AUDITOR-CONTROLLER COUNTY OF ORANGE

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COUNTY EXECUTIVE OFFICE COUNTY OF ORANGE

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December 18, 2012

The Citizens of Orange County:

The Comprehensive Annual Financial Report (CAFR) of the County of Orange, State of California (County), for the year ended June 30, 2012, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. The report contains financial statements that have been prepared in conformity with United States generally accepted accounting principles (GAAP) prescribed for governmental entities. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. A comprehensive framework of internal controls has been designed and established to provide reasonable assurance that the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and changes in financial position of County funds. Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatements.

The CAFR has been audited by the independent certified public accounting firm of Vavrinek, Trine, Day & Co., LLP. The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the County for the year ended June 30, 2012, are free of material misstatement. The independent certified public accounting firm has issued an unqualified ("clean") opinion on the County's financial statements as of and for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

This letter of transmittal is designed to complement and should be read in conjunction with Management's Discussion and Analysis (MD&A) that immediately follows the independent auditor's report. MD&A provides a narrative introduction, overview, and an analysis of the basic financial statements.

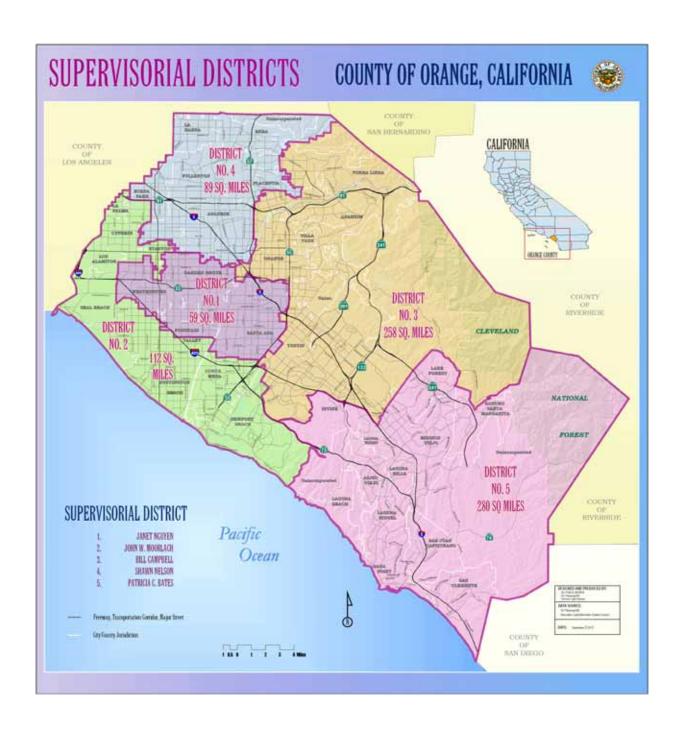
PROFILE OF THE GOVERNMENT

The County, incorporated in 1889 and located in the southern part of the State of California, is one of the major metropolitan areas in the state and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the state, and ranks sixth in the nation.

The County is a charter county as a result of the March 5, 2002, voter approval of Measure V, which provides for an electoral process to fill mid-term vacancies on the Board of Supervisors. Before Measure V, as a general law county, mid-term vacancies would otherwise be filled by gubernatorial appointment. In November 2008, voters approved Measure J, which added Article III, Section 301 to the Charter of Orange County requiring voter approval for increases in future retirement system benefits of any employee, legislative officer, or elected official of the County of Orange in the Orange County Employees Retirement System or any successor retirement system, with the exception of statutorily-established cost of living adjustments, salary increases, and annual leave or compensatory time cash-outs. In all other respects, the County is like a general law county. The County is governed by a five-member Board of Supervisors (the Board), who each serve four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each approximately equal in population. The district

boundaries were revised effective September 6, 2011, incorporating the results of the 2010 census. A County Executive Officer directly oversees eighteen County Departments, and elected department heads oversee seven

county departments. The Supervisorial Districts map below shows the boundaries of Orange County and the areas governed by each member of the Board.



