

# AUDITOR-CONTROLLER COUNTY OF ORANGE

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December 6, 2004

The Citizens of Orange County:

The Comprehensive Annual Financial Report (CAFR) of the County of Orange, State of California, for the fiscal year ended June 30, 2004, 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 generally accepted accounting principles 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 the various funds of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

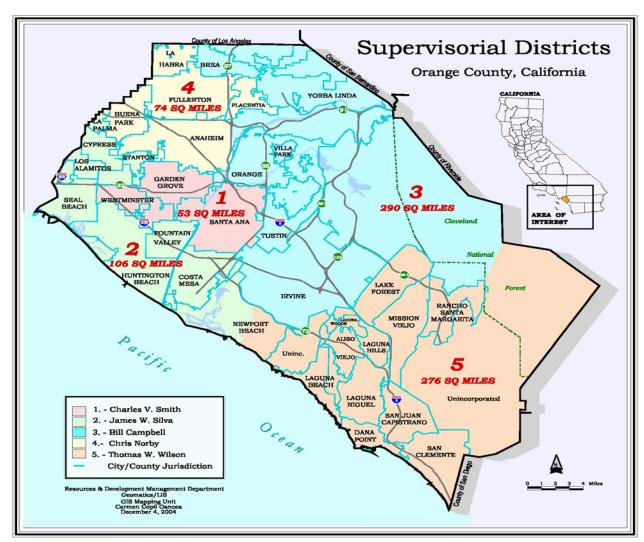
The CAFR was prepared to satisfy the financial reporting requirements for state and local governments issued by the Governmental Accounting Standards Board (GASB), specifically GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB 34), and subsequent related statements issued by GASB. GASB 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The CAFR has been audited by the independent certified public accounting firm of Macias Gini & Company LLP. The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the County of Orange for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall basic financial statement presentation. The independent certified public accounting firm concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County of Orange's financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information, which collectively comprise the basic financial statements, as of and for the fiscal year ended June 30, 2004, present fairly, in all material respects, the financial position, changes in financial position and cash flows, where applicable, of the County of Orange in conformity with generally accepted accounting principles.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, Findings and Questioned Costs, and the independent auditor's reports on internal control and compliance with applicable laws and regulations, are included in a separate annual publication. Copies of this CAFR, the Single Audit Report, the County Proposed and Final Budgets, booklets specifying the tax rates and assessed valuations of taxing agencies in Orange County, and financial reports of certain funds or functions for which the County has fiduciary responsibility, may be obtained from the office of the County Auditor-Controller.

#### PROFILE OF THE GOVERNMENT

The County of Orange, 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. Orange County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of approximately 3 million. It represents the second most populous county in the state, and ranks fifth in the nation.



The County of Orange 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 all other respects, the County is like a general law county. The County is governed by a five-member Board of Supervisors, who each serve four-year terms, and annually elect a Chairman and Vice-Chairman. The supervisors represent districts that are each equal in population. The district boundaries were revised effective September 14, 2001, incorporating the results of the 2000 census. A County Executive Officer (CEO) directly or indirectly oversees 22 County Departments, six of which have elected department heads. The preceding Supervisorial Districts map shows the boundaries of Orange County and the area governed by each member of the Board of Supervisors.

The County provides a full range of services, including countywide services, unincorporated area services, and contract services for cities. These services are outlined in the following table:

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

Unincorporated Area Services	Contract Services for Cities		
Animal Control	Animal Control		
Land Use	Law Enforcement		
Law Enforcement	Libraries		
Libraries	Public Works & Engineering		
Parks			
Public Works & Engineering			
Roads			
Surveyor			
Water Disposal Collection			

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 Orange County Children and Families Commission (OCCFC), 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 fiscal year ended June 30, 2004: the Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Financing Authority, Orange County Special Financing Authority, 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.A 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-agency 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 Statement for the General Fund and Major Special Revenue Funds are part of the Basic Financial Statements. For Refunding Bonds & Recovery Certificates of Participation and Debt Prepayment and Nonmajor Governmental Funds with appropriated annual budgets, this comparison is presented in the Supplementary Information 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; encumbrances outstanding at that time are reported as reservations of fund balance for the following year's budget. Additional information on the budgetary process can be found in Note 1.D in the Notes to the Basic Financial Statements.

