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December 21, 2012

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, 2012, 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, 2012. 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 832,970. 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 7,987 full-time employees in June 2012, 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 budget unit.

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 2012, 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 2010-11 increased 6.0 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 increased to 6.8 percent in the second quarter of calendar year 2012 from a revised 6.5 percent a year ago. The industrial vacancy rate decreased to 8.2 percent in the second quarter from a revised 8.6 percent a year ago. The office vacancy rate, also, decreased to 18.8 percent in the second quarter, from a revised 20.4 percent rate a year ago.

The Port of Hueneme, a critical hub in Southern California, realized historic increases in import/export trade. The total tonnage for fiscal year 2011-12 jumped to 1,317,716 metric tons for an 8.2 percent increase over 2010-11, marking the Port's fourth most active trade year since its inception in 1937. This represents a path to economic recovery bringing the Port back to trade levels realized prior to the economic downturn.

The region's crop totals exceeded \$1.844 billion in 2011. The leading crops of strawberries and raspberries with sales of \$625.5 and \$185.4 million, respectively, far exceeded traditional crops of lemons and tomatoes with sales of \$174.9 and \$99.5 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 eight disciplines, and graduate degrees in six areas of study. The University had 4,800 students, faculty and staff for fall term 2011. 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 three Ventura County Community College campuses had 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 2012 is estimated at \$45,530, an increase of 1.1 percent from the revised prior year estimate.

The County's unemployment rate in June 2012 of 9.2 percent was down from a revised 10.2 percent in the prior year and compares with California and the nation at 10.7 percent and 8.4 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 rose and prices have increased when comparing June 2012 to June 2011. The number of June sales rose by 23 percent from 774 a year ago to 952 in June of 2012. The composite median sales price for new and existing homes and condominiums of \$365,500, in June 2012, reflects a gain of 3 percent, compared to the loss of 7.6 percent in June 2011. The median sales price in California and the nation in June 2012 were \$320,540 and \$181,500, respectively.

Housing affordability for the third quarter of 2012 was 68 percent, unchanged from the third quarter of 2011. 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 fiscal year 2012-13 State Budget was signed into law by Governor Brown on June 27, 2012. A \$15.7 billion budget shortfall was closed through expenditure reductions and revenue increases and provides reserves of \$948 million. The budget includes cuts in several social service programs and in funding for Courts as well as pay reductions for state employees. The State's increase in budgeted revenues was dependent on California voters passing the Governor's ballot initiative, Proposition 30. The measure specifies sales tax and income tax increases for a period of five and seven years respectively and contains constitutional guarantees to fund counties for the 2011 realignment of public safety, social service, and mental health programs from the state to counties. The measure was approved by voters on November 6, 2012. The State projects an additional \$1.5 billion in revenues from the dissolution of redevelopment agencies.
- The assessed value of taxable property in the County increased slightly this year, increasing by .6 percent over the last year. The 2012-2013 assessment roll contains \$104.49 billion of taxable property, a \$634 million increase from the prior year total of \$103.85 billion. This is the first net increase in three years resulting in the second highest roll ever; 2.2 percent below the highest of \$106.9 billion in 2008.
- Retirement contributions increased in fiscal year 2012-13, from 22.43 percent to 23.82 percent of covered payroll. The higher rates result in an estimated increase in total County employer contributions of approximately \$12.7 million. Retirement contribution amounts are based on actuarial valuation information dated June 30, 2011. Market returns have a long term effect on the actuarial values used to determine employer contributions and certain demographic changes in the actuarial valuation will contribute to the increases in contribution rates over the next several years.
- On September 12, 2012, the Governor signed into law Assembly Bill 340 and Assembly Bill 197, also known as the California Public Employees' Pension Reform Act (PEPRA) of 2013. The provisions of the Act will become effective January 1, 2013. New members of any California Public Retirement System, as defined by PEPRA, will be subject to a lower benefit formula, higher minimum retirement age, cap on the amount of pensionable compensation used to calculate retirement benefits and new provisions for defining the type of compensation that is considered pensionable.
- As part of the 2011-12 budget plan, the Legislature enacted a major shift - or "realignment" - of state program responsibilities and revenues to local governments. The plan provides funding to local governments to fund various criminal justice, mental health, and social services programs. The three main elements of the plan include 1) shifting the custody of certain adult offenders to counties; 2) returning supervision of parolees to counties; and 3) giving each county the flexibility to develop its own plan through the county's Community Corrections Partnership. The future impact of realignment to the County is unknown.
- Contracts for five "Get Ready" projects totaling \$9.3 million were approved by the Board of Supervisors on August 7, 2012. The "Get Ready" projects are intended to prepare the Ventura County Medical Center (VCMC) campus for the Hospital Replacement Wing (HRW) Project, which was approved by the Board on January 25, 2011.
- On December 4, 2012, the Board of Supervisors approved a \$15 million financing for the upgrade of the Ventura County Financial Management System. This upgrade will reduce the risk of an outdated

application and provide for enhanced tracking, monitoring, and reporting of fiscal information and includes various modules for grant accounting, cost accounting, vendor self-service and an expanded integrated budgeting module as well as workflow improvements and integrated hospital reporting.

- The Watershed Protection District accepted \$9.5 million in Local Levee Assistance Program Grant Funding from the California Department of Water Resources on October 23, 2012. The Levee Grant Program funded projects include both local levee evaluation and local levee critical repair projects located throughout Ventura County.

### **Long-term Planning**

- General Fund fund balance in the 2012-13 adopted budget totaled \$126.1 million, an increase of \$0.4 million from the prior year adopted budget, based on estimated year-end fund balance. Obligated fund balance (Nonspendable, Restricted, Committed, and Assigned) plays 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 revenues. Unassigned fund balance can be used to monitor fund balance as a percent of General Fund appropriations/revenue. The County's recommended minimum level is 10 percent of total appropriations/revenue. The estimated Unassigned fund balance of \$96.9 million is approximately 11 percent of estimated appropriations/revenue, above our minimum of 10 percent but less than our long term goal of 15 percent.
- The 2012-17 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 six 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 Medical/Mental Health Housing Unit at the Todd Road Jail, the Juvenile Justice Complex Office Building to co-locate service delivery for County functions related to the Juvenile Courts, Sheriff's Helicopter Replacement and Modernization, construction of a new Work Furlough Housing Facility, and a number of other building and system improvement projects. The plan is available on-line: [http://portal.countyofventura.org/portal/page/portal/PUBLIC\\_WORKS/centralServices/CIP\\_2012\\_2017\\_CEO\\_web.pdf](http://portal.countyofventura.org/portal/page/portal/PUBLIC_WORKS/centralServices/CIP_2012_2017_CEO_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 CAFR for the fiscal year ended June 30, 2011. This was the twenty-eighth 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,



CHRISTINE L. COHEN  
Auditor-Controller