The County provides a full range of services countywide, for the unincorporated areas, and contracted through cities. These services are outlined in the following table:

Countywide Services		
Affordable Housing (Housing Authority)	Veterans Services	
Agricultural Commissioner	Indigent Medical Services	
Airport	Jails & Juvenile Facilities	
Child Protection & Social Services	Juvenile Justice Commission	
Child Support Services	Landfills & Solid Waste Disposal	
Clerk-Recorder	Law Enforcement	
Coroner & Forensic Services	Probationary Supervision	
District Attorney	Public Assistance	
Elections & Voter Registration	Public Defender/ Alternate Defense	
Environmental / Regulatory Health	Public & Mental Health	
Flood Control & Transportation	Senior Services	
Harbors, Beaches & Parks	Tax Assessment Collection & Appeals	
Disaster Preparedness	Weights & Measures	

Unincorporated Area Services		
Animal Care & Control	Libraries	
Flood Control	Parks	
Land Use	Water Disposal Collection	
Law Enforcement		

Contract Services for Cities		
Animal Care & Control	Libraries	
Law Enforcement	Public Works & Engineering	

Source: County of Orange Facts and Figures, 2012

In addition to these services, the County is also financially accountable for the reporting of component units. 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 County. The County has one component unit, the Children and Families Commission of Orange County, which requires discrete presentation in the government-wide financial statements. The following entities are presented as blended component units in the basic financial statements for the year ended June 30, 2012: the Orange County Flood Control District, Orange County Housing Authority, Orange County Public Financing Authority, South Orange County Public Financing Authority, Orange County Public Facilities Corporation, In-Home Supportive Services Public Authority, and certain special districts. Additional information on these entities can be found in Note 1 in the Notes to the Basic Financial Statements.

The County maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the General Fund and most of the Special Revenue, Debt Service, Capital Projects and Permanent funds are included in the annual appropriated budget. The level of budgetary control (that level which cannot be exceeded without action by the Board) is at the legal fund-budget control unit level, which represents a department or an agency. Budget-to-actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted. The Budgetary Comparison Statements for the General Fund and Major Special Revenue Funds are part of the Basic Financial Statements. The Budgetary Comparison Schedules for the nonmajor Governmental Funds and major Debt Service Fund with appropriated annual budgets are presented in the Supplemental Information section for governmental funds. The County also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year-end; outstanding encumbrances are carried forward to the following year's budget. Additional information on the budgetary process can be found in Note 1 in the Notes to the Basic Financial Statements.

The County of Orange eGovernment website portal at http://www.ocgov.com provides online services and extensive information about County government to Orange County residents, businesses, partners, and visitors. During Fiscal Year (FY) 2011-12, the website received over 10.5 million visits and served over 32 million pages of information. The County's website includes information about the Board, County job listings, purchasing bid solicitations, County directories, assessment appeals, links to court information and local court rules, voter information, County permits and forms, public safety, health and human services programs and financial information. The site also provides several online services, including live and archived Board meeting video, Board agenda public comment submissions, ordering birth, death and marriage certificates, searching fictitious business names, searching polling locations and election results, licensing pets, paying property taxes and subscribing to receive emergency alerts. The County continuously strives to improve a constituent's ability to conduct business online with the County.

FACTORS AFFECTING ECONOMIC CONDITION

Local Economy

Two indicators of the Orange County economy are: how well the local economy performs relative to surrounding counties, the state and the nation (external indicators), and how well the local economy performs relative to its own historical trends (internal indicators). This section provides various external and internal indicators that describe the current and projected outlook of the Orange County economy.

In terms of the external indicators, Orange County's economy continues to out-perform local surrounding counties, the state and national economies (in annual percentage growth), and, in fact, ranks higher (in absolute dollars) than the economies of the majority of the world's countries. Internal indicators show a continued slow but steady recovery of the local economy.

Orange County's unemployment rate continues to be below that of all surrounding Southern California counties, the State of California and the National level (see Table 1).