The County of Orange Internet Site at <a href="http://www.oc.ca.gov">http://www.oc.ca.gov</a> provides extensive information about County government and its services to the citizens of Orange County and others who visit our web pages. Approximately 418,870 visits are made to the Orange County web site each month and those visitors view over 1.9 million pages of information. The County's website includes information about the Board of Supervisors, e-mail to Board offices, Board Agendas, County job listings, purchasing bid solicitations, County directories and general information, assessment appeals, links to court information and local court rules, voter information, County permits and forms, financial information such as the County tax rate book, the budget, and the five most recent CAFRs. The site also provides several online services, including the ability to listen to Board meetings live and archived, online public comments to Board agendas, County purchasing online, ordering birth, death and marriage certificates online, performing a fictitious business name search, and looking up election results and polling places. The County continues to improve the website by increasing citizen's ability to conduct business online with the County.

# **FACTORS AFFECTING ECONOMIC CONDITION**

## **Local Economy**

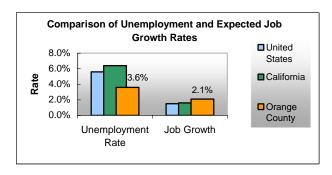
Two indicators of Orange County's economy are: (1) how well the local economy is performing relative to surrounding counties, the state and the nation (external indicators); and (2) how well the local economy is performing relative to its own historical trends (internal indicators). This section provides 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 routinely out-performs 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 countries in the world. Current external indicators show that despite the current sluggishness of the local economy, conditions in Orange County remain favorable relative to conditions in surrounding counties, the state and the nation.

Orange County's unemployment rate continues to be one of the lowest in the State and is below that of all surrounding Southern California counties, the state of California, and the nation (refer to Table 1).

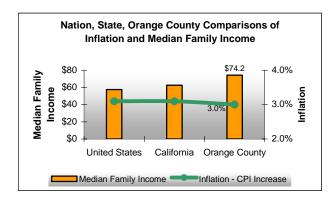
Table 1: Unemployment Rate (June 2004) Comparison

Primary Government Entity	Unemployment Rate			
1 milary Government Emily	(Percentage)			
United States	5.6			
California	6.4			
Los Angeles County	6.9			
Orange County	3.6			
Riverside County	5.8			
San Bernardino County	5.9			
San Diego County	4.2			



In addition, according to Chapman University, Orange County's job growth is expected to increase by 2.1% in 2005, resulting in 29,937 more jobs relative to 2004. This compares favorably, in percentage growth, with the State of California at 1.6% and the national level at 1.5% during the same time period.

Sources: State of California, Employment Development Department Economic & Business Review, Chapman University, June 2004



CPI at the state and national levels in 2005. Chapman University projects an increase of the CPI at the national level, state level, and county level as stated in Table 2.

Table 2: Increase of the CPI (2004)

United States	California	Orange County
3.1%	3.1%	3.0%

Inflation, as measured by the Consumer Price

Index (CPI), is expected to remain moderately low

in Orange County and to be slightly lower than the

Sources: Economic & Business Review, Chapman University, June 2004 U.S. Department of Housing and Urban Development, 2004

Median family incomes were adjusted ("re-benched") in 2003 by the U.S. Department of Housing and Urban Development (HUD) to comply with actual data collected during the 2000 Census. Orange County's adjusted HUD median family income is expected to be \$74.2 in 2004. Refer to Table 3 for comparison to other primary government entities.

