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December 27, 2010

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, 2010, 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, 2010. 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 844,713. 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 7,766 full-time employees in June 2010, 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 re-appropriated in the next year's budget. Encumbrances outstanding at year-end are recorded as reservations of 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 2010, the outlook for growth is sluggish. 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 2008-09 decreased 11.9 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 6.3 percent in the second quarter of calendar year 2010 from 6.1 percent a year ago. The industrial vacancy rate increased sharply to 7.2 percent in the second quarter from 5.8 percent a year ago. However, the office vacancy rate actually decreased to 18.3 percent in the second quarter, a slight improvement over the 18.4 percent rate a year ago.

During the 2009-10 fiscal year, the Port of Hueneme experienced an increase in the amount of cargo imported and exported through the Port. Overall revenue tonnage increased by 12.1 percent, primarily due to a 26.9 percent increase in the number of automobiles and a 96.4 percent increase in the volume of other cargo. 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 \$1.623 billion in 2009. The leading crops of strawberries and nursery stock with sales of \$515.4 and \$191.3 million, respectively, far exceeded traditional crops of lemons and celery with sales of \$128.8 and \$169.5 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 six disciplines, and graduate degrees in six areas of study. The University had over 4,400 students, faculty and staff for fall term 2008. 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. A new 24,920 square foot Student Union opened in March 2010.

The three Ventura County Community College campuses have a Fall 2010 enrollment of 34,976 students, a decrease of 6.6 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 2010 is estimated at \$42,618, an increase of 5.4 percent from the prior year estimate.

The county's unemployment rate in June 2010 of 10.6 percent was up from 10.0 percent in the prior year and compares with California and the nation at 12.2 percent and 9.6 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 2010 to June 2009. The number of June sales rose by 5.5 percent from 844 a year ago to 890 in June of 2010. The composite median sales price for new and existing homes and condominiums of \$384,000, in June 2010, reflects a gain of 5.2 percent, compared to the loss of 13.0 percent in June 2009. The median sales price in California and the nation in June 2010 were \$311,950 and \$176,900, respectively.

Housing affordability for the second quarter of 2010 was 61 percent, an improvement from 59 percent in June 2009. 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 Fiscal Year 2010-11 State Budget was passed by the Legislature and signed by the Governor on October 8, 2010, the latest in 30 years. The \$19.3 billion budget shortfall was closed through a combination of expenditure reductions (\$8.4 billion), federal funding (\$5.4 billion), and additional revenue and funding shifts (\$5.5 billion), and provides a small reserve of \$1.3 billion. According to the Legislative Analyst's Office, since two-thirds of the budget was balanced by using temporary or one-time money, the State continues to face significant on-going budget problems in the coming years. The County will continue to monitor developments at the State level and make budgetary adjustments as needed.
- The assessed value of taxable property fell 0.3 percent in the last year. The 2010-2011 assessment role contains \$104.02 billion of taxable property value, a \$330 million decrease from last year's total of \$104.35 billion. The Fiscal Year 2010-11 Budget was based on an estimated 1.0 percent decrease in assessed value.
- Sales Tax based revenues such as Realignment and Proposition 172 (Public Safety Sales Tax) continue to be of concern. Down due to the economic recession, revenues are up slightly from last year, but currently below the Fiscal Year 2010-11 Budget. County program areas impacted include Health, Human Services, and Public Safety. According to the Legislative Analysts's Office, taxable sales in California appear to have hit bottom in the second half of 2009, and are bouncing back.
- Retirement contributions in the Fiscal Year 2010-11 Budget included increased employer contributions of approximately \$25 million, based on actuarial valuation information dated June 30, 2009. Subsequent to this date, there has been a strengthening in the economy and an increase in the investment return on the retirement plan assets. However, market returns have a long term effect on the actuarial values used to determine employer contributions. Consequently, regardless of current market returns, we expect to see continued significant increases in contribution rates over the next several years. To mitigate this, employee organizations have agreed to contribute an additional three percent of their retirement contribution.
- In Fiscal Year 2005-06, the Governor of California signed into law a mandate for the expansion of managed care programs to deliver Medi-Cal services in thirteen additional California counties including Ventura County. The state Department of Health Care Services gave the County Board of Supervisors the discretion to select the model of Medi-Cal managed care. On June 2, 2009, the Board selected the County Organized Health System (COHS) as the model for managed care in Ventura County. On December 29, 2009, the Ventura County Board of Supervisors adopted an ordinance forming the Ventura County Medi-Cal Managed Care Commission, a separate entity from the County. The future impact of the COHS, as well as the impact of the newly passed Federal Health Care Plan, on the Ventura County Medical Center is unknown.
- On June 22, 2010 the Board of Supervisors approved the Ventura County Medical Center as the provider of Level II Trauma Center Services in western Ventura County. The Board had designated Los Robles Hospital and Medical Center as the trauma center for eastern Ventura County on June 15, 2010. The future impact of the trauma center designation on the Ventura County Medical Center is unknown.

Long-term Planning

- General Fund reserves and designations in the 2010-11 adopted budget totaled \$118.0 million, a decrease of \$7.9 million from the prior year adopted budget, based on estimated year-end fund balance. 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 2010-11 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 expansion of the Todd Road Jail to relieve overcrowding, the Juvenile Justice Center Office Complex to co-locate service delivery for County functions related to the juvenile courts and the Ventura County Medical Center/Santa Paula Hospital Seismic Retrofit. In addition, studies will be continued on the viability of certain IT infrastructure improvement projects. The Plan is available on-line: http://portal.countyofventura.org/portal/page/portal/PUBLIC_WORKS/centralServices/CIP%202010-2015.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 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.

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, 2009. This was the twenty-sixth 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