According to Chapman University, Orange County's job growth is expected to increase by 1.8% in 2012 and result in approximately 24,135 new jobs relative to 2011. This compares to smaller increases of 1.4% for the State of California and 1.5% for the national level.

According to Chapman University, inflation, as measured by the Consumer Price Index (CPI), is expected to be comparable for Orange County relative to the U.S. (2.8% for both OC and U.S.) and slightly greater than for the State of California (2.6% for CA) in 2012. (see Table 2).

Table 1: Unemployment Rate Comparison

Primary Government Entity	August 2012 Unemployment Rate
United States	8.1%
California	10.4%
Los Angeles County	11.2%
Orange County	7.7%
Riverside & San Bernardino Counties	12.3%
San Diego County	9.0%

Unemployment and Expected Job Growth Rates

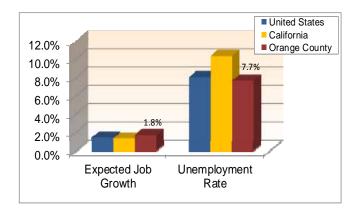


Table 2: 2012 - Projected Increase of the CPI

United States	California	Orange County
2.8%	2.6%	2.8%

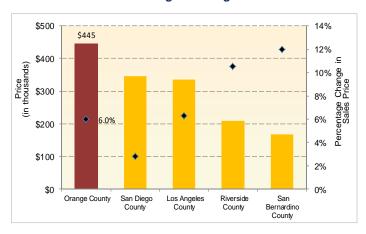
Sources: State of California, Employment Development Department Economic & Business Review, Chapman University, June 2012

Orange County's Housing and Urban Development median family income is expected to be \$85,300 (absolute dollars) in 2012, up from \$84,200 (absolute dollars) in 2011. Median family incomes in Orange County continue to exceed all surrounding Southern California counties, the State of California and the nation (see Table 3).

According to DataQuick Information Systems, the median home sales price for new and existing homes in Orange County was \$445,000 (absolute dollars) in August, 2012, representing a 6.0% increase relative to August, 2011. The median sales price in Orange County continues to exceed all surrounding counties (see Table 4).

In terms of internal trends, current and projected indicators suggest that the Orange County economy will continue to gradually improve with 24,135 jobs added in 2012 and 28,060 in 2013.

Comparison of Median Home Sales Price and Price Changes Among Counties

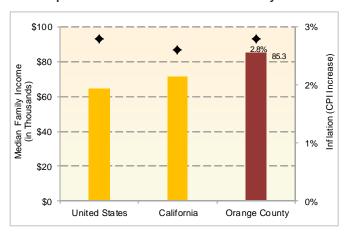


Sources: DataQuick Information Systems, August 2012

Table 3: Median Family Income Comparison

Primary Government Entity	Median Family Income (absolute dollars)
United States	\$65,000
California	\$71,400
Los Angeles County	\$64,800
Orange County	\$85,300
Riverside County	\$63,300
San Diego County	\$75,900

Comparisons of Inflation and Median Family Income



Sources: Economic & Business Review, Chapman University, June 2012 U.S. Department of Housing and Urban Development, 2012

Table 4: Median Home Sales Price Comparison – Southern California Counties – August 2012

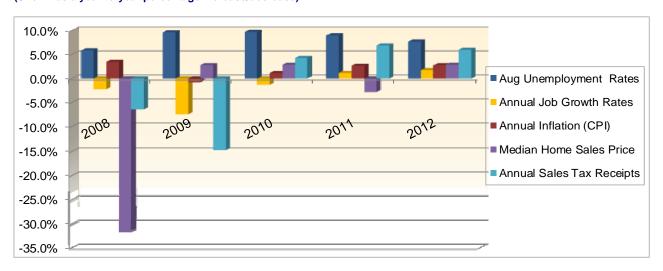
Primary Government Entity	Median Home Sales Price Change increase	Median Home Sales Price (absolute dollars)
Los Angeles County	6.3%	\$335,000
Orange County	6.0%	\$445,000
Riverside County	10.5%	\$210,000
San Bernardino Count	y 12.0%	\$168,000
San Diego County	2.8%	\$345,000