Table 3: Median Family Income Comparison (\$)

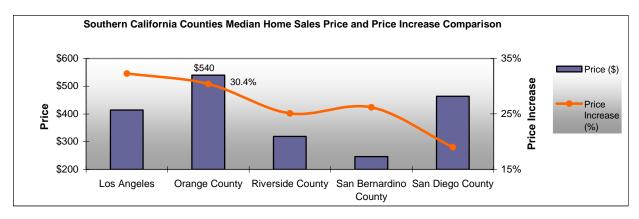
(+)			
United States	57.5		
California	62.5		
Los Angeles County	52.5		
Orange County	74.2		
Riverside County	54.3		
San Diego County	63.4		

According to DataQuick Information Systems, in June 2004, the median home sales price for new and existing homes in Orange County increased by 30.4% (relative to June 2003) and reached \$540.

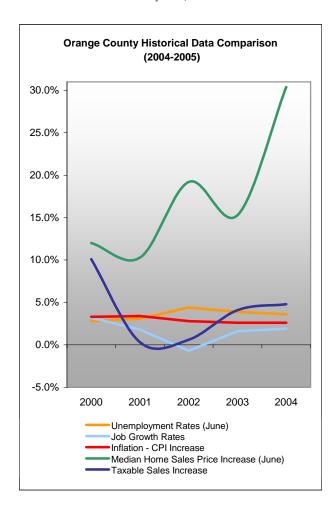
Compared to the surrounding counties, the increase in Orange County was not the highest one (refer to Table 4). Annual housing appreciation in Orange County, although not as great as in surrounding Southern California counties, has been rapid, despite a recent downturn in the local housing market. Moreover, the median sales price in Orange County continues to exceed all surrounding Counties by a substantial amount (refer to Table 4). For the future, Chapman University is projecting that while housing appreciation will slow down, housing affordability (compared to other parts of the country) will continue to remain low.

Table 4: Southern California Counties Median Home Sales Price Comparison

Primary	Median Home	Median Home
Government	Sales Price	Sales Price
Entity	Increase (%)	(\$)
Los Angeles	32.3	414
Orange County	30.4	540
Riverside County	25.1	319
San Bernardino County	26.2	246
San Diego County	19.0	464



Source: DataQuick Information Systems, June 2004



Sources: State of California, Employment Development Department Economic & Business Review, Chapman University, June 2004 DataQuick Information Systems, June 2004 In terms of historical indicators, current and projected indicators suggest that the recovery of the Orange County economy will be slow but steady in Comparisons of Orange County's 2005. unemployment rates from January 2004 through June 2004 were consistently favorable at 3.6% in January and February, 3.7% in March, 3.4% in April, 3.3% in May, and 3.6% in June 2004. Historical point-in-time unemployment rates in Orange County during the month of June of 2000. 2001, 2002, and 2004 show favorable recent trends (refer to Table 5). Job growth in Orange County has been steadily recovering from 2000 to 2004 (refer to Table 5). The projected job growth in Orange County is 2.1% in 2005. Comparisons of Orange County's historical CPI trends from 2000 to 2004, again, are relatively favorable (refer to Table 5). It is projected to be 3.0% in 2005 by Chapman Year-to-year home sales price University. increases in Orange County for the month of June from 2000 to 2004 indicate housing affordability will continue to remain low. Taxable sales in Orange County increased from 2000 to 2004. It is expected to increase 4.9% in 2005, forecasted by Chapman University. This compares to an increase of 4.6% for the State of California.

Table 5: Orange County Historical Data (percentage)

Historical Indicators/Year	2000	2001	2002	2003	2004
Unemployment Rates	2.8	3.1	4.4	3.9	3.6
Job Growth Rates	3.2	1.8	-0.7	1.6	1.9
		3.4	2.8	2.6	2.6
Median Home Sales Price Increase	1.2	10.3	19.2	15.3	30.4
Taxable Sales Increase	10.1	0.3	0.6	4.1	4.8

In summary, economic growth in Orange County continues to look favorable relative to surrounding counties, the State, and the nation. Moreover, projected trends suggest that the recovery of the local economy will be slow but steady during the balance of 2004 and throughout 2005. Chapman University issues economic forecasts twice each year in their Chapman Economic and Business Review; the next forecasts will be issued on December 8, 2004.

