

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the County of Ventura's (County) Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2010. Please read it in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County (governmental and business-type) exceeded liabilities at the close of the 2009-10 fiscal year by \$1,775,081,000 (*net assets*). Of this amount, \$448,686,000 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$135,238,000 is restricted for specific purposes (*restricted net assets*), and \$1,191,157,000 *is invested in capital assets, net of related debt*.
- The government's total net assets increased by \$61,535,000 during fiscal year 2009-10, primarily from governmental activities. Net assets invested in capital assets, net of related debt, increased by \$33,984,000. The increase represents capital acquisitions net of depreciation plus retirement of related long-term debt. Restricted assets increased by \$28,745,000 primarily due to an increase of \$14,395,000 in restricted cash and investments for the Medical Center and unexpended aid from other governmental units in the Mental Health Services Act (MHSA) Fund. Unrestricted net assets decreased by \$1,194,000.
- As of June 30, 2010, the County governmental funds reported combined fund balances of \$485,899,000, an increase of \$19,140,000 in comparison with the prior year. Approximately 71 percent of the combined fund balances are available to meet the County's current and future needs (*unreserved fund balance*).
- At the end of the fiscal year, unreserved fund balance for the general fund was \$117,623,000, or 15 percent, of total general fund expenditures, reflecting a decrease from the prior fiscal year of \$11,798,000 principally due to an increase in reserves for encumbrances, advances to other funds, and other legal restrictions.
- The County's total long-term liabilities increased by \$37,380,000 in comparison with the prior year primarily due to the issuance of the 2009 Certificates of Participation.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

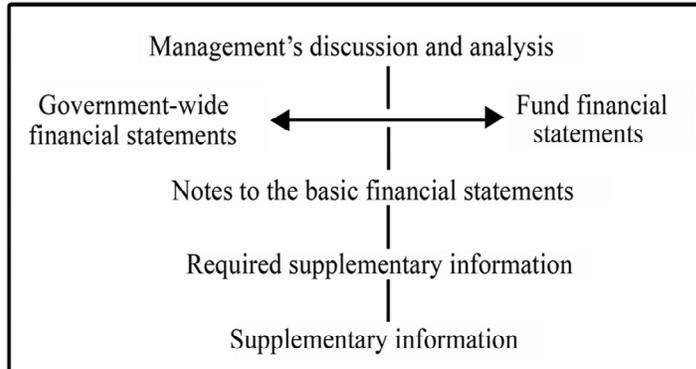
The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the basic financial statements

Required supplementary information, supplementary information, and statistical information are also included in the CAFR.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

The following diagram displays the interrelationships of this report:



Government-wide Financial Statements The financial statements created by Governmental Accounting Standards Board Statement No. 34 (GASB 34) and its related Statements, GASB 37 and 38, and Interpretation No. 6, are designed to provide readers with a broad overview of County finances in a manner similar to a private-sector business. The *statement of net assets* and *statement of activities* use the flow of economic resources measurement focus and accrual basis of accounting. The focus and basis emphasize the *long-term* view of the County's finances.

The *statement of net assets* presents information on all County assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements continue to include the following concepts:

- The government-wide statements include only those funds/entities representing resources available to the County. Therefore, the financial information for the trust fund for the Supplemental Retirement Plan (SRP) and the external investment trust are not included in the government-wide financial statements. The financial statements for the discretely presented component unit, Children and Families First Commission (Commission), are provided in a separate column.
- The statement of activities distinguishes functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a portion of their costs through user fees and charges (*business-type activities*).

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

- In addition, the statement of activities compares the direct expenses and program revenue for each governmental function and each segment of business-type activities. The general revenue (non-program revenue) must then cover the net cost of the various activities. The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation services, public assistance, and education. The business-type activities of the County include the hospital, airports, utilities, recreation, and medical insurance.
- Because the internal service funds primarily serve the governmental funds, the internal service funds' activity is eliminated with net balances also reported in the governmental activities column. Additional elimination of transfers and activity occur within the governmental activities and within the business-type activities.
- Component units are included in the basic financial statements and consist of legally separate entities for which the County is financially accountable. *Blended component units* have substantially the same governing board as the County or provide services entirely to the County and are reported on the fund statements and, if appropriate, as governmental activities on the government-wide financial statements. Examples include the Fire Protection District and the County's Watershed Protection Districts (flood control). The Commission is reported as a *discretely presented component unit* because the County Board appoints the commission board members to serve at will.

The government-wide financial statements can be found on pages 35 - 37 of this report.

Fund Financial Statements report on groupings of related funds and accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. A fund is a separate accounting classification with a self-balancing set of accounts. The County, like other state and local governments, uses fund accounting to demonstrate finance-related legal compliance.

