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December 23, 2011

To the Citizens of Ventura County:

The Comprehensive Annual Financial Report (CAFR) of the County of Ventura (County) for the fiscal year ended June 30, 2011, is hereby submitted in compliance with Sections 25250 and 25253 of the Government Code of the State of California.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Vavrinek, Trine, Day & Co., LLP has issued an unqualified ("clean") opinion on the County of Ventura's financial statements for the year ended June 30, 2011. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The County of Ventura (County), approved by the State Legislature on March 22, 1872, effective January 1, 1873, was created out of the southeasterly portion of Santa Barbara County and covers an area of 1,873 square miles. It is bordered on the north by Kern County, on the northwest by Santa Barbara County, on the east by Los Angeles County, and on the south and southwest by the Pacific Ocean along 42 miles of coastline. There are ten incorporated cities within its borders: Ventura, Ojai, Oxnard, Port Hueneme, Camarillo, Santa Paula, Fillmore, Thousand Oaks, Moorpark and Simi Valley with a combined population including the unincorporated area of 828,383. The largest employment segments comprising over 80 percent of the total employment distribution include service industries, retail, government, manufacturing, and agriculture and food production. With its mild climate, geographical diversity including beaches and pristine and rugged wilderness, year-round recreational and cultural opportunities, and a reputation as one of the safest populated areas in the country, the County is a popular tourist destination.

The County is a General Law County with policymaking, budget approval, and legislative authority, vested in a five-member Board of Supervisors. The supervisors are elected on a nonpartisan basis by geographic districts for four-year staggered terms. Two or three supervisors are elected in alternating two year elections.

The Board appoints the County Executive Officer who generally appoints the non-elected department heads that are not otherwise appointed by law. The County's elected department heads are the Assessor, Auditor-Controller, Clerk and Recorder, District Attorney, Sheriff, and Treasurer-Tax Collector. An organization chart and a listing of elected and appointed department heads are provided in the introductory section of this report.

With 7,874 full-time employees in June 2011, the County provides a full range of services, including general government (administration, central services, elections, and plant acquisition), public protection, (law enforcement, fire protection, watershed protection, County portion of judicial, and detention), public ways and facilities (construction and maintenance of roads), health and sanitation (public, behavioral, and environmental health), public assistance, and education (libraries). In addition, enterprise funds account for the operations of the Medical Center, Health Care Plan, two airports, Channel Islands Harbor, Waterworks Districts (sanitation and water services), and Parks (recreational activities). The financial reporting entity includes all funds of the primary government (County of Ventura as legally defined), as well as all of its legally separate component units. The component units are reported as blended when they are in substance part of the primary government or discretely presented in a separate column on the government-wide financial statements to emphasize that they are legally separate from the primary government. Note 1 of the Notes to the Basic Financial Statements provides more information on the reporting entity.

As required by state law, the County adopts a final budget no later than August 20 each year, generally in June. This annual budget serves as the foundation for the County's financial planning and control. Budgets are adopted for governmental and proprietary funds. The legal level of budgetary control is maintained at the department/budget unit and object level of expenditures, except capital assets which are controlled at the sub-object level. Appropriation transfers between departments must be approved by the Board. Supplemental appropriations normally financed by unanticipated revenues during the year must also be approved by the Board. The Board has delegated authority to the County Executive Officer to approve appropriation transfers between object levels within the same department.

Unencumbered and unexpended appropriations lapse at the end of each fiscal year and become available to finance the next year's budget. Encumbered appropriations are reappropriated in the next year's budget. Encumbrances outstanding at year-end are included in restricted, committed or assigned fund balance in the governmental funds.

Local Economy

Historically, Ventura County has been closely allied with the economy of Southern California, and, for the calendar year 2011, the outlook for growth is slowly improving. The County's traditional economic strength in agriculture, food processing, and mineral production is supplemented by the prominence of the service industry, small manufacturing businesses, the electronics industry, tourism, the biotechnology giant, Amgen, and the military presence of the Naval Base Ventura County at Port Hueneme and Point Mugu.

• Commercial and Agricultural Activity

Retail sales for 2009-10 decreased 3.6 percent over the prior year. Ventura County has seen mixed results in vacancy rates for retail, office, and industrial real estate. The retail vacancy rate for Ventura County decreased slightly to 6.3 percent in the second quarter of calendar year 2011 from a revised 6.4 percent a year ago. The industrial vacancy rate increased sharply to 8.9 percent in the second quarter from a revised 7.8 percent a year ago. The office vacancy rate also increased sharply to 19.1 percent in the second quarter, from a revised 17.9 percent rate a year ago.

