to or is filed against the Leased Facilities or the Corporation's interest therein, the County shall cause such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the County desires to contest any such lien it may do so in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, the County shall forthwith pay and discharge said judgment.

Assignment and Subleasing

Neither the Lease nor any interest of the County thereunder shall be mortgaged, pledged, assigned or transferred by the County nor shall the Leased Facilities be sublet unless such mortgage, pledge, assignment, sublet or transfer would not have a material adverse effect on the interests of the Owners of the Certificates and would not adversely affect the federal income tax treatment of the interest component of the Base Rental Payments. No such mortgage, pledge, assignment, sublease or transfer shall affect or reduce the obligation of the County to make the Base Rental Payments and Additional Payments. Any sublease proposed to be entered into by the County with respect to the Leased Facilities will be subject to certain other conditions precedent set forth in the Lease.

THE ASSIGNMENT AGREEMENT

The Assignment Agreement is entered into by and between the Corporation and the Trustee. Pursuant to the terms thereof, the Corporation agrees absolutely and irrevocably to assign, grant and transfer to the Trustee, without recourse, for the benefit of the Owners of the Certificates, all of the Corporation's right, title and interest in and to the Lease and the Site Lease, including without limitation all of the Corporation's right to receive Base Rental Payments from the County, as well as its rights to enforce payment of such Base Rental Payments when due, or otherwise to protect its interests and enforce its rights under the Lease.

It is the express intent of the parties to the Assignment Agreement that the conveyance of the Corporation's right, title and interest in and to the Lease and the Site Lease referred to above be construed as an absolute and irrevocable assignment by the Corporation to the Trustee and not as a pledge by the Corporation to the Trustee to secure a debt or other obligation of the Corporation. However, if, notwithstanding the aforementioned intent of the parties, the Corporation's right, title and interest in and to the Lease and the Site Lease is held to be the property of the Corporation, then, (a) it is the express intent of the parties that such conveyance be deemed a pledge of the Corporation's right, title and interest in and to the Lease and the Site Lease to secure a debt or other obligation of the Corporation, and (b)(i) the Assignment Agreement shall also be deemed to be a security agreement within the meaning of Articles 8 and 9 of the California Uniform Commercial Code and (ii) the conveyance provided for therein shall be deemed to be a grant by the Corporation to the Trustee of a security interest in all of the Corporation's right, title and interest in and to the Lease and the Site Lease. The Corporation and, at the direction of the County, the Trustee shall, to the extent consistent with the Assignment Agreement, file, record, register, renew, refile and rerecord and take such other actions at such times and in such places as may be required and to the extent permitted by law as may be necessary to ensure that, if the Assignment Agreement were deemed to create a security interest in the Corporation's right, title and interest in and to the Lease and the Site Lease, such security interest would be deemed to be a perfected security interest under applicable law and will be maintained as such throughout the term of the Assignment Agreement.

The Trustee (i) accepts the assignment on behalf of the Owners of the Certificates and (ii) assumes all duties and obligations of the Corporation under the Site Lease and the Lease for the respective terms thereof. The Trustee accepts this assignment as a fiduciary on behalf of the Owners of the Initial Series of Certificates from time to time and not in its individual capacity, and its liability as assignee, shall not exceed, or be payable from any other source other than, the Trust Estate.

THE TRUST AGREEMENT

Trust Agreement to Constitute Contract

The Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee, the Owners and, with respect to Insured Certificates, the Certificate Insurer to secure the full and final payment of the interest components and Principal Components represented by the Certificates which may be executed and delivered thereunder, subject to the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of the Certificate Insurer and all Owners without distinction, preference or priority as to security or otherwise of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided therein or in the Trust Agreement.

As long as each Certificate Insurance Policy shall be in full force and effect and the Certificate Insurer shall not be in default in its payment obligations thereunder, the Certificate Insurer shall have the sole right to direct the Trustee with respect to remedies, waivers, consents and amendments. The Certificate Insurer shall, at all times, act in the best interests of all of the Owners of the Certificates and act in a manner so as to maximize the rights of all Owners under the Trust Agreement and under the Lease, the Site Lease and the Assignment Agreement. It is understood and intended that no one Owner shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other of the Owners and the Certificate Insurer shall not seek to obtain any preference or

priority or to enforce any right under this Trust Agreement except in a manner that shall be for the equal and ratable benefit of all Owners of Certificates.

Notwithstanding the foregoing or any provisions in the Trust Agreement to the contrary, the Certificate Insurer shall have the sole and absolute right to direct and to consent to any liquidation of Investment Securities at a loss even if the failure to liquidate any Investment Securities at a loss might result in timely payment not being made on the Uninsured Certificates. In addition, the Certificate Insurer shall take all necessary actions, in the Certificate Insurer's sole discretion, as it is legally permitted to take, or direct the Trustee to take, against the County in order to maximize recoveries with respect to payment defaults by the County, even if such actions might result in timely payment not being made on the Uninsured Certificates.

Authorization of Certificates

Certificates may be executed and delivered from time to time, in Series, pursuant and subject to the terms, conditions and limitations of the Trust Agreement and any Series Trust Agreement, in an aggregate principal amount not to exceed the principal components of Base Rental Payments. The Certificates may be executed and delivered, for (i) financing the distributions specified in the Plan, (ii) if the Legislation is enacted, for any purpose authorized thereby, (iii) providing funds for deposit into a fund or account established by the Trust Agreement, (iv) refunding any Outstanding Certificates, and (v) paying the Costs of Issuance.

Each Certificate shall evidence and represent the interest of the Owner thereof in the principal component of the Base Rental Payments due and payable on the Certificate Payment Dates specified therein and in the interest component of the Base Rental Payments due and payable on each Interest Payment Date to and including the date of the final payment in respect of such Certificate.

Declaration of Trust; State Intercept Program

The Trustee will hold the Trust Estate for the use and benefit of the Owners. Except as otherwise provided in the Trust Agreement, the Certificates of each Series shall be equally and ratably payable and secured under the Trust Agreement without priority by reason of the date of adoption of the Series Trust Agreement providing for their execution and delivery or by reason of their Series, number or date, date of execution, delivery, authentication or sale thereof.

The Board of Supervisors has provided a transfer schedule to the State Controller in a notice of the County's election to participate in the State Intercept Program. The transfer schedule sets forth amounts to be transferred to the Trustee and dates by which the transfers are to be completed. Pursuant to the State Intercept Program, the State Controller shall, subject to the available amount of the Pledged Revenues, make apportionments to the Trustee in those amounts for the purpose of making those transfers. All amounts payable by the Trustee with respect to the Certificates pursuant to the Trust Agreement shall be paid only from the Trust Estate, or with respect to Insured Certificates from the proceeds of the Certificate Insurance Policy, as applicable, and only to the extent that the Trustee shall have actually received sufficient income or proceeds from the Trust Estate or from the proceeds of the Certificate Insurance Policy, as the case may be, to make such payments in accordance with the terms of the Trust Agreement. Each Owner agrees to look solely to the income of and the proceeds from the Trust Estate and, if applicable to the proceeds of the related Certificate Insurance Policy, in each case to the extent available for distribution to such Owner as provided in the Trust Agreement, and each Owner agrees that the Trustee is not personally liable to any Owner for any amounts payable under the Trust Agreement or subject to any liability under the Trust Agreement except liability under the Trust Agreement as a result of negligence or intentional misconduct by the Trustee.

Creation of Funds and Accounts

Base Rental Payments Fund. All Base Rental Payments shall be deposited in and held in trust by the Trustee in the Base Rental Payments Fund, which fund the Trustee agrees to establish and maintain so long as any Certificates are Outstanding, for the benefit of the Owners from time to time. The Trustee shall deposit the Base Rental Payments contained in the Base Rental Payments Fund in the following accounts, and the moneys in each of such accounts shall be disbursed only for the following authorized purposes and uses:

Interest Accounts. (i) Except as otherwise provided by a Series Trust Agreement authorizing one or more Series of Certificates, the Trustee shall create a separate account in the Base Rental Payments Fund for each Series of Certificates or all Series authorized by such Series Trust Agreement.