There are several new treatments on the fund financial statements since implementation of GASB 34-emphasis on major funds, inclusion of all County agency funds within the applicable funds, and elimination of intra-fund activity.

- The fund financial statements emphasize *major funds* as determined by minimum criteria set forth in GASB 34 with separate columns for each major fund. The non-major funds are presented in an aggregated single column on the governmental funds financial statements. There are four major governmental funds: the General Fund, Roads, Watershed Protection Districts, and the Fire Protection District. There are three major enterprise funds: Medical Center, Department of Airports and Waterworks Districts. Individual fund data for each of the non-major funds is provided in the form of *combining statements* in the supplementary information section.
- The GASB 34 fund financial statements include all balances of County funds held in agency funds with cash and other accounts recorded within the related fund. The remaining agency funds included in the fund financial statements contain amounts due to others outside of the government, such as property taxes to be distributed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

All of the funds of the County can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. The governmental funds include the general fund, special revenue funds, debt service funds, capital projects funds, and permanent fund. However, unlike the government-wide financial statements, governmental funds financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. The focus and basis emphasize the *near-term inflows and outflows of spendable resources*, as well as the balances of *spendable resources available* at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

The County maintains over sixty individual governmental funds in its financial system and presents them grouped by related activities as twenty-eight separate governmental funds on this report. The equity for fund financial statements continues to be displayed as reserved and unreserved fund balance. Purchase of capital assets and payment of principal on debt continue to be expended on fund financial statements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds financial statements can be found on pages 38 - 44 of this report.

Proprietary funds are maintained in two fund types: enterprise funds and internal service funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for the operations of the Medical Center, Department of Airports, Waterworks Districts, Parks Department, Channel Islands Harbor, Ventura County Health Care Plan, and Oak View District. Over twenty enterprise funds are reported in the County's financial system and grouped by related activities as seven enterprise funds on this report. The major funds are presented in the proprietary fund financial statements with detail of non-major funds provided in the combining statements in the supplementary information section.

Internal service funds are used to accumulate and allocate costs for services provided to the County's various departments. The County uses internal service funds to account for its public works services, heavy equipment, transportation, general insurance (liability and workers' compensation), information technology services, general services, employee benefits insurance, and personnel services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The County's eight internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the *combining financial statements* in the supplementary information section.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The proprietary funds financial statements can be found on pages 45 - 48 of this report.

Fiduciary funds, including the *trust and agency funds*, are used to account for resources held for the benefit of parties outside the government. Trust funds consist of the SRP pension plan and the Investment Trust Fund, which includes external users of the County's investment pool, the primary participant being the schools. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting basis used for trust and agency funds is accrual, much like that used for proprietary funds. Agency funds are held for others and report only assets and liabilities.

The fiduciary funds financial statements can be found on pages 49 - 50 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These informative notes can be found on pages 51 - 99 of this report and are also itemized in the Table of Contents.

Required Supplementary Information includes the SRP schedules of funding progress and employer contributions, which provide trend data on the relationship between the actuarial value of plan assets and the related actuarial accrued liability and on the annual required contribution and the percent of annual required contribution recognized as employer contributions in the statement of changes in plan net assets. In addition, budgetary schedules for the major general and special revenue funds are included.

The County adopts an annual appropriated budget for its governmental funds as required by Government Code. In the required supplementary information section, a budgetary comparison schedule is provided for all the major general and special revenue funds to demonstrate compliance with the final budget. Due to the large number of funds and departments, a separate Departmental Budget Report of Revenues and Expenditures – Budget and Actual on a Budgetary Basis has been prepared. The separate report is at the department/budget unit, function, and object level for those funds for which the County is legally required to adopt a budget. This document is available from the Auditor-Controller's Office, 800 South Victoria, Ventura, CA 93009-1540, or on the County website at: <http://portal.countyofventura.org/portal/page/portal/auditor/FINANCIALBUDGET%20REPORTS>.

Required supplementary information can be found on pages 101 - 110 of this report.

Supplementary Information includes the combining and individual governmental, enterprise, internal service, and fiduciary fund statements, budgetary comparison schedules for all non-major governmental funds for which the County is legally required to adopt a budget, and information on capital assets used in the operation of governmental funds.

Supplementary information can be found on pages 111 - 178 of this report.

Statistical Information is provided beginning on page 179 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Government-wide Summary of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$1,775,081,000 at the close of the most recent fiscal year.