# **Water Quality**

The County and cities received two new area-wide municipal storm-water permits in January and February of 2002 from the California Regional Water Quality Control Boards covering Orange County. The County is the principal permittee under both permits. The new permits are much stricter and more detailed than previous municipal storm-water permits and also impose significant new requirements. The permittees are required to review new development plans and inspect projects to ensure incorporation of appropriate water quality protection measures (termed best management practices – BMP's), monitor stream, flood control channel and harbor and bay water quality, and report their activities and monitoring results to the Regional Water Quality Control Boards. The permits require collaborative water quality planning initiatives in all thirteen major watersheds in the County and direct the permittees to cooperate in appropriate regional and watershed water quality management programs. The County and cities must also determine and implement BMP's for public projects, commercial/industrial activities, construction sites, and municipal operations and maintenance activities.

Because of the importance of beach recreation to Orange County's economy and quality of life, the County and cities are investing heavily in runoff reduction and treatment programs. At the same time, the County is leading a regional coalition to review and update the water quality standards that are used to determine whether beaches and streams are unsafe because of pollution.

## **Long-Term Financial Planning**

Strategic Plan: In March 1997, the Orange County Board of Supervisors initiated a financial planning process that is a key component of the County's commitment to fiscal responsibility, accountability and efficiency. As a result, the County has produced six Strategic Financial Plans, the most recent being adopted by the Board on March 4, 2003. 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 to the extent that resources and requirements remain in balance over the next five years. 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. This plan provides the Board with a comprehensive long-term view that serves as a framework in which to fund public services to sustain the well-being of the community. The plan alerts the County to potential financial obstacles on the planning horizon and allows time to proactively plan ways in which to deal with those challenges successfully.

Early Debt Payment Plan: Over the past several years, the Board of Supervisors has set aside money from time to time to be used to reduce bankruptcy-related debt. The County now has approximately \$116,181 set aside for that purpose. The first optional redemption opportunity will be with the Refunding Recovery Bonds 1995 Series A in June 2005. The Board directed staff to engage certain financing professionals and analyze the bankruptcy-related debt and make recommendations for the most effective use of the set-aside funds. The Board also directed staff to investigate any other options to reduce bankruptcy-related debt

through potential refinancing, use of other reserves, use of debt service reserves available as a result of lower bond covenant requirements, and any other options which may be available. County staff will report back to the Board in the early part of calendar year 2005 with recommendations on options for the reduction of bankruptcy-related debt.

<u>Santa Ana River Mainstem Project:</u> The County is involved in the Santa Ana River Mainstem Project ("Project"). The Project is a major flood control project implemented and funded by the Federal Government - U.S. Army ("Government") and three local sponsors – the Orange County Flood Control District (OCFCD), San Bernardino County Flood Control District, and Riverside County Flood Control and Water Conservation District.

The purpose of the Project is to prevent the devastating damage caused by large-scale flooding of the Santa Ana River flood plain that can occur on the average of once every 190 years. The Santa Ana River flood plain is considered by the U.S. Army Corps of Engineers (COE) to constitute the worst flood threat west of the Mississippi River in terms of impacts to the population and property. A component of the initial project has been redesignated as the Prado Dam Project, which is being implemented and funded by the Government and OCFCD only through a separate project cooperation agreement (PCA). The Project involves a combination of flood channel improvements and the constructing of new channels in Orange, San Bernardino and Riverside counties, construction of the new Seven Oaks Dam in San Bernardino county, construction of improvements and protection at the Santiago retention basin and along the creek, raising the existing Prado Dam and increasing its flood flow outlet gates and reservoir capacity, along with several environmental mitigation related studies, habitat restoration and protection activities, recreation amenities, and preservation of historical sites and records.