Table 5 shows various internal indicators reflecting a slow but steady recovery of Orange County's economy. First, unemloyment rates are expected to increase by 7.7% in August relative to 9.0% increase in August 2011. Second, job growth is expected to improve by 1.8% in 2012 compared to 1.2% in 2011. Third, median home prices are expected to increase by 2.9% in August relative to a decrease of 2.8% in 2011. The only economic indicator where this trend of improvement is not consistent is in terms of expected sales tax receipts where a slight change in the increase of 6.0% is expected in 2012 relative to the 6.9% increase in 2011.

Table 5: Orange County Historical Data

Historical Indicators	2008	2009	2010	2011	2012
Unemployment Rates	5.9%	9.6%	9.7%	9.0%	7.7%
Annual Job Growth	(2.2%)	(7.4%)	(1.3%)	1.2%	1.8%
Annual CPI Inflation	3.5%	(0.8%)	1.2%	2.7%	2.8%
Median Home Sales Price increase	(31.5%)	2.8%	2.9%	(2.8%)	2.9%
Annual Change in Sales Tax Receipts	(6.4%)	(14.7%)	4.3%	6.9%	6.0%

Orange County Historical Data Comparison (Shown as a year-to-year percentage increase/decrease)



Sources: State of California, Employment Development Department Economic & Business Review, Chapman University, June 2012 DataQuick Information Systems, August 2012

In summary, the economy in Orange County continues to show some signs of slow but steady recovery.

Long-Term Financial Planning

Strategic Plan: In March 1997, the Board initiated a financial planning process that is a key component of the County's commitment to fiscal responsibility, accountability and efficiency. The plan includes projections of County general purpose revenues, departmental projections of operating costs, revenues and capital needs for current programs and services and anticipated caseload changes. New programs, services and capital projects are identified and prioritized on a countywide basis with financial impacts identified over the plan period. The plan covers a five-year period and includes a ten-year analysis of operating costs in cases where new programs and facilities are recommended to ensure the ability to pay for long-term operational costs.

The Board adopted the 2011 Strategic Financial Plan (SFP) on January 24, 2012. The 2011 SFP is the foundation in planning for continued financial stability and will be augmented by the monitoring and establishment of budgetary controls, via the FY 2012-13 quarterly budget reporting process and the adoption of the FY 2012-13 Budget. The five-year SFP projections indicate that General Purpose Revenue growth will be in the range of 1% for the first year of the plan with improved growth rates of 3% to 4% in years two through five. The moderate growth rate for revenue coupled with the increasing cost of doing business will require the County to carefully

manage programs and services levels. The County continues to believe that sustained job growth and reduced unemployment are the key indicators for economic recovery.

In order to address identified budget issues and prepare for the continued uncertainty of the general and local economy, the following represent some of the actions taken or identified as options for early planning. Early action is critical to ensure baseline services are met and that the County continues to experience financial stability.

- The 2011 SFP reflects a 20% reduction in FY 2012-13 Net County Cost limits compared to FY 2007-08
- New lower benefit pension tier for general employees
- Increased pension contribution for safety employees
- Negotiation of labor contracts with general and safety members that includes no general salary increase
- Continuation of the policy to not backfill State budget reductions
- Internal financing program to support major information technology projects
- Development of contingency reduction plans
- Maintaining prudent levels of General Fund and Contingency Reserves

Santa Ana River Mainstem Project: The Santa Ana River Mainstem Project (SARMP) was initiated in 1964, in partial response to a resolution of the United States House Committee on Public Works adopted May 8, 1964. A survey report was completed by the Orange County Flood Control District in 1975. The report was reviewed and submitted to Congress in September 1978. In September 1980, the United States Corps of Engineers completed the General Design Memorandum for the SARMP. Construction for the SARMP was authorized by the Water Resources Development Act of 1986. Construction for the SARMP was initiated in 1989, and completion is scheduled for 2020.