A summary of net assets is as follows:

Summary of Net Assets June 30, 2010 and 2009 (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change
	2010	2009	2010	2009	2010	2009	
Assets:							
Current and other assets	\$ 1,001,721	\$ 976,772	\$ 135,865	\$ 121,986	\$ 1,137,586	\$ 1,098,758	4%
Capital assets	1,063,135	1,054,281	256,194	215,605	1,319,329	1,269,886	4%
Total assets	<u>\$ 2,064,856</u>	<u>\$ 2,031,053</u>	<u>\$ 392,059</u>	<u>\$ 337,591</u>	<u>\$ 2,456,915</u>	<u>\$ 2,368,644</u>	4%
Liabilities:							
Current and other liabilities	\$ 279,692	\$ 288,249	\$ 37,133	\$ 39,220	\$ 316,825	\$ 327,469	(3)%
Long-term liabilities	268,434	270,737	96,575	56,892	365,009	327,629	11%
Total liabilities	<u>548,126</u>	<u>558,986</u>	<u>133,708</u>	<u>96,112</u>	<u>681,834</u>	<u>655,098</u>	4%
Net assets:							
Invested in capital assets, net of related debt	999,078	980,710	192,079	176,463	1,191,157	1,157,173	3%
Restricted net assets	115,570	101,311	19,668	5,182	135,238	106,493	27%
Unrestricted net assets	402,082	390,046	46,604	59,834	448,686	449,880	-
Total net assets	<u>1,516,730</u>	<u>1,472,067</u>	<u>258,351</u>	<u>241,479</u>	<u>1,775,081</u>	<u>1,713,546</u>	4%
Total liabilities and net assets	<u>\$ 2,064,856</u>	<u>\$ 2,031,053</u>	<u>\$ 392,059</u>	<u>\$ 337,591</u>	<u>\$ 2,456,915</u>	<u>\$ 2,368,644</u>	4%

Net assets include three components: *Invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.*

A significant component of the County's net assets totaling \$1,191,157,000 (67 percent) reflects the County's investment in capital assets, net of accumulated depreciation/amortization (land, easements, construction in progress, land improvements, structures and improvements, equipment, vehicles, software, and infrastructure), less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another component of the County's net assets, restricted net assets of \$135,238,000 (8 percent), represents resources that are subject to external restrictions on how they may be used. Trust agreements relating to long-term debt restrict certain amounts for debt service. In addition, externally restricted funding received in advance of expenses are also reported as restricted net assets. Therefore, these net assets are not available for other uses by the County.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The third portion of the County's net assets represents unrestricted net assets of \$448,686,000 (25 percent), which may be used to meet the County's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County reported positive balances in all three categories of net assets, both for the County as a whole, as well as for its separate governmental and business-type activities. The County's net assets increased by \$61,535,000. Net assets for governmental and business-type activities increased by \$44,663,000 and \$16,872,000, respectively.

General revenues for governmental activities decreased by \$30,887,000, primarily from unrestricted interest and investment earnings. Program revenues increased by \$19,518,000; \$11,224,000 was due to increased capital grants and contributions. Program expenses increased by \$11,694,000, or 1 percent, primarily due to increases in public assistance and public ways and facilities, offset by a decrease in public protection.

The increase in net assets attributable to business-type activities resulted principally from net subsidies from the General Fund to the Medical Center. Program revenues increased \$23,308,000 primarily in charges for services in the Medical Center. Program expenses increased by \$13,420,000, or 4 percent, for all activities, except for the Parks Department and Channel Islands Harbor, with the Medical Center accounting for 88 percent of the increase. Additional information is provided on pages 30-31 of this report.

Government-wide Summary of Activities

The following table depicts the revenue, expenses, and changes in net assets for governmental and business-type activities. The major changes in revenue for the County as a whole was an increase in charges for services and capital grants and contributions and decreased interest and investment earnings. Charges for services showed an increase of \$23,415,000, or 5 percent, followed by capital grants and contributions with an increase of \$16,725,000, or 70 percent, when compared to the prior year, while interest and investment earnings decreased by \$18,995,000, or 89 percent. Additional information on major revenue streams is provided on pages 25-27.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