(ii) Except as otherwise provided for by a Series Trust Agreement for the Initial Period related to the Series of Certificates authorized thereby, on or before the 15th day of each month, the Trustee shall, for each Series of Certificates Outstanding, deposit in the related Interest Account ratably, according to the amount of interest represented by the Certificates of each such Series, an amount such that if the same amount were so deposited on the 15th day of each succeeding month thereafter and prior to the next Interest Payment Date the aggregate of the amounts so deposited would on such date be equal to the amount representing the portion of the Base Rental Payments designated as the interest components coming due on such Interest Payment Date. Moneys in the Interest Accounts shall be used and withdrawn by the Trustee solely for the purpose of paying the interest represented by the related Series of Certificates when due and payable, except as described under the caption "Remaining Amounts; Surplus", below.

Principal Accounts. (i) Except as otherwise provided by a Series Trust Agreement authorizing one or more Series of Certificates, the Trustee shall create a separate account in the Base Rental Payments Fund for each Series of Certificates or all Series authorized by such Series Trust Agreement.

(ii) Except as otherwise provided for by a Series Trust Agreement for the Initial Period related to the Series of Certificates authorized thereby, on or before the 15th day of each month prior to a Certificate Payment Date, the Trustee shall, for each Series of Certificates Outstanding, deposit in the related Principal Account ratably, according to the amount of the Principal Components represented by the Certificates of such Series coming due on such Certificate Payment Date, an amount such that if the same amount were so deposited on the 15th day of each succeeding month thereafter and prior to the next Certificate Payment Date the aggregate of the amounts so deposited would on such date be equal to the amount representing the portion of the Base Rental Payments designated as the Principal Components coming due on each such Certificate Payment Date. Moneys in the Principal Accounts shall be used and withdrawn by the Trustee solely for the purpose of paying the Principal Components represented by the related Series of Certificates when due and payable, including the Sinking Fund Installments of any such Series of Certificates representing the Principal Components of Base Rental Payments payable in more than one year, except as described under the caption "Remaining Amounts; Surplus", below.

Prepayment Accounts. The Trustee shall deposit in the applicable Prepayment Account(s) that amount representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Moneys in the Prepayment Accounts shall be used solely for the purpose of paying the interest and Principal Components and any applicable prepayment premium represented by the Series of Certificates to be prepaid.

Reserve Accounts. The Series Trust Agreement authorizing the execution and delivery of a Series of Certificates shall provide for payments into the Base Rental Payments Fund for credit to the related Certificate Reserve Account from the proceeds of such Certificates or from any moneys available therefor. The amounts in the Base Rental Payments Fund on credit to a Certificate Reserve Account shall be used solely for the purpose of paying the Principal Components or Prepayment Price of and interest on the respective Series of Certificates whenever there are insufficient amounts on deposit in the relevant Principal Account or Interest Account for such purposes.

If the sum on deposit in the Certificate Reserve Accounts is less than the portion of the Certificate Reserve Account Requirement allocable to the related Series of Certificates, the first Base Rental Payments received and not needed to pay interest or Principal Components represented by the Certificates shall be deposited in such Certificate Reserve Accounts pro rata until the aggregate amounts on deposit therein equal the Certificate Reserve Account Requirement.

When a Series of Certificates is refunded, moneys may be withdrawn from the Certificate Reserve Account for such Series and may be withdrawn to provide for the payment of such refunded Certificates or may be transferred to the reserve fund or account established for the Refunding Certificates; provided that immediately after such transfer there shall be credited to the Certificate Reserve Account for those Certificates of such Series of Certificates not refunded an amount equal to the Certificate Reserve Account Requirement for such Series.

Whenever the amounts (exclusive of Reserve Guaranties) on deposit in the Base Rental Payments Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Certificates then Outstanding, including such interest represented thereby as thereafter may become due and payable and any prepayment premiums, no further deposits need be made by the County into the Base Rental Payments Fund, and without further authorization or direction the Trustee shall (with the prior written consent of the Certificate Insurer, which shall be granted if moneys are sufficient as described in the Trust Agreement) call all Certificates which may be prepaid by their terms, for prepayment on the next succeeding prepayment date for which the required notice of prepayment can practicably be given, and shall apply such moneys to such retirement or prepayment.

Remaining Amounts; Surplus. Any amount in excess of the sum of the amount required for the payment of interest evidenced and represented by the Certificates on any Interest Payment Date and the total of all Interest Account Requirements, which excess amount is on deposit to the credit of the Interest Accounts, shall be transferred by the Trustee, after the valuation of amounts in the Interest Account are made pursuant to the provisions of the Trust Agreement and no later than fifteen (15) days following such Interest Payment Date, without further authorization by the County, (i) to the Certificate Reserve Account for any Series of Certificates if the amount in such Certificate Reserve Account is less than the Certificate Reserve Account Requirement for such Series and if required for more than one Series' Certificate Reserve Account, such transfer shall be made pro rata to each of such Certificate Reserve Accounts based on the principal amount Outstanding of such Series of Certificates or, if not required for the purpose set forth in (i), then (ii) to the Pension Bonds Trustee and if such surplus is transferred to the Pension Bonds Trustee pursuant to the provisions of the Trust Agreement, such amounts shall be free and clear of the lien of the Trust Agreement and the Series Trust Agreements.

Any amount in excess of the sum of the amount required for the payment of any Principal Component on the Certificates, and the total of all Principal Account Requirements, which excess amount is on deposit to the credit of the Principal Accounts, shall be transferred by the Trustee, after the valuation of amounts in the Principal Account are made pursuant to the Trust Agreement and no later than fifteen (15) days following such Certificate Payment Date, without further authorization by the County, (i) to the Certificate Reserve Account for any Series of Certificates if the amount in such Certificate Reserve Account is less than the Certificate Reserve Account Requirement for such Series and if required for more than one Series' Certificate Reserve Account, such transfer shall be made pro rata to each of such Certificate Reserve Accounts based on the principal amount Outstanding of such Series of Certificates or, if not required for the purpose set forth in (i), then (ii) to the Pension Bonds Trustee and if such surplus is transferred the Pension Bonds Trustee pursuant to the provisions of the Trust Agreement, such amounts shall be free and clear of the lien of the Trust Agreement and the Series Trust Agreements.

Any amount in excess of the Certificate Reserve Account Requirement which is on deposit to the credit of any Certificate Reserve Account shall be transferred by the Trustee, after the valuation of amounts in the Certificate Reserve Account are made pursuant to the Trust Agreement and no later than fifteen (15) days following the most recent Interest Payment Date, without further authorization by the County, to the Pension Bonds Trustee and such transferred amounts shall be free and clear of the lien of the Trust Agreement and the Series Trust Agreements.

Certificate Proceeds Funds. The Series Trust Agreement shall create and establish one or more special trust funds into which the proceeds of such Series of Certificates shall be deposited and from which such proceeds shall be disbursed to pay the Costs of Issuance and other authorized purpose(s). Amounts on deposit in any Certificate Proceeds Fund shall be subject to a prior and paramount lien and charge in favor of the Owners of the Certificates of the related Series, and the Owners of the Certificates of such Series shall have a valid claim on such moneys for the further security of the Certificates until paid out or transferred.

Insurance and Condemnation Fund. In accordance with the Lease, the proceeds of any insurance (or self-insurance) and the proceeds of any condemnation award received on account of any damage, destruction or condemnation, as the case may be, of the Leased Facilities shall be deposited with the Trustee in the Insurance and Condemnation Fund and shall be applied to the cost of repair or replacement of the Leased Facilities. Notwithstanding the foregoing, the County shall notify the Trustee and the Certificate Insurer of whether the County intends to repair or replace the Leased Facilities which were damaged, destroyed or taken, and if the County does intend to repair or replace the Leased Facilities, the County shall deposit with the Trustee the full amount of any insurance deductible to be credited to the Insurance and Condemnation Fund and to be applied to such repair or replacement.

Notwithstanding the foregoing, the County shall, within sixty (60) days of the occurrence of the event of damage or destruction, notify the Trustee and the Certificate Insurer in writing of whether the County intends to repair or replace the Leased Facilities or the portions of the Leased Facilities which were damaged or destroyed, and if the County does intend to repair or replace the Leased Facilities or portions thereof, the County shall deposit with the Trustee the full amount of any insurance deductible to be credited to the Insurance and Condemnation Fund and to be applied to the repair or replacement of the item(s) of the Leased Facilities damaged or destroyed.

