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December 2, 2005

To the Audit Oversight Committee
of the County of Orange, California

We have audited the following financial statements of the County of Orange (County) and certain departments and component units for the year ended June 30, 2005 and have issued our reports thereon dated as indicated below.

| <u>Reporting Entity</u> | <u>Audit Report Date</u> |
|---|--------------------------|
| Basic Financial Statements | December 2, 2005 |
| Orange County Special Financing Authority | October 3, 2005 |
| Orange County Development Agency | November 23, 2005 |
| John Wayne Airport | October 21, 2005 |
| Integrated Waste Management Department | October 17, 2005 |

We are currently performing the compliance audit of the County's federal award programs (the single audit) and plan to issue our reports thereon prior to March 31, 2006.

Professional standards require that we provide you with the following information related to our audits.

Our Responsibility under U. S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our letter dated June 8, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audits, we considered County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also will consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Item 3

AOC Meeting 2/23/06

As part of obtaining reasonable assurance about whether County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with OMB Circular A-133, we will examine, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Other Information in Documents Containing Audited Financial Statements

During the year, the County included certain fiscal year 2004 audited financial statements in the following documents: Official Statement for the \$419,755,000 Lease Revenue Refunding Bonds, Series 2005, \$146,000,000 Refunding Recovery Bonds, Series 2005A; John Wayne Airport Annual Report; and Integrated Waste Management Annual Report. The County expects to include the fiscal year 2005 financial statements in similar documents during 2006.

Our responsibility for other information in such documents containing the financial statements and our report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. Our procedures were limited to reading the document and comparing any information derived from the audited financial statements to such statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Significant Accounting Policies and Unusual Transactions

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our contract, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County, Special Financing Authority and John Wayne Airport are described in Note 1 and for Integrated Waste Management and the Development Agency are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements included insurance claims payable, landfill site closure/postclosure liability, fair value of investments, depreciation, and the estimated litigation and claims liability.

Management's estimates of the insurance claims payable are based on annual actuarially determined amounts. We evaluated the key factors and assumptions used by the consulting actuaries to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the landfill site closure/postclosure liability is based on the percentage of the landfill capacity used to date applied to the closure/postclosure cost estimates prepared by outside consultants, less actual costs incurred. We evaluated the key factors and assumptions used to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair value of investments is based on an outside service that provides pricing for the fair value of investments. We evaluated the information provided by this service in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of depreciation is based on an estimate of the useful lives of the related assets. We evaluated the capitalization policy and the useful life assigned to capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of litigation and claims are based on legal representations provided by County Counsel and attorneys utilized by the County. We evaluated the status of pending litigation to determine that the amounts recorded or disclosed are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County's financial reporting process (that is, cause future financial statements to be materially misstated). The significant audit adjustments proposed by us and recorded by the County are summarized on the attached Schedule A. In our judgment, these audit adjustments indicate matters that could have a significant effect on the County's financial reporting process.

In addition, the attached Schedule B summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Audit Oversight Committee of the County and County management and is not intended to be and should not be used by anyone other than these specified parties.

Mason, Jini & Company LLP

Certified Public Accountants
Los Angeles, California

**COUNTY OF ORANGE
SCHEDULE OF AUDIT ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

| | Debit | Credit |
|---|--------------|--------------|
| 1 GENERAL FUND | | |
| Due From Other Funds | \$ 2,479,000 | |
| Receivables | | \$ 2,479,000 |
| <i>To reclassify JWA receivables to due from other funds.</i> | | |
| 2 OTHER GOVERNMENTAL FUNDS - SPECIAL ASSESSMENT DISTRICT | | |
| Professional Services (General Government Function) | 5,129,658 | |
| Payment to Refunding Bond Escrow Agent | | 5,129,658 |
| <i>To reclassify Special Assessment District payment to refunding bond escrow agent to general government functional expenditure.</i> | | |
| 3 INTERNAL SERVICE FUNDS | | |
| Property & Casualty Risk | | |
| Due From Other Funds | 4,995,000 | |
| Insurance Premiums Revenue | | 4,995,000 |
| <i>To record amount due from IWMD to Property & Casualty Risk ISF for payment of a settlement.</i> | | |
| Property & Casualty Risk | | |
| Claims Expense | 4,995,000 | |
| Insurance Claims Payable | | 4,995,000 |
| <i>To record insurance claims payable.</i> | | |
| 4 INTEGRATED WASTE MANAGEMENT DEPARTMENT | | |
| Insurance Premiums Expense | 4,995,000 | |
| Due To Other Funds | | 4,995,000 |
| <i>To accrue reimbursement to Property & Casualty Risk ISF for payment of a settlement.</i> | | |
| Net Assets, Unrestricted | 6,288,837 | |
| Net Assets, Restricted | | 6,288,837 |
| <i>To reclassify unrestricted net assets to restricted net assets.</i> | | |

**COUNTY OF ORANGE
SCHEDULE OF PASSED ADJUSTMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

| | Debit | Credit |
|---|------------|------------|
| 1 INTERNAL SERVICE FUNDS AND GOVERNMENT-WIDE STATEMENTS (GOVERNMENTAL ACTIVITIES) | | |
| Unemployment Insurance Fund | | |
| Beginning Net Assets | \$ 767,142 | |
| Insurance Claims Liability | | \$ 767,142 |
| <i>To restate the beginning net assets due to understatement of insurance claims liability as of June 30, 2004.</i> | | |
| Expense | 877,000 | |
| Insurance Claims Liability | | 877,000 |
| <i>To increase insurance claims liability to reflect actuarial valuation.</i> | | |
| 2 GOVERNMENT-WIDE FINANCIAL STATEMENTS | | |
| GOVERNMENTAL ACTIVITIES | | |
| Beginning Net Assets | 17,887,272 | |
| Construction in Progress | | 17,887,272 |
| <i>To decrease construction in progress at June 30, 2004.</i> | | |