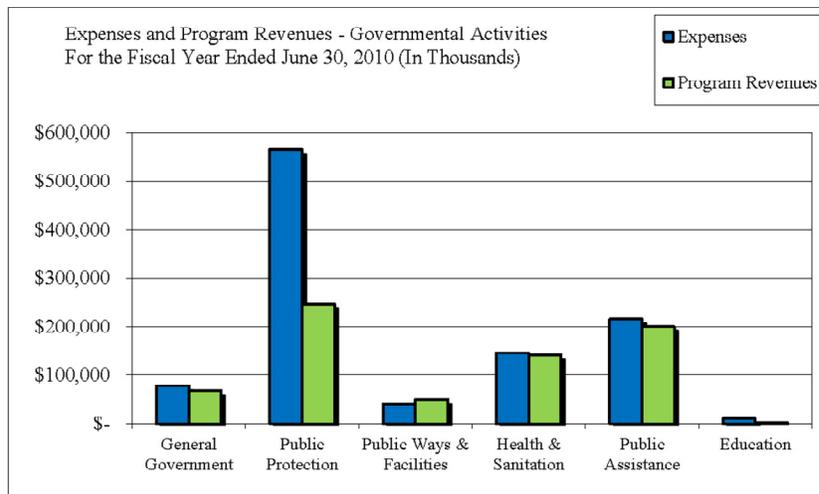
Summary of Activities
For the Fiscal Years Ended June 30, 2010 and 2009
(In Thousands)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2010	2009	2010	2009	2010	2009	
Revenues:							
Program revenues:							
Charges for services	\$ 236,251	\$ 230,284	\$ 301,193	\$ 283,745	\$ 537,444	\$ 514,029	5%
Operating grants and contributions	441,314	438,987	370	11	441,684	438,998	1%
Capital grants and contributions	29,404	18,180	11,082	5,581	40,486	23,761	70%
General revenues:							
Property taxes	389,675	396,718	-	-	389,675	396,718	(2)%
Other taxes	10,679	12,286	-	-	10,679	12,286	(13)%
Aid from other governmental units	22,457	28,206	-	-	22,457	28,206	(20)%
Interest and investment earnings	1,654	18,931	710	2,428	2,364	21,359	(89)%
Other	19,258	18,469	-	-	19,258	18,469	4%
Total revenues	<u>1,150,692</u>	<u>1,162,061</u>	<u>313,355</u>	<u>291,765</u>	<u>1,464,047</u>	<u>1,453,826</u>	1%
Expenses:							
General government	77,932	77,753	-	-	77,932	77,753	-%
Public protection	566,385	577,497	-	-	566,385	577,497	(2)%
Public ways and facilities	41,310	32,370	-	-	41,310	32,370	28%
Health and sanitation services	145,726	142,191	-	-	145,726	142,191	2%
Public assistance	216,528	203,658	-	-	216,528	203,658	6%
Education	10,754	11,504	-	-	10,754	11,504	(7)%
Interest on long-term debt	6,080	8,048	-	-	6,080	8,048	(24)%
Medical Center	-	-	259,494	247,713	259,494	247,713	5%
Department of Airports	-	-	7,393	7,386	7,393	7,386	-%
Waterworks - Water and Sewer	-	-	23,619	23,491	23,619	23,491	1%
Parks Department	-	-	4,177	4,524	4,177	4,524	(8)%
Channel Islands Harbor	-	-	7,025	8,916	7,025	8,916	(21)%
Health Care Plan	-	-	35,854	32,144	35,854	32,144	12%
Oak View District	-	-	235	203	235	203	16%
Total expenses	<u>1,064,715</u>	<u>1,053,021</u>	<u>337,797</u>	<u>324,377</u>	<u>1,402,512</u>	<u>1,377,398</u>	2%
Excess (deficiency) before transfers	85,977	109,040	(24,442)	(32,612)	61,535	76,428	(19)%
Transfers	<u>(41,314)</u>	<u>(41,669)</u>	<u>41,314</u>	<u>41,669</u>	-	-	-%
Change in net assets	44,663	67,371	16,872	9,057	61,535	76,428	(19)%
Net assets - July 1, 2009	<u>1,472,067</u>	<u>1,404,696</u>	<u>241,479</u>	<u>232,422</u>	<u>1,713,546</u>	<u>1,637,118</u>	5%
Net assets - June 30, 2010	<u>\$ 1,516,730</u>	<u>\$ 1,472,067</u>	<u>\$ 258,351</u>	<u>\$ 241,479</u>	<u>\$ 1,775,081</u>	<u>\$ 1,713,546</u>	4%

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Governmental activities. Governmental activities as reflected in the Statement of Activities increased the County's net assets by \$44,663,000, thereby accounting for 73 percent of the total growth in the County's net assets. The statement of activities displays the direct expenses and the program revenues for the governmental and business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: 1) charges paid by the recipients of goods or services offered by the programs, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including almost all taxes, are presented as general revenues. Sales tax and vehicle license fee monies for health and welfare realignment and public safety are defined as program revenue.

The bar chart below depicts the relationships of the governmental activities direct expenses to program revenues:



Revenues. Total revenues from governmental activities decreased by 1 percent from the prior year.