Any balance of said proceeds not required for such repair or replacement shall be treated as Base Rental Payments and transferred by the Trustee to the Prepayment Account or Accounts as instructed by the County.

Conditions Precedent to Execution and Delivery of Certificates

The County and the Trustee may, with the consent of the Certificate Insurer, by Series Trust Agreement provide for the execution and delivery of one or more Series of Certificates representing Base Rental Payments, and the Trustee may execute and deliver upon the Written Request of the County, such Certificates, in such principal amount as shall reflect the principal components of such Base Rental Payments, but only upon compliance by the County with the provisions of the Trust Agreement relating to the authorization of Certificates, and subject to the following specific conditions:

(a) The County shall not be in default under the Trust Agreement, any Series Trust Agreement or any Supplemental Trust Agreement.

(b) The County shall not be in default under the Lease.

(c) The related Series Trust Agreement shall state the purpose(s) for which such Series of Certificates is being executed and how the proceeds of the sale shall be applied.

(d) The related Series Trust Agreement shall provide an amount shall be deposited (or be available in the form of a Reserve Guaranty) in the related Certificate Reserve Account so that following such deposit there shall be on deposit in the Certificate Reserve Accounts an aggregate amount at least equal to the Certificate Reserve Account Requirement.

(e) Except as otherwise provided in any Series Trust Agreement, such Series of Certificates shall be payable as to principal on July 1 of each year in which Principal Components are due and shall be payable as to interest on January 1 and July 1 of each year, at maturity, at specified time(s) prior to maturity or upon earlier prepayment, by Sinking Fund Installment or otherwise, at specified time(s) and thereafter on each Interest Payment Date until maturity, or on each Interest Payment Date until a specified time and thereafter at specified time(s) prior to maturity or upon earlier prepayment.

(f) The aggregate principal amount evidenced and represented by Certificates executed and delivered and Outstanding shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement.

(g) The Lease shall provide that the Base Rental Payments shall equal the principal and interest represented by such Certificates and all other Certificates to be Outstanding after such Certificates are executed and delivered.

(h) Said Series Trust Agreement shall provide for Certificate Payment Dates and, if there are Term Certificates, for Sinking Fund Installments in amounts sufficient to provide for payment of such Certificates when interest and principal components of Base Rental Payments are due.

(i) Each of the Coverage Test and the Property Ratio Requirement shall be met after taking into account the execution and delivery of such additional Certificates and compliance with the provisions of clause (k) below.

(j) If the proceeds of such Certificates are to be used for any purpose other than those described in the Trust Agreement, the Legislation shall have been enacted.

(k) If applicable, each of the Lease and the Site Lease shall have been amended to include additional property.

(l) Each Rating Agency shall have been provided notice of the intention to execute and deliver Certificates.

Proceedings for Authorization of Certificates

Whenever the County determines to authorize the execution and delivery of any Certificates, the County and the Trustee shall enter into a Series Trust Agreement providing for the execution and delivery of such Certificates, specifying the maximum principal amount represented by such Certificates or the manner by which such authorized principal amount shall be determined and calculated and prescribing the terms and conditions of such Certificates.

Such Series Trust Agreement shall prescribe the form or forms of such Certificates and, in general, shall provide for the distinctive designation, denominations, dates, Certificate Payment Dates, interest rates, provisions for prepayment, the Credit Facility, and the Payment Agreement and places of payment of principal and interest. Such Series Trust Agreement may also contain any other provisions deemed advisable and not in conflict with the provisions of the Trust Agreement.

Pursuant to the Trust Agreement, before such Certificates shall be executed and delivered, the County shall file the following documents with the Trustee and the Certificate Insurer:

(a) (i) An Opinion or Opinions of Special Counsel to the effect that (1) such Counsel has examined the Trust Agreement, the Series Trust Agreement, the Assignment Agreement, the Site Lease, the Lease and, if applicable, the Additional Certificates Required Documents; (2) the execution and delivery of the Certificates have been duly authorized by the County; (3) each of the Trust Agreement, the Series Trust Agreement, the Site Lease, the Lease and, if applicable, the Additional Certificates Required Documents has been duly authorized, executed and delivered and is, assuming due authorization, execution and delivery of such documents by the other parties thereto, if any, is a legal, valid and binding obligation of the County; and (4) the obligation of the County under the Lease and, if applicable, any amendment thereto, to make Base Rental Payments does not constitute a debt of the County within the meaning of any statutory or constitutional debt limitation or restriction.

(ii) An Opinion of the Office of County Counsel to the effect that (1) if applicable, such Counsel has examined the Additional Certificates Required Documents; (2) the execution and delivery of the Certificates have been duly authorized by the Corporation; and (3) each of the Trust Agreement, the Series Trust Agreement, the Site Lease, the Lease and, if applicable, the Additional Certificates Required Documents have been duly authorized, executed and delivered and, assuming due authorization, execution and delivery of such documents by the other parties thereto, if any, is a legal, valid and binding obligation of the Corporation.

(b) (i) A certified copy of a resolution or ordinance of the Board of Supervisors authorizing the execution of each of (A) in the case of the Initial Series of Certificates, the Trust Agreement, the Series Trust Agreement, the Site Lease, the Lease and the Assignment Agreement and (B) if, applicable, the Additional Certificates Required Documents.

(ii) A certified copy of the actions of the Board of Directors of the Corporation authorizing the execution of each of (A) in the case of the Initial Series of Certificates, the Lease, the Site Lease and the Assignment Agreement, and (B) if applicable, the Additional Certificates Required Documents.

(c) An executed counterpart or duly authenticated copy of each (A) in the case of the Initial Series of Certificates, the Trust Agreement, the Series Trust Agreement, the Site Lease, the Lease and the Assignment Agreement and (B) if applicable, the Additional Certificates Required Documents.

(d) A Statement of the County stating that the insurance required pursuant to the Lease is in effect.

(e) A Statement of the County stating that no Event of Default exists under the Trust Agreement, any Supplemental Trust Agreement, the Lease or any amendment to the Lease, or the Site Lease or any amendment to the Site Lease.

(f) A Statement of the County stating that, after taking into account the deposit, if any, into the related Certificate Reserve Account, the delivery of the foregoing documents and the execution and delivery of such Series of Certificates, each of the Coverage Test, the Certificate Reserve Account Requirement and the Property Ratio Requirement are met.

(g) The Credit Facility, if any, applicable to such Series of Certificates, together with an opinion to the Credit Facility provider to the effect, among other things, that such Credit Facility is a valid, binding and enforceable obligation of such Credit Facility provider.

(h) Evidence satisfactory to the Trustee that the Legislation has been enacted and is in effect, if applicable.

(i) Evidence of notice having been given to each Rating Agency.

Additional Conditions to Delivery of Refunding Certificates

One or more Refunding Certificates of a Series may be executed and delivered to refund any Outstanding Certificates. All Refunding Certificates of a Series shall be executed and delivered only upon the receipt by the Trustee and the Certificate Insurer (in addition to the document required for an additional Series of Certificates) of:

(i) irrevocable instructions to the Trustee to give due notice of prepayment of the Certificates to be prepaid on a prepayment date or dates specified in such instruction;

(ii) if the Certificates to be refunded are not to be prepaid within 60 days, irrevocable instructions to the Trustee to give due notice of any refunding of such Certificates on a specified date prior to their stated final Certificate Payment Date or Dates;

(iii) either (A) moneys (which may include all or a portion of the proceeds of the Refunding Certificates to be delivered) in an amount sufficient to effect payment of the Principal Components or Prepayment Price of the Certificates to be refunded, together with accrued interest represented by such Certificates to the maturity or prepayment date thereof, as the case may be, or (B) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply with

the defeasance provisions of the Trust Agreement (see "Defeasance" herein), which Defeasance Obligations and moneys shall be held in trust and used only as provided in the Trust Agreement and a Verification Report with respect thereto; and

(iv) such further documents and moneys required by the provisions of the Trust Agreement or any related Series Trust Agreement.