The SARMP is designed to provide flood protection to the growing urban communities in Orange, Riverside and San Bernardino Counties. The proposed improvements to the system cover 75 miles, from the headwater of the Santa Ana River east of the city of San Bernardino to the mouth of the river at the Pacific Ocean between the cities of Newport Beach and Huntington Beach. The project will increase levels of flood protection to more than 3.35 million people within the three county areas. The project includes seven independent features: Seven Oaks Dam, Mill Creek Levee, San Timoteo Creek, Oak Street Drain, Prado Dam, Santiago Creek, and the Lower Santa Ana River. More information on the SARMP is available in Note 15, Construction and Other Significant Commitments. To learn more about the SARMP, visit the Orange County Flood Control Division's website at http://www.ocflood.com.

OC Dana Point Harbor Revitalization Plan: The OC Dana Point Harbor Capital Improvement Plan includes revitalization of Dana Point Harbor. The Revitalization Project is a multi-phased project with total costs estimated at \$170,000 pending final project design approvals. The initial phase of improvements is expected to be funded with a combination of bond proceeds, State Department of Boat and Waterways (DBW) loans (\$24,500), and reserve funds dedicated for the Harbor Improvement Plan. The OC Dana Point Harbor and County Executive Office Public Finance staff are expected to finalize the financial strategy for the complete Revitalization Plan by mid-2013.

Relevant Financial Policies

To achieve the goal of providing outstanding, cost-effective regional public services, the County of Orange applies sound management practices and policies that enhance the quality of life of its citizens. Such financial management practices have been identified by the Government Finance Officers Association of the United States and Canada (GFOA) and recognized by Fitch Ratings as best practices that promote financial soundness, efficiency in government and solvency in public finance. The following table summarizes the County's financial management practices. For additional information regarding the County's financial management practices, visit the CEO Finance and Budget website at www.ocgov.com/financials/finance.asp.

Relevant Financial Policies		
Department Business Plans	Each County Department prepares a biennial Business Plan. Business Plans communicate the value the department brings to the community and outcome indicators that measure performance. A business plan sets forth long-term goals, operational and budget challenges, strategies for overcoming challenges and progress towards achieving those goals during the coming year.	
Multi-year Strategic Financial Plan	The County's Strategic Financial Plan is based on a five-year financial forecast and includes a 10-year analysis of operating costs in cases where new programs and facilities are recommended to ensure the ability to pay for long-term operational costs. Performance measures and strategies within department business plans are a key element of the Strategic Financial Plan process.	
Five-Year Capital Improvement Plan	The County's five-year Capital Improvement Plan (CIP) is a long-term list of significant projects funded by the General Fund in the Capital Projects budget. It also includes the five-year capital program for non-General Fund agencies. The CIP aids the County in its assessment of the best use of funds available in order to establish and prioritize its capital asset goals, while maintaining long-term financial stability.	
Quarterly Budget Report	The County Executive Office issues quarterly budget reports that provide the Board, County departments, members of the public, and other interested parties with an overview of the current status of budgeted revenues and expenditures, total budgeted positions and various departmental issues requiring adjustments to the County's budget.	
Annual Budget Policies and Guidelines	The Annual Budget reflects the County's disciplined approach to fiscal management and is consistent with the County's Strategic Financial Planning process. Department budgets are consistent with the priorities and operations plans contained in the Strategic Financial Plan and the approved departmental business plans. Departments use these planning processes, along with outcome indicators, to evaluate programs and redirect existing resources as needed for greater efficiency to reduce costs and minimize the need for additional resources.	
Fund Balance Reserve Policy	The County General Fund currently contains formal reserves, appropriations for contingencies, appropriated reserve-type funds, and reserves held by others. The purpose of these reserves is to protect community programs and services from temporary revenue shortfalls and provide for unpredicted, sudden and unavoidable one-time expenditures.	
Contingency Planning Policy	The County General Fund maintains a Reserve for Contingencies which was established through the Strategic Financial Plan (SFP) process. The target amount for this reserve is 15% of ongoing annual general purpose revenues (excludes fund balance available and one-time amounts and transfers), or \$95,769. This compares to the Government Finance Officers Association (GFOA) guidelines for funding contingencies at 15% or higher. The June 30, 2012 balance is \$61,300, approximately \$34,469 below the revised target. In addition to the Reserve for Contingencies, the County budgets an annual Appropriation for Contingencies of no less than \$5,000 in the General Fund, which may be used for significant unanticipated emergencies, catastrophes, one-time expenditures and opportunities.	
Debt Disclosure Practices	The County presents a set of disclosures in the County's adopted Budget document and the CAFR.	