- Operating grants and contributions are revenues earned from entities outside of the County, primarily state and federal agencies, and are generally restricted to one or more specific programs. In 2009-10, the County reported \$441,314,000 in operating grants and contributions, representing the largest revenue source for governmental activities. Public assistance, public protection, and health and sanitation services received 90 percent of this funding source in fiscal year 2009-10. Operating grants and contributions provided 63 percent of total program revenues in the current year, a decrease of 1 percent from the prior year. Although operating grants and contributions declined as a percent of total program revenues, public assistance programs increased. MSHA revenue in the health and sanitation services function also increased, but was offset by decreases in other state programs.
- Charges for services are revenues earned from providing goods, services, or privileges to external customers. Fines, forfeitures, and penalties and licenses, permits, and franchises are also reported as charges for services. Public protection generated \$128,226,000, or 54 percent, of the total of \$236,251,000. Among the major sources are contracted law enforcement services provided by the Sheriff's Department to several cities, emergency and contract services performed by the Fire Protection

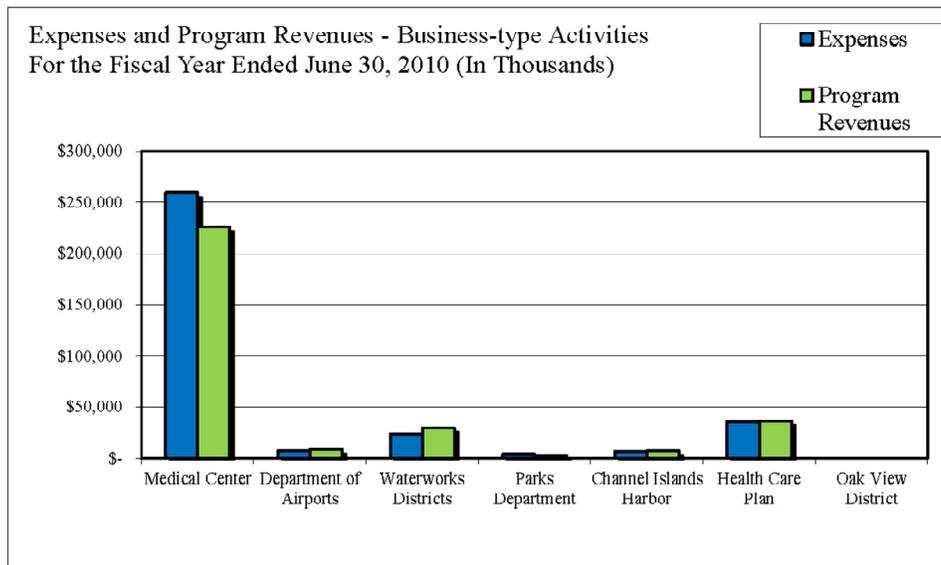
**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

District for various governmental agencies, and various assessments generated by the Watershed Protection Districts. Charges for services provided 33 percent of total program revenues in 2009-10, the same as in the prior year.

- Capital grants and contributions of \$29,404,000 represented the smallest source of program revenues in 2009-10 at 4 percent of total program revenues.
- General revenue for governmental activities primarily consisted of taxes and unrestricted aid from other governmental units. Property tax revenue is the largest source of general revenue with \$389,675,000 reported in 2009-10, decreasing 2 percent from 2008-09, due to declining assessed values of real property. Unrestricted aid from other governmental units decreased \$5,749,000 from the prior year comprising 5 percent of general revenues.

Expenses. Total program expenses for governmental activities were \$1,064,715,000 for the current fiscal year as compared to \$1,053,021,000 for the prior fiscal year, an increase of 1 percent. Public protection at \$566,385,000 accounted for 53 percent of total expenses for governmental activities. Public assistance expenses were \$216,528,000, or 20 percent, followed by health and sanitation services at \$145,726,000, or 14 percent, general government at \$77,932,000, or 7 percent, and various other costs of \$58,144,000, or 6 percent, of total expenses. All functions of governmental activities except public protection, education, and interest on long-term debt reported increases in expenses. The biggest single factor was an increase in public assistance of \$12,870,000 primarily due to the increased cost of public assistance programs.

Business-type activities. Business-type activities increased net assets by \$16,872,000, or 27 percent, of the total growth in the County’s net assets, primarily from General Fund subsidies. The bar chart below depicts the relationships of the business-type activities direct expenses to program revenues:



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Revenues. The County has three major business-type activities: the Medical Center, Department of Airports, and Waterworks - Water and Sewer. Business-type activities recover a significant portion of their costs through user fees and charges. For the current year, 96 percent, or \$301,193,000, of total program and general revenues were generated from charges for services, as compared to the prior year's, 97 percent, or \$283,745,000. The Medical Center accounted for 72 percent of total program revenues for business-type activities at \$226,035,000, an increase of 9 percent from the prior fiscal year. The Health Care Plan accounted for 12 percent of total program revenues, up 9 percent from the prior fiscal year. The Waterworks Districts' combined water and sewer activities generated 10 percent of total program revenues, and all other business-type activities accounted for the remaining 6 percent.

Expenses. Total expenses for business-type activities were \$337,797,000 in 2009-10 compared to \$324,377,000 in 2008-09, representing an increase of about 4 percent. Up from the prior year, about 77 percent of total expenses, or \$259,494,000, were incurred by the Medical Center. The Health Care Plan and Waterworks - Water and Sewer activities, at \$59,473,000, accounted for 18 percent of the total cost. The remaining 5 percent of expenses were incurred by the Department of Airports, Parks Department, Channel Islands Harbor, and the Oak View District business activities, with a combined total of \$18,830,000.