Variable, Adjustable or Convertible or Other Rates of Interest on Certificates

A Series Trust Agreement may provide for the Certificates of such Series to represent interest at a variable, adjustable, convertible or other similar rate or rates of interest.

Credit Facilities and Payment Agreements

A Series Trust Agreement may provide that the County obtain a Certificate Insurance Policy providing for payment of the purchase price or Principal Components or Prepayment Price of, or interest represented by specified Certificates of such Series.

A Series Trust Agreement may provide that the County obtain a Credit Facility, other than a Certificate Insurance Policy, and/or a Payment Agreement provided that such Series Trust Agreement does not violate the provisions of the Trust Agreement providing for payment of the Principal Components or Prepayment Price of, or interest with respect to specified Certificates of such Series, or providing for the purchase of such Certificates by the issuer of the Credit Facility or Payment Agreement, as the case may be.

Investments and Valuation

Upon the Written Request of the County, any moneys held by the Trustee in the Base Rental Payments Fund or the Insurance and Condemnation Fund shall be invested as directed by the County in such Written Request by the Trustee in Investment Securities which will mature on or before the dates when such moneys are anticipated to be needed for disbursement under the Trust Agreement or the Lease. However, moneys in each Certificate Reserve Account and not required for immediate disbursement for the purpose for which said Account is created shall be invested and reinvested by the Trustee, upon request of the County (promptly confirmed in writing), solely in, and obligations credited to said Certificate Reserve Account shall be, Investment Securities which (i) shall be subject to redemption at the option of the owner within five (5) years from the date of investment, (ii) shall not have maturities in excess of five (5) years or (iii) shall be certain investment contracts approved by the Certificate Insurer. Such Written Requests of the County shall not be inconsistent with the investments permitted under the Trust Agreement. If no such Written Request is filed with the Trustee, the Trustee shall invest such moneys in money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by Standard & Poor's Ratings Group of AAAm-G or Aam and by Moody's of AA or better. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment having acted upon the written request of the County or in accordance with the terms of the Trust Agreement, provided that the Trustee shall comply with the requirements in the Trust Agreement with respect to liquidations of Investment Securities at a loss.

Investment Securities in any fund or account shall be deemed to be part of such fund or account and any profit or loss realized from the liquidation of such investment shall be credited or charged to such fund or account.

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. 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 no later than fifteen (15) days following each Interest Payment Date 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.

Default and Limitations of Liability

If an Event of Default under the Lease occurs, then such Event of Default shall constitute an Event of Default under the Trust Agreement, and in such case the Trustee at the written direction of the Certificate Insurer, or if the Certificate Insurer is in default in its payment obligations under any Certificate Insurance Policy or if no Certificate Insurance Policy remains in full force and effect, at the direction of the Owners of not less than a majority in aggregate principal amount represented by the Certificates shall be entitled to exercise the remedies provided to the Corporation in the Lease and the Site Lease and assigned to the Trustee in the Assignment Agreement.

The Trustee shall have the right, with consent of the Certificate Insurer or at the written direction of the Certificate Insurer: (a) by mandamus or otherwise to enforce its rights against the Corporation or the County, and to compel the County to perform its duties; (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or (c) by suit in equity upon the happening of any default under the Trust Agreement to require the Corporation and the County to account as the trustee of an express trust.

No remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive, and each such remedy shall be cumulative and shall be in addition to every other remedy and may be exercised without exhausting any other remedy conferred by any law.

Except as otherwise provided, the Corporation shall not have any obligation or liability to the Owners.

Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants contained in the Lease, the Trust Agreement or any Supplemental Trust Agreement, the County shall not have any obligation or liability to the Owners.

Any money collected by the Trustee other than proceeds of the Certificate Insurance Policy which shall be used only to pay amounts due on the Insured Certificates shall be applied in the following order: (i) to the payment of costs and expenses of the Trustee reasonably necessary and proper in declaring such Event of Default and exercising its rights and remedies; (ii) to the payment of all payments of interest represented by the Certificates then due; (iii) to the payment of the unpaid Principal Components represented by any Certificates which shall have become due; and (iv) any balance remaining, to the Prepayment Account or Accounts as directed by the County.

So long as each Certificate Insurance Policy shall be in full force and effect and the Certificate Insurer shall not be in default in its payment obligations under the Trust Agreement, the Certificate Insurer shall have the right to direct the method of conducting all remedial proceedings taken by the Trustee, provided that such direction shall be otherwise in accordance with law and the provisions of the Trust Agreement.

No Owner of any Certificate shall have any right to institute any proceeding, unless (i) such Owner has previously given notice of a continuing Event of Default; (ii) the Owners of not less than a majority in principal amount represented by the Outstanding Certificates shall have made request the Trustee to institute proceedings; (iii) such Owner(s) have offered reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee for 60 days after such notice has failed to institute any such proceeding. No Owner of Certificates shall have any right by virtue of any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owners of Certificates, or to obtain priority or preference over any other Owners or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all Owners of the Certificates.

The right of any Owner to receive payment of said Owner's interests in the Base Rental Payments as the same become due, or to institute suit for the enforcement of such payment, shall not be impaired or affected without the consent of such Owner, without regard to the consent rights of the Certificate Insurer provided for elsewhere in the Trust Agreement and notwithstanding the any other provisions of the Trust Agreement.

The Trustee

So long as no Event of Default has occurred and is continuing, the Certificate Insurer, with the consent of the County, which consent shall not be unreasonably withheld, provided that if an Event of Default has occurred and is continuing, no consent of the County shall be required, or if the Certificate Insurer is in default in its payment obligations under any Certificate Insurance Policy or if there is no Certificate Insurance Policy that remains in full force and effect at such time, the Owners of a majority in aggregate principal amount represented by the Certificates at the time Outstanding with the consent of the County, and with the approval of the Board of Supervisors, may remove the Trustee and may appoint a successor Trustee, which shall be a bank or trust company doing business and having a principal corporate trust office in California, having a combined and surplus of at least $100,000,000 and subject to supervision or examination by federal or state authorities.

The Trustee may resign by giving notice of such resignation to the Certificate Insurer, each Rating Agency, the County and the Owners. Upon receiving such notice of resignation, the County with the consent of the Certificate Insurer shall promptly appoint a successor Trustee.

The County shall indemnify and hold harmless the Trustee from and against all claims, damages and losses arising out of (i) the condition, management, maintenance or use of the Leased Facilities, (ii) act of negligence by the County in connection with the Leased Facilities, (iii) the presence on or the release from the Leased Facilities of any substances, materials or wastes which are regulated or classified as hazardous or toxic, (iv) the authorization of the payment of any costs or expenses of construction of the Leased Facilities, or (v) the exercise of any rights or obligations of the Trustee hereunder, provided that no indemnification will be made for negligence or willful misconduct by the Trustee or the Certificate Insurer, as applicable.

Amendment of or Supplement to Trust Agreement

The Trust Agreement may be amended by an amendment which shall become binding when the written consents of the Certificate Insurer and the Owners of a majority in aggregate principal amount of the Certificates are filed with the Trustee. No such amendment shall (1) change the Certificate Payment Dates or reduce the rate of interest or extend the time of payment or reduce the amount of principal or change the terms of prepayment without the prior consent of the affected Owner, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment or supplement, or (3) modify any of the rights or obligations of the Trustee without its prior consent, or (4) amend the amendment provision of the Trust Agreement summarized in this paragraph without the consent of the Owners of all Certificates; provided, however, that in the case of any amendment of the type described in clauses (1) and (4) above, it shall be the consent of the Owners so affected, not the Certificate Insurer that shall be so required.