The COE's estimated combined cost of all project components is \$1,400,000 with the OCFCD's cost share estimated to be \$413,000 for acquisition of real property rights, relocation (of roads, bridges, trails, and utilities), environmental mitigation, and cash contributions for construction. As of June 2004, the OCFCD has expended about \$232,000 on the Project. The construction of Seven Oaks Dam and most of the channel improvements in Riverside, San Bernardino and Orange counties have been completed. The relocation and protection of State Route (SR) 71 adjacent to Prado Dam (a joint OCFCD and Caltrans project) is complete. Construction to raise the Prado Dam embankments and install new outlet gates is underway. Construction of improvements and protection of SR 91 in the Santa Ana River Canyon is also underway. Several environmental mitigation studies and restoration and preservation projects are underway in all three counties. All property rights acquisition for the Seven Oaks Dam, along the lower SAR in Orange County up to Weir Canyon Road, are completed. Since approval of the PCA in February 2003, the OCFCD is actively acquiring property rights, subject to the availability of funding for the Project.

The Project has been authorized by the State Legislature for reimbursement of up to 70 percent of the local sponsors' expenses through the State Flood Control Subvention Fund, administered by the Department of Water Resources (DWR). To date, the OCFCD has submitted \$137,000 in claims and received \$121,000 in reimbursements. An additional \$25,000 in claims have been or are in the process of being prepared for submittal to the DWR. Once a claim is reviewed and approved by the DWR, 90 percent of the eligible expenditures can be paid if funds are available, with the remaining 10 percent paid after an audit by the State Controller's Office. The County does not accrue these claim amounts as revenue due to the uncertainty of DWR eligibility approval and due to the typical lengthy review and audit completion time periods after claim submission.

At this time, the OCFCD will not have sufficient funds to meet its entire cost share obligation for the Project primarily due to the rapid escalation in real estate costs and due to relocations and mitigation expenses that were not initially or fully contemplated in the COE's estimates. Therefore, reimbursements on past expenses through the State Flood Control Subvention Program are critical for project completion.

<u>Trial Court Facilities:</u> On September 30, 2002, Governor Gray Davis signed the Trial Court Facilities Act of 2002 (SB 1732). This landmark legislation shifts governance of California's more than 450 courthouse facilities from the counties to the State. The bill took effect on January 1, 2003; however, it is anticipated that the transition time will take up to 7 years. Although no transition date has been set for Orange County, the County has formed a transition task force and negotiating team to develop a plan that will identify the impacts and the steps necessary to ensure a smooth and timely transition. Some important areas under consideration are bonded indebtedness, County department staff within court facilities, deferred maintenance, and capital projects.

On May 4, 2004, the Board of Supervisors received the "County of Orange South Court Facility Program" and "County of Orange South Court Facility Master Plan" reports. The program option selected for further review and planning is for a 206,000 square foot courthouse to include 14 new courtrooms and the reuse of 4 existing courtrooms (18 total courtrooms). The project cost for the courtrooms and a parking structure are estimated to cost approximately \$78,800. Presently, staff of the County, Superior Court and the State Administrative Office of the Courts (AOC) are researching options for financing and constructing the project.

The Board authorized the design and environmental review to proceed concurrently with the analysis of the project financing and construction. The Schematic Design phase, estimated at \$1,400, is currently in process and scheduled for completion in June 2005. It is anticipated that the County's total funding commitment for South Court, including the aforementioned \$1,400 design cost, will not exceed \$29,400. The Strategic Financial Plan proposed a 30-year financing of the County's contribution. Since the financing options are under review, this proposal may be subject to future change.

# **Cash Management Policies and Practices**

Cash temporarily idle during the year was invested in the Orange County Investment Pools. The Treasurer maintains two separate investment pools, the Orange County Investment Pool (County Pool) and the Orange County Educational Investment Pool (Educational Pool), which is utilized exclusively by the County's school districts. California Government Code and the Treasurer's Investment Policy Statement (IPS) govern the investment of the County and Educational Pools.