Increased salaries and benefits and services and supplies were due to higher patient volumes and inflation at the Medical Center. These costs, which rose by 5 percent from 2008-09, contributed to the Medical Center's increase in total expenses when compared to the prior year. The other business-type activities, except for Parks Department and Channel Islands Harbor, also reported increases in expense.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The County's general government functions are accounted for in the County's general, special revenue, debt service, capital projects, and permanent funds. Included in these funds are the special districts governed by the Board of Supervisors (Board). The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. Types of major governmental funds reported by the County include the General Fund, Roads Fund, Watershed Protection Districts, and the Fire Protection District.

At June 30, 2010, the County's governmental funds reported combined fund balances of \$485,899,000, an increase of \$19,140,000 from the prior year. Approximately 71 percent of the combined fund balances or \$344,308,000, are unreserved and available to meet the County's current and future needs. A significant portion of these unreserved fund balances, \$221,628,000, are designated by the Board for uses in the next fiscal year, such as contingencies, capital asset acquisition and replacement, health care, and future year financing needs.

Revenues for governmental functions totaled \$1,145,728,000 in the year ended June 30, 2010, representing a decrease of about 2 percent from the fiscal year ended June 30, 2009, largely attributable to decreases in revenues from use of money and property, taxes, and aid from other governmental units, offset by increased fines, forfeitures and penalties. Expenditures, at \$1,073,985,000, increased 0.5 percent from the fiscal year ended June 30, 2009, with increases in public assistance and public ways and facilities, offset by decreases in public protection.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

GENERAL FUND

At June 30, 2010, the General Fund, the County's principal operating fund, had an unreserved fund balance of \$117,623,000, of which \$108,818,000, or 93 percent, was designated for future years. Fund balance may be designated for purposes beyond the current year; however, designated fund balance is available for appropriation at any time. The most significant designations are \$81,290,000 for subsequent year financing needs and \$18,713,000 for health care. Reserved fund balance of \$96,139,000, or 45 percent of total fund balance, represents resources that are not available for expenditure because it is reserved for encumbrances, advances and long-term receivables, other assets, externally imposed restrictions, and a general reserve established for legally declared emergencies.

Total fund balance was \$213,762,000, increasing \$8,667,000 when compared to the prior fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 15 percent of total expenditures, while total fund balance represents 28 percent of the same amount, compared to 16 percent and 26 percent in the prior year, respectively.

ROADS FUND - SPECIAL REVENUE FUND

This fund accounts for planning, design, construction, maintenance, and administration of County roads. It also engages in traffic safety and other transportation planning activities. Revenues consist primarily of state and federal grants and the County's share of state highway use taxes and sales taxes. At June 30, 2010, this fund had an unreserved fund balance of \$58,028,000, of which \$10,477,000 was designated by the Board for future year financing needs. The reserved fund balance of \$5,665,000 decreased by \$14,799,000 compared to the prior fiscal year, primarily due to a decrease in encumbrances for expenditures related to the Lewis Road Widening Project to accommodate increased traffic from the opening of California State University Channel Islands. Total fund balance at June 30, 2010 was \$63,693,000.

WATERSHED PROTECTION DISTRICTS - SPECIAL REVENUE FUND

The function of this fund is the control of flood and storm waters, and the conservation of such waters for beneficial public use. Unreserved fund balance at June 30, 2010 was \$52,066,000, including \$17,453,000 designated by the Board primarily for watershed protection projects and future year financing needs, which decreased by \$1,700,000 when compared with the prior fiscal year unreserved fund balance of \$53,766,000, largely due to decreased revenue. Reserved fund balance of \$10,402,000 increased over the prior year balance by \$40,000 due to an increase in encumbrances. Total fund balance at June 30, 2010 was \$62,468,000.

FIRE PROTECTION DISTRICT - SPECIAL REVENUE FUND

The Fire Protection District provides fire protection to the unincorporated areas of the County, as well as the cities of Camarillo, Moorpark, Ojai, Port Hueneme, Simi Valley, and Thousand Oaks. Support is derived principally from property taxes. This fund had an unreserved fund balance of \$80,913,000, of which \$58,336,000 was designated by the Board for capital asset acquisitions and replacements and future year financing needs. Reserved fund balance of \$17,948,000 increased by \$8,979,000 compared to the prior fiscal year, primarily due to an increase in encumbrances related to the Simulcast Radio Equipment Project, the construction of a new Fire Station No. 43 in Simi Valley, and capital equipment purchases.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

NON-MAJOR GOVERNMENTAL FUNDS

Other governmental funds had unreserved fund balances totaling \$35,678,000, including designated fund balances for various projects and future year financing needs of \$26,544,000.