The County and the Trustee, without the consent or concurrence of any Owner of any Certificate but with notice to the Certificate Insurer and to each Rating Agency, may execute and deliver a trust agreement for the purpose of providing for the execution and delivery of Certificates under the Trust Agreement, subject to the rights of the Certificate Insurer therein or, if the consent of the Certificate Insurer to the proposed Supplemental Trust Agreement shall have been obtained and delivered to the Trustee and such changes do not materially adversely affect the rights of the Owners of all Certificates then Outstanding for any one or more of the following purposes, but only to the extent permitted by law and after receipt of an Opinion of Special Counsel:

(a) to add to the agreements, conditions, covenants and terms required by the County to be observed or performed herein other agreements, conditions, covenants and terms thereafter to be observed or performed by the County, or to surrender any right or power reserved herein to or conferred herein on the County, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in any agreement supplemental hereto or in regard to questions arising hereunder or thereunder which the County may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners; or

(c) to modify, amend or supplement the Trust Agreement or any Supplemental Trust Agreement in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Certificates for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Trust Agreement or any agreement supplemental hereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute; or

(d) to make any modifications or changes necessary or appropriate in the Opinion of Special Counsel to preserve the federal income tax treatment of interest represented by the Certificates; or

(e) to make any modifications or changes necessary or appropriate in connection with the execution and delivery of Certificates; or

(f) to provide for the requirements of any Certificate Insurer in connection with the execution and delivery of any Certificate Insurance Policy or any entity providing a Reserve Guaranty for deposit in a Certificate Reserve Account to satisfy all or a portion of the Certificate Reserve Account Requirement, so long as such alterations, amendments or modifications are not materially adverse to the interests of any Owners; or

(g) to provide for one or more Credit Facilities or to enter into Payment Agreements; or

(h) any other change which does not materially adversely affect the rights of the Owners of the Certificates.

Certificates owned by the County (but excluding Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action.

If the consent of the Owners is required or requested with respect to any proposed amendment to the Trust Agreement, to any Supplemental Trust Agreement, to the Lease, to the Site Lease or to the Assignment Agreement, it shall be sufficient if such consent shall approve the substance thereof. If the Trustee determines that the consent of the Owners is required for such amendment, then the Trustee shall cause such notice of the proposed execution of a document containing such amendment, and requesting their consent thereto, to be mailed to the Owners of all Outstanding Certificates. Such notice shall briefly set forth the nature of the proposed amendment. Whenever there shall be delivered to the Trustee an instrument or instruments executed by the Owners of not less than required percentage of the aggregate principal amount of the Outstanding Certificates consenting to such amendment, the Trustee upon having received the consent of the County may execute such amendment without liability or responsibility to any Owner of any Certificate.

If the Owners of the required percentage of the aggregate principal amount of the Certificates Outstanding shall have consented to and approved the execution thereof, no Owner of any Certificate shall have any right to object to the execution of such amendment or to enjoin or restrain the Trustee or the County from executing the same.

The lack of actual receipt by any Owner of such notice and request for consent and any defects in such notice and request for consent shall not affect the validity of the consent solicitation. Any such consent shall be binding upon the Owner giving such consent unless such consent is revoked by the Owner giving such consent.

Defeasance

Except as otherwise provided, if the County shall pay the interest, Principal Components and prepayment premium, then the obligations of the County, the Corporation and the Trustee with respect to those Certificates paid shall cease and terminate, and all agreements and covenants of the County and the Trustee to

the Certificate Insurer and such Owners, with certain exceptions, shall thereupon cease, terminate and become void and shall be discharged and satisfied.

Any Outstanding Certificates shall be deemed to have been paid if (i) there shall be on deposit with the Trustee moneys and/or Defeasance Securities in an amount sufficient to pay the interest and Principal Components and prepayment premium represented by such Certificates payable on their Certificate Payment Dates or dates of payment, as applicable, except that the Owners thereof shall be entitled to the Principal Components, prepayment premium and interest represented by such Certificates, and the County shall remain liable for such Base Rental Payments, but only out of such moneys or securities deposited with the Trustee as aforesaid for such payment, (ii) a Verification Report and an Opinion of Special Counsel in form and in substance acceptable to the Certificate Insurer with respect to the defeasance have been delivered to the County and the Certificate Insurer and (iii) the fees and expenses of the Trustee and the Certificate Insurer accrued to the date of the foregoing deposit have been paid.

Any moneys held by the Trustee in trust for the payment and discharge of the interest, prepayment premium or Principal Components represented by the Certificates which remain unclaimed for two years shall at the request of the County be repaid to the County (except if such moneys are proceeds of a claim on the Certificate Insurance Policy, in which case such moneys shall be returned to the Certificate Insurer) as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and Principal Components represented by such Certificates.

FIRST SUPPLEMENTAL TRUST AGREEMENT

Series A Certificates Funds and Accounts

The First Supplemental Trust Agreement creates and establishes a Series A Interest Account (including a Defaulted Interest Subaccount), a Series A Principal Account, a Series A Certificates Reserve Account and a Series A Certificate Prepayment Account.

The First Supplement Trust Agreement creates and establishes with the Trustee a special trust fund designated the "County of Orange, California 1996 Recovery Certificates, Series A Certificate Proceeds Fund" (the "Certificate Proceeds Fund"), into which the net proceeds of the sale of the Series A Certificates (other than those proceeds deposited in the Costs of Issuance and Refunding Account pursuant to the First Supplemental Trust Agreement) shall be paid to the Trustee and deposited.

The First Supplemental Trust Agreement creates and establishes with the Trustee a special trust account, within the Certificate Proceeds Fund, designated the "County of Orange, California 1996 Recovery Certificates, Series A Costs of Issuance and Refunding Account" to be held in the custody of the Trustee as a special trust account, separate and apart from all other funds of the County and the Trustee, for the benefit of the County and the persons providing services to the County in connection with the execution and delivery and sale of the 1996 Series A Certificates and the refunding of the Refunded Certificates of Participation.

Trustee

The Trustee shall not be required to take notice, or be deemed to have notice, of any Event of Default other than (i) a default in the payment of the Principal Component or interest evidenced and represented by the Series A Certificates, or Prepayment Price with respect thereto, or (ii) any Event of Default of which the Trustee has actual notice, unless specifically notified in writing of such Event of Default by MBIA, unless MBIA is in default under the 1996 Series A Certificate Insurance Policy or such Policy is no longer in full force and effect, in which case the Owners of at least twenty-five percent (25%) in aggregate principal amount of the Series A Certificates then Outstanding may so notify the Trustee. The Trustee may, however, at any time, in its discretion, require of the County full information and advice as to the performance of any of the covenants, conditions and agreements contained in the First Supplemental Trust Agreement.

The Trustee shall be the Paying Agent for the Series A Certificates. The County may at any time appoint an additional paying agent or paying agents.

Certificate Insurance for the 1996 Series A Certificates

Payments with respect to claims for Principal Components and interest evidenced and represented by the Series A Certificates disbursed by the Trustee from proceeds of the 1996 Series A Certificate Insurance Policy shall not be considered to discharge the obligation of the County to make Base Rental Payments under the Lease, and MBIA shall become the Owner of such unpaid Series A Certificates and claims for the Principal Components and interest in accordance with the tenor of the assignment made to it.

Irrespective of whether any assignment is executed and delivered as provided in the Insurance Agreement, the County and the Trustee agree for the benefit of MBIA that,

(i) to the extent MBIA makes payments, directly or indirectly (as by paying through the Trustee), on account of Principal Components or interest evidenced and represented by the Series A Certificates, MBIA will be subrogated to the rights of the Owners to receive the amount of such Principal Components and interest, with interest thereon, if any, as provided and solely from the sources stated in the Trust Agreement and the MBIA Insured 1996 Series A Certificates; and

(ii) they will accordingly pay to MBIA the amount of such Principal Components and interest, with interest thereon, if any, as provided in the Trust Agreement and the Series A Certificates, but only from the sources and in the manner provided for the payment of Base Rental Payments, and will otherwise treat MBIA as the Owner of such rights to the amount of such Principal Components and interest.

So long as there are any Outstanding Series A Certificates and to the extent legally permissible, MBIA shall have the right to approve the list of Investment Securities for the amounts contained in the Base Rental Payments Fund, the Certificate Proceeds Fund and the Insurance and Condemnation Fund.

MBIA shall have the right to approve the appointment and removal by the County of the Trustee and any separate or additional Paying Agent or Registrar and the appointment by the County of any successor Trustee, Paying Agent or Registrar. MBIA shall also have the right to remove the Trustee with the consent of the County, such consent not to be unreasonably withheld, in the manner and upon any of the grounds provided in the Trust Agreement.