Although operating income for fiscal year 2011 was projected at \$3.98 million, the Port of Hueneme projected to end the fiscal year with a loss of \$1.04 million, due to depreciation and interest payments. As the general economy rebounds and grows, the demand for new automobiles and other types of cargos should also increase. Increases in cargo volume through the Port of Hueneme will result in increases in revenues.

The region's crop totals exceeded \$1.859 billion in 2010. The leading crops of strawberries and celery with sales of \$542.1 and \$182.3 million, respectively, far exceeded traditional crops of lemons and tomatoes with sales of \$174.8 and \$120.1 million, respectively.

- **Academic Activity**

California State University, Channel Islands (CSUCI) opened in 2002 and is accredited by the Western Association of Schools and Colleges. Located on 833 acres it is one of the largest campuses in land size in the 23 campus California State University System. CSUCI offers undergraduate degrees in 22 areas of study, teacher credentials in seven disciplines, and graduate degrees in six areas of study. The University had over 4,600 students, faculty and staff for fall term 2010. The John Spoor Broome Library has 137,000 square feet of space, 75,000 bound volumes, more than 180,000 electronic books and can accommodate 1,800 users at one time. The new Veterans Resource Center opened in Fall 2011.

The three Ventura County Community College campuses have a Fall 2011 enrollment of 34,384 students, a decrease of 1.7 percent from the prior year. Enrollment declined due to decreased support from the State, which resulted in cuts to classes and services. The three two-year colleges offer programs to transfer to four-year colleges and universities, occupational and career technical training, and basic skills instruction.

- **Income and Unemployment**

Based on information from various demographic and economic statistical sources, per capita personal income for 2011 is estimated at \$44,907, an increase of 2.6 percent from the revised prior year estimate.

The County's unemployment rate in June 2011 of 10.3 percent was down from 10.6 percent in the prior year and compares with California and the nation at 12.1 percent and 9.3 percent, respectively. Information about the County's principal employers and workforce sizes is provided in the statistical section of this report.

- **Real Estate**

The number of sales declined and prices have decreased when comparing June 2011 to June 2010. The number of June sales declined by 13.0 percent from 890 a year ago to 774 in June of 2011. The composite median sales price for new and existing homes and condominiums of \$355,000, in June 2011, reflects a loss of 7.6 percent, compared to the gain of 5.2 percent in June 2010. The median sales price in California and the nation in June 2011 were \$295,300 and \$171,900, respectively.

Housing affordability for the third quarter of 2011 was 68 percent, an improvement from 61 percent in June 2010. Despite this improvement, availability of affordable housing continues to be a critical economic factor which may impact future job growth. Some mitigating factors are the desirability of living in Ventura County due to its strong public safety presence, quality of life, climate, relatively clean air, and proximity to the Los Angeles metropolitan area.

Major Initiatives

- The main budget bill adopting the fiscal year 2011-12 State Budget was signed by Governor Brown on June 30, 2011. The \$26.6 billion budget shortfall was closed through \$15.0 billion of expenditure reductions and an \$8.3 billion increase in revenue estimates and provides a small reserve of \$543 million. The budget includes major realignment of programs from the state to local governments, mainly in the public safety area, mental health and social services programs. The budget also includes two tiers of “trigger reductions” should revenues fall short of budget estimates.
- The assessed value of taxable property in the County has continued to decline, falling by 0.2 percent in the last year. The 2011-2012 assessment role contains \$103.85 billion of taxable property value, a \$167 million decrease from the prior year’s total of \$104.02 billion. The fiscal year 2011-12 Budget was based on an estimated 0.3 percent decrease in assessed value.
- Retirement Contributions continue to increase, with the contribution rate increasing from 19.19 percent to 22.43 percent of covered payroll for fiscal year 2011-12. The higher rates result in an estimated increase in total employer contributions of approximately \$14 million. Retirement contribution amounts are based on actuarial valuation information dated June 30, 2010. Market returns have a long term effect on the actuarial values used to determine employer contributions. Consequently, we expect to see continued increases in contribution rates over the next several years.
- In September 2011, the Board approved the 2011-2016 Countywide Strategic Plan, including the County’s Mission Statement, Values, Guiding Principles, Strategic Goals and Supporting Objectives and Measures. The Strategic Plan is intended to increase the County’s ability to address funding, workforce, and community needs proactively.
- On January 25, 2011, the Board of Supervisors approved the Ventura County Medical Center Replacement Hospital Wing Project with a total construction program amount of \$250 million. The project is required to comply with Senate Bill 1953 seismic requirements. It will also support new technology standards and clinical treatment; improve patient flow and services to increase efficiency, while continuing to improve the quality of care. Construction is planned to complete by December 2016.
- A contract in the amount of \$32 million was awarded on October 4, 2011, to Cerner Corporation to provide an Electronic Health Record System. Funded in part by federal incentives under the Health Information Technology and Clinical Health Act (HITECH), the project will improve quality, safety and effectiveness of care.