Additional information on reserved and designated fund balances is provided in Note 11 of the Notes to the Basic Financial Statements.

The following schedule presents a summary of revenues and other financing sources, expenditures and other financing uses, and net changes in fund balances for the County's major and non-major funds for the current and previous fiscal years:

Governmental Funds
Comparative Schedule of Revenues, Expenditures, and Changes in Fund Balances
For the Fiscal Years Ended June 30, 2010 and 2009
(In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances		Increase (Decrease) Change
	2010	2009	2010	2009	2010	2009	
General Fund	\$ 840,717	\$ 869,841	\$ 832,050	\$ 854,475	\$ 8,667	\$ 15,366	\$ (6,699)
Roads	50,567	39,927	44,023	33,217	6,544	6,710	(166)
Watershed Protection Districts	33,396	41,798	35,056	39,644	(1,660)	2,154	(3,814)
Fire Protection District	125,803	141,554	115,444	119,258	10,359	22,296	(11,937)
Non-major funds	141,587	102,686	146,357	92,719	(4,770)	9,967	(14,737)
Total	<u>\$ 1,192,070</u>	<u>\$ 1,195,806</u>	<u>\$ 1,172,930</u>	<u>\$ 1,139,313</u>	<u>\$ 19,140</u>	<u>\$ 56,493</u>	<u>\$ (37,353)</u>

GENERAL FUND

Aid from other governmental units, taxes, and charges for services comprise 92 percent of total revenues. Taxes decreased by \$4,684,000, or 2 percent, primarily due to decreased property tax. Aid from other governmental units decreased by \$21,974,000, or 6 percent, primarily due to decreased Medi-Cal, mental health, SB 90, and RDA passthrough revenue. Charges for services rose by \$874,000, or 1 percent, as the cost to provide such services increased largely due to inflation and service level related changes.

ROADS

Fund balance increased at June 30, 2010, by \$6,544,000, compared with an increase in the prior year of \$6,710,000. The increase in fund balance was principally due to the receipt of Prop 1B (Transportation Bond) funds. In addition to the increase in revenues and other financing sources of \$10,640,000, expenditures and other financing uses in 2009-10 increased by \$10,806,000 compared to the prior year, primarily due to an increase in costs for various construction projects.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

WATERSHED PROTECTION DISTRICTS

Fund balance decreased by \$1,660,000 in 2009-10, compared with an increase in the prior fiscal year of \$2,154,000. Revenues and other financing sources in 2009-10 of \$33,396,000 were less than revenues and other financing sources in 2008-09 of \$41,798,000 by \$8,402,000, primarily due to a decrease in disaster reimbursements related to the storms of 2005. Receivables of disaster-related revenues of \$1,821,000 continue to be reported as deferred revenue in the Balance Sheet - Governmental Funds because receipt is not expected within the County's six-month availability period. Expenditures and other financing uses in 2009-10 of \$35,056,000, decreased by \$4,588,000 when compared with the prior year, in part due to decreased capital expenditures.

FIRE PROTECTION DISTRICT

The District's fund balance increased by \$10,359,000, compared to an increase of \$22,296,000 in 2008-09. Revenues and other financing sources at June 30, 2010 totaled \$125,803,000, a decrease of \$15,751,000 from the prior fiscal year, primarily due to a decrease in charges for services. Expenditures and other financing uses were \$115,444,000, decreasing by \$3,814,000 when compared to 2008-09, in part due to a decrease in capital expenditures.

NON-MAJOR GOVERNMENTAL FUNDS

Fund balances at June 30, 2010, decreased by \$4,770,000, compared with a prior year increase of \$9,967,000. The decrease was attributable primarily to refunding of debt, issuance of debt, and a major capital project in County Service Area No. 34 that is funded by a State Revolving Fund Loan on a reimbursement basis, offset by increased Mental Health Services Act revenue.

Proprietary Funds. The County's proprietary funds provide the same type of information found in the government-wide business-type activity financial statements, but in more detail. The table below depicts current year and prior year Enterprise Fund actual revenues, expenses, transfers, and changes in net assets:

Summary of Revenues, Expenses, Transfers and Changes in Fund Net Assets
Enterprise Funds
For the Fiscal Year Ended June 30, 2010
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 224,877	\$ 4,941	\$ 23,811	\$ 47,322	\$ 300,951
Operating expenses	<u>(256,998)</u>	<u>(7,207)</u>	<u>(23,335)</u>	<u>(47,131)</u>	<u>(334,671)</u>
Operating income (loss)	(32,121)	(2,266)	476	191	(33,720)
Non-operating revenues (expenses) and capital grants and contributions, net	<u>(931)</u>	<u>3,877</u>	<u>6,309</u>	<u>663</u>	<u>9,918</u>
Income (loss) before transfers	(33,052)	1,611	6,785	854	(23,802)
Transfers	<u>39,947</u>	<u>-</u>	<u>-</u>	<u>1,367</u>	<u>41,314</u>
Change in net assets	6,895	1,611	6,785	2,221	17,512
Net assets - beginning	49,036	46,145	104,977	41,053	241,211
Net assets - ending	<u>\$ 55,931</u>	<u>\$ 47,756</u>	<u>\$ 111,762</u>	<u>\$ 43,274</u>	<u>\$ 258,723</u>