In the event that MBIA shall make any payments of Principal Components and/or interest evidenced and represented by any of the Series A Certificates pursuant to the terms of the 1996 Series A Certificate Insurance Policy, and the Series A Certificates are to be prepaid in accordance with the terms of the Trust Agreement and the First Supplemental Trust Agreement, MBIA may, at any time and at its sole option, pay to the Owners of the Series A Certificates all or a portion of amounts due under the Series A Certificates prior to the respective stated final Certificate Payment Dates thereof. None of the Owners of the 1996 Series A Certificates, the Trustee or the County shall have the right to require MBIA to pay on such accelerated basis.

Certificate Payments Under the 1996 Series A Certificate Insurance Policy

So long as the 1996 Series A Certificate Insurance Policy shall be in full force and effect and MBIA shall not be in default in its payment obligations thereunder, the County and the Trustee hereby agree that if after taking into account transfers from the Series A Certificates Reserve Account, (A) on the 20th day of the calendar month preceding any Interest Payment Date, and again on the business day following such 20th day of the calendar month, the Trustee determines that there will be insufficient funds in the Series A Interest Account to pay the interest evidenced and represented by the Series A Certificates on the next succeeding Interest Payment Date, the Trustee shall calculate, and immediately notify MBIA or its designee of, the Interest *Insufficiency Amount*, and make a claim for payment of the Interest Insufficiency Amount under the 1996 Series A Certificate Insurance Policy in the amount of such Interest Insufficiency Amount to be paid by MBIA to the Trustee on such Interest Payment Date or (B) on the 20th day of the calendar month preceding any Certificate

Payment Date, and again on the business day following such 20th day of the calendar month, the Trustee determines that there will be insufficient funds in the Series A Principal Account to pay the Principal Component evidenced and represented by the Series A Certificates on the next succeeding Certificate Payment Date, the Trustee shall calculate, and immediately notify MBIA or its designee of, the Principal Component Insufficiency Amount and make a claim for payment under the 1996 Series A Certificate Insurance Policy in the amount of such Principal Component Insufficiency Amount to be paid by MBIA to the Trustee on such Certificate Payment Date.

The Trustee is irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Owners of the Series A Certificates as follows:

(i) If and to the extent there is an Insufficiency Amount related to payment of interest evidenced and represented by the Series A Certificates, the Trustee shall (A) execute and deliver to the Insurance Paying Agent, in form satisfactory to the Insurance Paying Agent, an instrument appointing MBIA as agent for such Owners in any legal proceeding related to the payment of such interest and an assignment to MBIA of the claims for interest to which such deficiency relates and which are paid by MBIA, (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the 1996 Series A Certificate Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Owners; and

(ii) If and to the extent of an Insufficiency Amount required to pay the Principal Components of the Series A Certificates, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing MBIA as agent for such Owners in any legal proceeding relating to the payment of such Principal Components and an assignment to MBIA of any of the Series A Certificates surrendered to the Insurance Paying Agent or so much of the Principal Components amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the 1996 Series A Certificate Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Owners.

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APPENDIX D

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Certificates. The Certificates will be delivered as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Certificate will be delivered for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants (the "Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 but Beneficial Owners are 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 interest in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The 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.

Prepayment notices shall be sent to Cede & Co. 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. will consent or vote with respect to the Certificates. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, sinking fund and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the date payable. 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 DTC is the responsibility of the County or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates 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, Certificates 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 transfers through DTC (or a successor securities depository). In that event, securities certificates will be printed and delivered as described in the Trust Agreement.

The County and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or any premium with respect to the Certificates paid to DTC or its nominee as the registered owner, or any redemption or other notices, to the Beneficial Owners, 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 Certificates or any error or delay relating thereto.

The foregoing description of the procedures and record-keeping with respect to beneficial ownership interests in the Certificates, payment of principal, interest and other payments on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in such Certificates 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.

APPENDIX E

PROPOSED FORMS OF LEGAL OPINIONS OF SPECIAL COUNSEL

[Closing Date]

County of Orange
Santa Ana, California 92701

Orange County Public Facilities
Corporation
Santa Ana, California 92701

Re: $760,800,000 County of Orange, California
1996 Recovery Certificates of Participation, Series A

Ladies and Gentlemen:

We have acted as special counsel in connection with the authorization, execution and delivery of $760,800,000 aggregate principal amount of County of Orange, California 1996 Recovery Certificates of Participation, Series A (the "1996A Certificates"). All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Trust Agreement (hereinafter defined).

In rendering the opinions set forth herein we have examined the following:

(a) The Constitution of the State of California (the "State") and such statutes and court decisions or orders, both State and Federal, as we have deemed necessary and appropriate in rendering such opinions, including without limitation the Orders of the United States Bankruptcy Court for the Central District of California, entered May 16, 1996 and May 24, 1996, confirming the County's Modified Second Amended Plan of Adjustment and authorizing and approving the 1996A Certificates, respectively.

(b) The Internal Revenue Code of 1986, as amended (the "Code"), and the regulations of the United States Treasury Department promulgated thereunder and under the prior Internal Revenue Code of 1954, as amended.

(c) The proceedings taken by the County of Orange, California (the "County") in connection with the authorization, execution and delivery by the County of, among other things, (i) the Master Lease, dated as of June 1, 1996 (the "Lease"), by and between the Orange County Public Facilities Corporation (the "Corporation") and the County, (ii) the Site Lease, dated as of June 1, 1996 (the "Site Lease"), by and between the County and the Corporation, and (iii) the Trust Agreement, dated as of June 1, 1996, as supplemented by a First Supplemental Trust Agreement, dated as of June 1, 1996 (collectively, the "Trust Agreement"), by and between Wells Fargo Bank, N.A., as trustee (the "Trustee"), and the County.

(d) The Trust Agreement. Pursuant to the Trust Agreement, the Trustee has agreed to execute and deliver the 1996A Certificates.

(e) The Lease and the Site Lease.

(f) The Assignment Agreement, dated as of June 1, 1996 (the "Assignment Agreement"), by and between the Corporation and the Trustee, pursuant to which the Corporation has assigned to the Trustee all of the Corporation's respective rights under the Site Lease and the Lease, including in the case of the Lease, the Corporation's right to receive base rental payments (the "Base Rental Payments") from the County under the Lease.

(g) The opinion of the Office of County Counsel of Orange County, of even date herewith, as to the due authorization, execution and delivery by the Corporation of the Site Lease, the Lease and the Assignment Agreement.

(h) The Market Rent Analysis for Multiple County Owned and Operated Facilities Located Throughout Orange County, California, dated as of April 25, 1996 (the "Market Rent Analysis"), prepared for the Leased Facilities by the County's independent real estate consultant.

(i) The Arbitrage and Tax Matters Certificate, of even date herewith (the "Arbitrage and Tax Matters Certificate"), executed by the County in connection with the execution and delivery of the 1996A Certificates.

(j) Such other documents, agreements, proceedings, pleadings, matters and questions of law as we deemed necessary or appropriate for the purposes thereof.

The 1996A Certificates are dated June 1, 1996. The 1996A Certificates have the final Certificate Payment Dates and evidence and represent the principal components of the Base Rental Payments payable on such dates in the amounts set forth in the Trust Agreement. Interest evidenced and represented by the 1996A Certificates is payable semiannually on January 1 and July 1 of each year, commencing January 1, 1997. The 1996A Certificates are registered certificates in the form set forth in the Trust Agreement and are subject to extraordinary, optional and mandatory prepayment prior to their respective final Certificate Payment Dates in the manner and upon the terms set forth in the Trust Agreement.

Additional certificates may be executed and delivered on the terms and conditions and for the purposes stated in the Trust Agreement. Under the provisions of the Trust Agreement, the 1996A Certificates and all such additional certificates (collectively, the "Certificates") will rank equally as to security and payment as to the Trust Estate, except as expressly provided therein. The Certificates evidence the interests of the Owners of the Certificates in the Base Rental Payments.

Based upon such examination, and in reliance thereon, we are of the opinion that:

1. The obligation of the County under the Lease to make Base Rental Payments from the funds of the County lawfully available therefor is a legal, valid and binding obligation of the County enforceable in accordance with the terms of the Lease, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights, by the application of equitable principles, the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against

counties in the State. The obligation of the County to make Base Rental Payments under the Lease does not constitute a debt of the County, the State or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the County, the State or any political subdivision thereof.