The IPS is submitted annually to the Treasury Oversight Committee and the Board of Supervisors and authorizes investments in the following categories: U.S. Government securities, securities of federally sponsored agencies, domestic commercial paper, negotiable certificates of deposit, repurchase agreements, securities lending agreements, bankers acceptances, money market mutual funds, State of California or California Municipal debt, receivable-backed securities, and medium-term notes, funding agreements, and other "eligible securities" as defined under SEC Rule 2a-7 of the Investment Company Act of 1940. The IPS prohibits borrowing for investment purposes, reverse repurchase agreements, and volatile structured notes and derivatives. Investments are marked to market on a daily basis. If the net asset value of either the County Money Market Fund or the Educational Money Market Fund is less than \$.995 or greater than \$1.005 (in absolute dollar amount), portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

The IPS establishes a Money Market Fund and an Extended Fund as components of the County and Educational Pools. The maximum term of any investment in the Money Market Fund is thirteen months with the weighted average maturity limited to 90 days. The maximum term of any investment under the Extended Fund is three years, and the weighted average maturity is limited to 18 months. The Treasurer will determine, based on cash flow projections, the amount of money to invest in the Extended Fund.

In addition to "Pooled Cash/Investments," the Treasurer maintains individual specific investments for certain funds. These amounts comprise a small portion of the total investments managed by the Treasurer. The permitted investments for these funds are dictated by operation of federal or state statute, bond documents, and by mutual agreement with the investing entity.

The County's deposits are either insured by federal depository insurance or are collateralized with securities having a market value of at least 110 percent of the deposits in accordance with Section 53652 of the California Government Code. 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. Portfolio investments, other than money market mutual funds, are held by a third party custodian in the County's name and are classified in the category of lowest custodial credit risk as defined by the GASB.

At June 30, 2004, the weighted average maturity of the County Pool was 0.37 year and the Educational Pool was 0.32 year. The average daily investment balance of the County Pool and the Educational Pool amounted to \$2,640,000 and \$2,330,000, with an average effective yield of 1.27% and 1.20%, respectively, for the fiscal year ended June 30, 2004. The pools managed by the Treasurer have outperformed their designated benchmarks of the 90-day U.S. Treasury Bill and an average of four similar institutional money market funds.

#### **Risk Management**

The County has maintained a formal risk management program since the mid 1970's. Risk Management functions include: risk identification, avoidance, prevention, transfer, mitigation and financing programs. Risk financing is achieved through both self-insurance (risk retention) programs and the purchase of commercial insurance. Claims and litigation management also includes subrogation cost recovery activities.

Resources are budgeted in the Workers' Compensation Internal Service Fund and the Property, Casualty and Risk Internal Service Fund. These Internal Service Funds pay program costs including losses, expenses and administration costs. The cash reserves held in these internal service funds are restricted to the payment of current and future costs. Actuarial studies are performed annually to determine the funding requirements for these activities.

Commercial insurance coverage is purchased for the County's property and for certain specialized liability exposures related to airport, helicopter, watercraft, and dam operations. Additionally, fine arts, underground storage tank, boiler and machinery, crime bond policies, notary bonds, and excess insurance for liability are also purchased. All other liability exposures including general, auto and workers' compensation are self-insured. Various risk control techniques, including employee accident prevention training and regular worksite inspections, have been implemented to minimize losses.

#### AWARDS AND ACKNOWLEDGEMENTS

<u>GFOA Award</u>: The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its CAFR for the fiscal year ended June 30, 2003. 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 GFOA to determine its eligibility for another certificate.

In addition, the County issued its first Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2003. The County received the GFOA's 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 unit must publish a PAFR to reflect the program standards of creativity, presentation, understandability and reader appeal.

<u>Acknowledgments:</u> I would like to express my sincere appreciation to the staff from my office, other County departments and the staff of the certified public accounting firm of Macias Gini & Company LLP. I 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,

David E. Sundstrom, CPA Auditor-Controller