	Relevant Financial Policies (Continued)		
Pay-as-you-go Capital Funding	The County's long-term practice has been to use pay-as-you-go funding for capital projects whenever possible. The use of systematic long range financial planning assists in making fiscal decisions such as debt vs. pay-as-you-go capital project financing. The Strategic Financial Plan forecasts sources of the County's revenue and operating expenses and incorporates a list of previously identified and prioritized projects that will benefit the citizens of the County. The financial planning for capital projects considers the County's limited funding sources, the capital and operating costs, useful life of projects, and good business practices.		
Credit and Debt Management Policy	The County's long-term practice has been to rapidly repay debt when practicable. The County's Credit and Debt Management Policy states that one of its most important goals and objectives is to continue efficient debt reduction strategies through refunding, defeasance, or purchase and cancellation of bankruptcy related debt to lower the financial burden on the General Fund.		
Public Financing Advisory Committee	The Public Financing Advisory Committee (PFAC) is responsible for the review, approval, modification or denial of debt financing proposals. No debt financing proposal is considered by the Board unless recommended in writing by the PFAC. The PFAC membership consists of the following: five public voting members, each representing a district, and three Ex-Officio County government members (the County Executive Officer (non-voting), the elected Treasurer-Tax Collector, and the elected Auditor-Controller).		
Audit Oversight Committee	The Audit Oversight Committee (AOC) oversees the quality of financial reporting activities, results of operations, internal controls, and planned and long-term commitments. The AOC also oversees and monitors County compliance with pertinent laws and regulations and applicable ethical standards, as well as conflicts of interest and fraud policies. The AOC membership consists of the following: the Chairman and Vice-Chairman of the Board, the elected Auditor-Controller, the County Executive Officer, the elected Treasurer-Tax Collector as Ex-Officio (non-voting), the Performance Audit Director as Ex-Officio (non-voting), and three public members from the private sector appointed by the Board. The public members shall be appointed by the Board for a term of four years and may be reappointed or removed by the Board.		
Treasury Oversight Committee	The Treasury Oversight Committee (the Committee) is responsible for reviewing and monitoring the annual Investment Policy Statement (IPS) prepared by the Treasurer. In addition, the Committee causes an annual audit of the Treasurer's compliance with the IPS. The Committee shall also investigate any and all irregularities in the treasury operation, which become known to the Committee. Annually, the Committee reviews the Treasurer's IPS, including all proposed amendments or modifications to the policy. The Treasurer then submits the IPS to the Board for approval, including any additions or amendments thereto. The TOC membership consists of the following: the elected Auditor-Controller or designee, the County Executive Officer or		
24/7 Fraud Hotline	designee, the elected County Superintendent of Schools or designee, and two members of the public. The members shall be nominated by the Treasurer and confirmed by the Board. The Fraud Hotline is part of an ongoing fraud detection and prevention effort. The Fraud		
	Hotline is intended for use by County employees, the general public, or vendors for reporting suspected waste, fraud, violations of County policy or misuse of County resources by vendors, contractors or County employees.		