2. (a) The Lease, the Trust Agreement and the Site Lease have been duly authorized, executed and delivered by the County and, in the case of the Trust Agreement, assuming due authorization, execution and delivery thereof by the Trustee, constitute legal, valid and binding agreements of the County enforceable against the County in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights, by the application of equitable principles, the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against counties in the State.

(b) The Lease, the Site Lease and Assignment Agreement have been duly authorized, executed and delivered by the Corporation and, in the case of the Assignment Agreement, assuming due authorization, execution and delivery thereof by the Trustee, constitute legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the enforcement of creditors' rights generally and by the application of equitable principles and the exercise of judicial discretion in appropriate cases.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the 1996A Certificates by the Trustee, the 1996A Certificates are entitled to the benefits of the Trust Agreement.

4. The 1996A Certificates are entitled to the benefits of the lien on (i) certain Motor Vehicle License Fees created by Section 25350.6 of the California Government Code and (ii) certain Bradley-Burns Sales Tax Revenues created by Sections 25350.8 and 25350.10 of the California Government Code.

5. The 1996A Certificates are entitled to the benefits of the intercept of (i) certain Motor Vehicle License Fees authorized by Section 25350.55 of the California Government Code and (ii) certain Bradley-Burns Sales Tax Revenues authorized by Sections 25350.7, 25350.9 and 29530.5 of the California Government Code.

6. Assuming the correctness of the factual representations that are contained in the Arbitrage and Tax Matters Certificate as well as continuing compliance by the County with the covenants of the County that are contained in the Lease and in the Arbitrage and Tax Matters Certificate and which relate to certain requirements that are contained in the Code, interest evidenced and represented by the 1996A Certificates is not includable in the gross income of the owners thereof for Federal income tax purposes under existing statutes and court decisions. Moreover, interest evidenced and represented by the 1996A Certificates is not an "item of tax preference" for purposes of the individual and corporate alternative minimum taxes and the corporate environmental tax imposed by the Code. However, interest evidenced and represented by the 1996A Certificates is includable in the "adjusted current earnings" of a corporate owner of the 1996A Certificates and 75% of the interest evidenced and represented by the 1996A Certificates is thus includable in the tax base

for computing a corporation's liability with respect to the 20% alternative minimum tax and the 0.12% environmental tax that are imposed on corporations by the Code. (Although such 0.12% corporate environmental tax is currently scheduled to terminate for taxable years beginning after December 31, 1995, legislation that is now pending in Congress would extend the tax for an additional year.) Moreover, interest evidenced and represented by the 1996A Certificates may be subject to a branch profits tax of up to 30% when owned by certain foreign corporations. Furthermore, interest evidenced and represented by the 1996A Certificates may be subject to a tax at ordinary income rates when owned by "S Corporations" in certain cases.

7. Interest evidenced and represented by the 1996A Certificates is exempt from State of California personal income taxes under existing statutes and court decisions.

We express no opinion regarding other tax consequences arising with respect to the 1996A Certificates. In addition, we note that certain covenants, agreements, requirements and procedures that are contained or referred to in the Lease, the Arbitrage and Tax Matters Certificate and other relevant documents and which relate to certain requirements that are contained in the Code may be changed and certain actions (including, without limitation, defeasance of the 1996A Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion regarding the 1996A Certificates or the interest which is evidenced and represented thereby after any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves. Moreover, we have not undertaken to determine, or to inform any person, whether any such changes, actions or omissions have occurred and we disclaim any obligation to update this opinion in the light of possible future events.

In rendering the opinions expressed herein, we wish to advise you that we have not made or undertaken to make an investigation of (i) the state of title to, or ownership of, any of the Leased Facilities, including without limiting the generality of the foregoing, any restrictions, covenants or conditions contained in any deed, declaration or other document or instrument or (ii) the accuracy or sufficiency of the description of such property contained in the Lease or the Site Lease, and we express no opinion with respect to such matters. We also wish to advise you that, in rendering such opinions, we have relied upon the Market Rent Analysis, public records, documents and proceedings and upon certain representations of fact and certifications made by the County, the Corporation, the initial purchasers of the 1996A Certificates and others, including public officials acting within the scope of their official capacities, and have not undertaken to verify the accuracy of the Market Rent Analysis, public records, representations and certifications relied upon by us. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents or proceedings.

Very truly yours,

[Closing Date]

County of Orange
Santa Ana, California 92701

Orange County Public Facilities
Corporation
Santa Ana, California 92701

Re: $760,800,000 County of Orange, California
1996 Recovery Certificates of Participation, Series A

Ladies and Gentlemen:

In connection with the delivery of $760,800,000 aggregate principal amount of County of Orange, California 1996 Recovery Certificates of Participation, Series A (the "1996A Certificates"), you have requested our opinion as to the federal income tax treatment and the State of California personal income tax treatment of (1) the original issue discount on the 1996A Certificates that will mature (or which will be retired pursuant to mandatory sinking fund redemptions) on July 1st in each of the years from 1998 through 2001, inclusive, in each of the years from 2003 through 2005, inclusive, and in each of the years from 2009 through 2026, inclusive (collectively, the "Discount 1996A Certificates"), and (2) the original issue premium on the 1996A Certificates that will mature on July 1st in 1997, 2002, 2006, 2007 through 2008 (collectively, the "Premium 1996A Certificates"). All of the 1996A Certificates evidence and represent interest from June 1, 1996 which interest is payable semiannually on January 1st and July 1st of each year commencing January 1, 1997.

We are of the opinion with respect to each Discount 1996A Certificate that, under present federal income tax and State of California personal income tax law and State of California personal income tax law, the original issue discount, as defined below, is, for such purposes, excluded from the federal gross income of, and is exempt from State of California personal income taxes imposed on, a Certificateholder who has purchased such Discount 1996A Certificate pursuant to the original offering and such holder would not, under present federal income tax and State of California personal income tax law, realize taxable gain on such amount upon payment of such Discount 1996A Certificate at maturity. The original issue discount with respect to a Discount 1996A Certificate is the difference between the principal at maturity that is evidenced and represented by such 1996A Certificate and the first price at which a substantial amount of the Discount 1996A Certificates of the same maturity was sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

Further, we are of the opinion that a Certificateholder who acquires a Discount 1996A Certificate in the original offering will be treated as receiving on each day from the date of issuance of such 1996A Certificate interest that is excludable from gross income for federal income tax purposes and which is exempt from State of California personal income taxes in an amount computed as described in the next paragraph. The amount representing original issue discount that is treated as being received by the Certificateholder will be added to the Certificateholder's tax basis for

purposes of determining gain or loss upon a sale or redemption of a Discount 1996A Certificate for both federal income tax purposes and State of California personal income tax purposes. Unearned discount and redemption premium, if any, received by the Certificateholder upon any redemption of a Discount 1996A Certificate will not constitute interest that is excludable from gross income for federal income tax purposes and will not constitute interest that is exempt from State of California personal income taxes.

To determine the amount of the original issue discount which is considered to be received on each day by a holder who acquires a Discount 1996A Certificate in the original offering, the period between the issue date of the Discount 1996A Certificate and the date such Discount 1996A Certificate matures is first subdivided into a series of shorter periods (the "accrual periods"). Accrual periods may be of any duration that is selected by a holder of a Discount 1996A Certificate and may vary in length over the term of the Discount 1996A Certificate so long as each accrual period is no longer than one year and each scheduled payment of principal and interest that is evidenced and represented by such Discount 1996A Certificate occurs on either the first day or the last day of an accrual period. For purposes of this discussion, the first accrual period is assumed to begin on the date of issuance of the 1996A Certificates and end on July 1, 1996 and the remaining accrual periods are all assumed to be six-month periods ending on each successive January 1st and July 1st thereafter during the term of the Discount 1996A Certificate. A portion of the original issue discount is then allocated to each accrual period in an amount equal to the product of the issue price of the Discount 1996A Certificate (increased by the amount of the original issue discount allocated to all prior accrual periods) and the yield to the maturity of the Discount 1996A Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The amount so allocated to an accrual period is reduced by the stated interest with respect to such accrual period that is evidenced and represented by the Discount 1996A Certificate. The original issue discount allocated to a particular accrual period is then allocated ratably to each day in the accrual period.