Long-term Planning

- General Fund reserves and designations in the 2011-12 adopted budget totaled \$125.5 million, an increase of \$7.5 million from the prior year adopted budget, based on estimated year-end fund balance. The Budget adopted by the County for fiscal year 2010-11 uses the fund balance language of the County Budget Act which has not yet been updated to reflect GASB Statement 54 which eliminated the terms of reserves and designation. Reserves and designations play an important role in preserving the County's overall financial health including: strengthening the County's overall financial position including cash with an emphasis toward upgrading our debt rating and consequently lowering our borrowing costs, preparing the County for future capital needs, establishing the ability to fund expenses such as litigation costs and audit disallowances without affecting operations, and shield the County against extraordinary events and significant fluctuations in revenue.
- The 2011-16 Five-Year Capital Improvement Plan (Plan) was updated through a process involving the review by all County departments of capital and major equipment needs and includes five high priority project requests pending identification of funding sources. Requests are submitted to the Capital Planning Committee for review and prioritization as noted below. Projects are prioritized by a ranking system that uses various criteria such as life and safety concerns, compliance with legal or regulatory requirements, and preservation of existing assets. Among the projects included in the Plan are the Ventura County Medical Center Replacement Wing, the Juvenile Justice Center Office Complex to co-locate service delivery for County functions related to the juvenile courts, construction of a new Work Furlough Housing Facility, health care clinics, airport, and harbor improvements. In addition, studies continue on the viability of certain Information Technology (IT) infrastructure improvement projects. The Plan is available on-line: http://portal.countyofventura.org/portal/page/portal/PUBLIC_WORKS/centralServices/CIP_2011-2016_web.pdf

Relevant Financial Policies

- The Board of Supervisors approved a Capital Planning Policy and Five-Year Capital Improvement Plan which includes evaluation of plans for acquisition, maintenance, replacement, and retirement of capital assets and serves as the basis for long-range planning to meet the County's capital asset needs. A Capital Planning Committee comprised of the County Executive Officer, Auditor-Controller, General Services Agency Director, and Public Works Agency Director, is responsible for evaluating capital planning matters and providing recommendations to the Board of Supervisors regarding the prioritization of capital projects, major equipment purchases, long-term lease administration, lease versus purchase options, and other capital planning and expenditure issues.
- The Financial Planning Committee of the County, comprised of the Chair and Vice Chair of the Board of Supervisors, Auditor-Controller, County Treasurer, County Executive Officer, and County Counsel, reviews all financial planning matters. The Committee provides recommendations to the Board regarding levels of debt service, debt balances, financing of planned capital asset acquisitions, and any proposal utilizing public finance methods.
- The Information Technology Committee (ITC) is responsible for planning and reviewing project proposals to ensure consistency with the goals, guidelines and policies of the County's technology strategy, compatibility with other systems and infrastructure, and conformance with other County priorities. The ITC is comprised of two members of the Board of Supervisors, the County Executive Officer, Auditor-Controller, Sheriff, Fire Protection District Chief, Human Services Agency Director,

Resource Management Agency Director, Health Care Agency Director, and the IT Services Department Director.

Awards and Acknowledgments

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2010. This was the twenty-seventh consecutive year that the County has received this prestigious award. In order to be awarded a Certificate of Achievement, the County had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the staff of the Auditor-Controller's Office. I wish to express my appreciation to the members of the Auditor-Controller's Office and our independent auditors, Vavrinek, Trine, Day & Co., LLP, who assisted in and contributed to the preparation of this report. I also thank the Board of Supervisors and the County Executive Office for their interest and support in planning and conducting the financial operations of the County in a responsive and effective manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'CLC', with a long horizontal line extending to the right.

CHRISTINE L. COHEN
Auditor-Controller