<u>Credit and Debt Management Policy Strategies in Uncertain Financial Markets</u>

Ratings downgrades occurred for a variety of public and private entities. However, the County of Orange has not experienced any downgrades nor is the County on credit watch by any of the rating agencies. In June 2011, the County received the best available short-term ratings (MIG 1 by Moody's, and SP-1+ by S&P) for its 2011-12 Tax and Revenue Anticipation Note of \$150,000 and had its long-term issuer rating confirmed.

Major Initiatives

Water Quality: The County of Orange, Orange County Flood Control District (District), and 34 cities (collectively, the "Permittees") operate water quality programs pursuant to the National Pollutant Discharge Elimination System permits, issued under a section of the federal Clean Water Act. Permits are issued by two Regional Water Quality Control Boards covering Orange County for five-year terms. The County is the principal permittee under both permits. The most recent permits issued in 2009 imposed stricter, more detailed, requirements than previous municipal storm water permits to increase Permittee accountability, expand local regulatory oversight of the built environment, transform land development requirements, and include additional Total Maximum Daily Loads (TMDLs).

During 2011-12 the permittees completed development of a model Water Quality Management Plan and companion Technical Guidance Document to meet the Low Impact Development (LID) and hydromodification mitigation obligations for land development in the Santa Ana Regional Board area of Orange County. The significantly revised program was approved by the Santa Ana Regional Board and implementation of the revised program was initiated with significant training and outreach for permittee planning staff and the development industry. A companion program was also developed for the area of Orange County under the jurisdiction of the San Diego Regional Board but will be implemented at a later date based on different permit conditions.

The County's multi-year effort with the Santa Ana Regional Board, San Bernardino County, Riverside County and the Santa Ana Watershed Project Authority to review and update the water quality standards that are used to determine whether beaches and streams are unsafe because of pollution reached an important milestone with approval of Basin Plan amendments by the Santa Ana Regional Board. Additional approval by the State Water Resources Control Board, Office of Administrative Law and United States Environmental Agency is still required.

The permittees are continuing to invest in runoff reduction and treatment programs as well as watershed scale assessment and planning initiatives. One recently completed project included enhancements to the operation of the water quality treatment system to remove bacteria from Prima Deshecha Flood Control Channel upstream of Poche Beach in San Clemente. The system attained its highest operational efficiency to date during the important summer recreation season. At the watershed scale, a model Watershed Hydromodification and Infiltration Management Plan was developed for the Coyote Creek Watershed in north Orange County and Integrated Regional Water Management Plans were developed for the North and Central Watershed Management Areas of the County.

<u>Labor Agreements:</u> Most County employees are represented by sixteen bargaining units within seven labor organizations, the principal labor organization being the Orange County Employees Association ("OCEA"), which consists of the Community Services, County General, Office Services, Probation Services, Probation Supervisory Management, Sheriff Special Officers & Deputy Coroner, Supervisory Management, and Health Care Professional Units. All contracts are in the process of negotiations and County employees continue to work under the terms of their previous contract with no interruption.

AWARDS AND ACKNOWLEDGEMENTS

<u>GFOA Awards</u>: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its CAFR for the year ended June 30, 2011. This represents the County's 17th consecutive award. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both

generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report 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.

In addition, the County issued its ninth consecutive Popular Annual Financial Report (PAFR) titled the "OC Citizens' Report" for the year ended June 30, 2011. The County received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for this PAFR. The award is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to be awarded, a government must publish a PAFR that reflects the program standards of creativity, presentation, understandability and reader appeal. The "OC Citizens' Report" is available for viewing at http://egov.ocgov.com/ocgov/Auditor-Controller/Financial Statements.

<u>Acknowledgments</u>: We would like to express our sincere appreciation to County staff and the staff of the certified public accounting firm of Vavrinek, Trine, Day & Co., LLP. We hope this report will be of interest and use to those in county government, other governmental agencies, and the public interested in the financial activity of the County of Orange.

Respectfully submitted,

Jan E. Grimes, CPA

Chief Deputy Auditor-Controller Frank Kim, Interim Chief Financial Officer