The difference between the principal that is evidenced and represented by the Premium 1996A Certificates and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which price a substantial amount of Premium 1996A Certificates of the same maturity was sold constitutes to an initial purchaser, amortizable bond premium which is not deductible from gross income for federal income tax purposes or State of California personal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium 1996A Certificate or, in the case of a callable Premium 1996A Certificate, on a more accelerated basis. For purposes of determining taxable gain or loss on the sale or other disposition of a Premium 1996A Certificate, an initial purchaser who acquires such 1996A Certificate in the initial offering is required to decrease such purchaser's adjusted basis in such Premium 1996A Certificate annually by the amount of amortizable bond premium for the taxable year for both federal income tax purposes and State of California personal income tax purposes.

The foregoing opinion with respect to the Discount 1996A Certificates and the Premium 1996A Certificates is premised upon the examination of the same matters and is based upon the same assumptions as our opinion of even date herewith with respect to the excludability of the stated interest that is evidenced and represented by the 1996A Certificates from the gross income of the owners thereof for federal income tax purposes and the exemption of such stated interest from State of California personal income taxes and is subject to the same limitations set forth in such opinion.

Very truly yours,

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APPENDIX F

SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE

The Continuing Disclosure Certificate generally described under the caption "CONTINUING DISCLOSURE" of this Official Statement is summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Disclosure Certificate.

The Continuing Disclosure Certificate (the "Disclosure Certificate") is being executed and delivered by the County (herein the "Issuer") in connection with the execution and delivery of the Series A Certificates. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. The Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Series A Certificates and in order to assist the Participating Underwriters in complying with the Rule (as hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement (see APPENDIX C--"SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS-- Definitions of Certain Terms"), which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of the 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 Series A Certificates (including persons holding Series A Certificates through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of the Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth below.

"Participating Underwriter" shall mean any of the original underwriters of the Series A Certificates required to comply with the Rule in connection with offering of the Series A Certificates.

"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 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 Issuer shall, or shall cause the Dissemination Agent to, not later than 240 days after the end of the Issuer's Fiscal Year (presently June 30), commencing with the report for the 1995-1996 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of the 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 the Disclosure Certificate; provided that the audited financial statements of the Issuer 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 Issuer's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date set forth in paragraph (a) above, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached to the 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 Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to the 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 Issuer's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Issuer 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 the audited financial statements of the Issuer 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. Numerical and tabular information for the immediately preceding Fiscal Year of the type contained in the Official Statement relating to the Series A Certificates, in the following charts and tables or under the following captions:

(a) Table 1 (substitutions or withdrawals of Leased Facilities);

(b) Table 2 (changes in Series A Certificate Payment Schedule due to unscheduled prepayments or defeasance);

(c) Tables 3 and 4 (update relating to taxable sales);

(d) Table 7 (update relating to Motor Vehicle License Fees);

(e) "Abatement" (any actual abatement in Base Rental Payments);

(f) "Additional Obligations" (any additional obligations that are issued and secured by a pledge or intercept of Pledged Revenues senior to or on a parity with the Series A Certificates);

(g) "COUNTY INVESTMENT POLICY" (update, if necessary);

(h) "BUDGET INFORMATION RELATING TO THE COUNTY" (update); and

(i) Tables A-17, A-18, A-19, A-20, A-21, A-22 and A-23 in APPENDIX A (update).

The County has not undertaken in the Disclosure Certificate to provide all information an investor may want to have in making decisions to hold, sell or buy Series A Certificates 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 Issuer 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 Issuer 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 Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series A Certificates, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Certificate Owners;

4. optional, contingent or unscheduled calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Certificates;

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 Certificates.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Issuer 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 Series A Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series A Certificates. If such termination occurs prior to the final Certificate Payment Date, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the 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 Issuer pursuant to the Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Issuer may amend the Disclosure Certificate, and any provision of the 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 Series A Certificates, 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 Series A Certificates, 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 Series A Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement 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 Series A Certificates.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Issuer 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 Issuer. 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 the Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in the 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 the Disclosure Certificate. If the Issuer 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 the Disclosure Certificate, the Issuer shall have no obligation under the 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 Issuer to comply with any provision of the Disclosure Certificate, any Owner or Beneficial Owner of Series A Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under the Disclosure Certificate in the event of any failure of the Issuer to comply with the 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 the Disclosure Certificate, and the Issuer 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 Issuer under this

Section shall survive resignation or removal of the Dissemination Agent and payment of the Series A Certificates.

SECTION 12. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, the Participating Underwriters and Owners and Beneficial Owners from time to time of the Series A Certificates, and shall create no rights in any other person or entity.

Nationally Recognized Municipal Securities Information Repositories

The Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of the date of the Disclosure Certificate are:

Bloomberg Municipal Repository
P.O. Box 840
Princeton, NJ 08542-0840
Internet address: MUNIS@bloomberg.doc
(609) 279-3200
FAX: (609) 279-3235/(609) 279-5963
Contact: Dave Campbell

Disclosure, Inc.
Document Augmentation/
Municipal Securities
5161 River Road
Bethesda, MD 20816
(301) 951-1450
FAX: (301) 718-2329
Contact: Barry Sugarman (301) 215-6015

Donnelly Financial
Municipal Security Disclosure Archive
559 Main Street
Hudson, MA 01749
Internet address:
http://www.municipal.com
(800) 580-3670
FAX: (508) 562-1969

JJ Kenny Information Services
The Repository
65 Broadway, 16th Floor
New York, NY 10006
(212) 770-4568
FAX: (212) 797-7994
Contact: Joan Horai, Repository

Moody's NRMSIR
Public Finance Information Center
99 Church Street
New York, NY 10007-2796
(800) 339-6306
FAX: (212) 553-1460
Contact: Claudette Stephenson (212) 553-0345

Thompson NRMSIR
Secondary Market Disclosure
395 Hudson Street, 3rd Floor
New York, NY 10014
Internet address: Disclosure@muller.com
(212) 807-3814
FAX: (212) 989-9282
Contact: Thomas Garske

APPENDIX G

SPECIMEN CERTIFICATE INSURANCE POLICY

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 to made 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); and (ii) the reimbursement of any 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:

$[ ]
County of Orange, California
1996 Recovery Certificates of Participation, Series A

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 State Street Bank and Trust Company, N.A., 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 State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. 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, or any designee of the Paying Agent for such purpose. The term owner shall not include the County of Orange California, the Orange County Public Facilities Corporation or any party whose agreement with the foregoing 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 June, 1996.

MBIA Insurance Corporation

_____
President

Attest: _____
Assistant Secretary

JUN 12 1996

MSRB G36 Form

66072

4:58:09PM

Deal code: CA13804

G-36

This information must be reviewed by the syndicate desk or principal underwriter before being released to any issuer.

1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : COUNTY OF ORANGE, CALIFORNIA
1996 RECOVERY CERTIFICATES OF PARTICIPATION
SERIES A

3. STATE : CA

4. DATED DATE : 06/01/1996

5. DATE OF FINAL MATURITY OF OFFERING : 07/01/2026 6. DATE OF SALE : 06/06/1996

7. PAR VALUE OF OFFERING : $ 760,800,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): $ 760,800,000

9. AMENDED OR STICKERED OS? NO (Enter Y or N) NUMBER OF SERIES IN OS : 1 (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

a. ___ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

b. ___ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

c. ___ This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and or sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : Goldman, Sachs & Co.

16. CUSIP NUMBERS (and corresponding maturity dates)

07/01/1997	68428NAA8	07/01/1998	68428NAB6
07/01/1999	68428NAC4	07/01/2000	68428NAD2
07/01/2001	68428NAE0	07/01/2002	68428NAF7
07/01/2003	68428NAG5	07/01/2004	68428NAH3
07/01/2005	68428NAJ9	07/01/2006	68428NAK6
07/01/2007	68428NAL4	07/01/2008	68428NAP5
07/01/2009	68428NAQ3	07/01/2010	68428NAS9
07/01/2016	68428NAM2	07/01/2019	68428NAR1
07/01/2026	68428NAN0		

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

___ Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment:

18. Submit two copies of the completed form along with the official statement to: Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.

RECEIVED
JUN 17 1996
M.S.R.B.