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Summary of Revenues, Expenses, Transfers and Changes in Fund Net Assets
Enterprise Funds
For the Fiscal Year Ended June 30, 2009
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 208,234	\$ 5,660	\$ 24,371	\$ 45,444	\$ 283,709
Operating expenses	(247,653)	(7,074)	(24,123)	(45,480)	(324,330)
Operating income (loss)	(39,419)	(1,414)	248	(36)	(40,621)
Non-operating revenues (expenses) and capital grants and contributions, net	(908)	1,994	3,868	921	5,875
Income (loss) before transfers	(40,327)	580	4,116	885	(34,746)
Transfers	40,849	-	(12)	832	41,669
Change in net assets	522	580	4,104	1,717	6,923
Net assets - beginning	48,514	45,565	100,873	39,336	234,288
Net assets - ending	<u>\$ 49,036</u>	<u>\$ 46,145</u>	<u>\$ 104,977</u>	<u>\$ 41,053</u>	<u>\$ 241,211</u>

The net loss before transfers of \$23,802,000 for all enterprise funds resulted primarily from the Medical Center's net loss of \$33,052,000. Transfers to the Medical Center that are primarily from the General Fund of \$39,947,000, down from \$40,849,000, in the prior year, resulted in net income of \$6,895,000. The increase in operating revenues of \$16,643,000, or 8 percent, from the prior year primarily resulted from an increase in patient census. Operating expenses increased by \$9,345,000, or 4 percent, from the prior year, resulting in a decrease in the operating loss of \$7,298,000, or 19 percent, compared to the prior year. Salaries and benefits increased \$6,087,000, or 5 percent, primarily due to cost of living increases and increased patient census. Other operating costs increased by \$3,258,000, or 3 percent, due to increased patient census and inflation.

The change in net assets for all other enterprise funds totaled \$10,617,000, up 66 percent from 2008-09. Operating revenues and expenses were \$76,074,000 and \$77,673,000, both up by 1 percent respectively from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget Compared to Final Budget, June 30, 2010

Appropriations for the General Fund final budget, including other financing uses, exceeded the original budget by \$27,141,000. Some of the larger changes are summarized below.

Appropriations for transfers out increased by about \$6,798,000. Approximately \$5,700,000 related to certain debt service costs was budgeted in the General Fund for control purposes but reported in non-major debt service funds, offset by decreases in debt service appropriations. Final budget appropriations for salaries and benefits increased in Public Protection primarily due to negotiated salary increases and transfers of appropriations for vacation/annual leave buydowns. For control purposes, vacation/annual leave buydowns, a component of salaries and benefits expenditures, are budgeted in a general government budget unit and are transferred as related expenditures are incurred. Over \$13,000,000 was transferred during 2009-10. Services and supplies increased by \$14,605,000, primarily due to increased state and federal funding for public

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

assistance, while capital outlay increased by \$5,649,000, primarily due to the reclassification of expenditures from services and supplies to capital outlay.

Final Budget Compared to Actual Expenditures and Revenues, June 30, 2010

The final budget appropriations exceeded actual expenditures, including transfers out and payment to refunding escrow agent, by \$67,038,000, while the final budget estimated revenues were more than actual revenues, including other financing sources by \$50,119,000. The largest component of excess appropriations over expenditures was \$36,972,000 for services and supplies. Unexpended appropriations for services and supplies and capital outlay of \$15,082,000 were encumbered for expenditure in 2010-11. The largest revenue shortfalls in comparison with the final budget were in aid from other governmental units in the amount of \$38,938,000 and charges for services in the amount of \$7,800,000.

Budgetary information is included in the Required Supplementary Information (RSI) section including Notes to the RSI.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - Government-wide Financial Statements

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounted to \$1,821,791,000 (at cost) or \$1,319,329,000 (net of accumulated depreciation). This investment in capital assets includes land, easements, construction in progress, land improvements, structures and improvements, equipment, vehicles, software, and infrastructure. The total increase in the County's investment in capital assets, net of related debt for the current period was 3 percent.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year (in thousands):

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2010	2009	2010	2009	2010	2009	
Land	\$ 29,614	\$ 29,577	\$ 22,103	\$ 22,103	\$ 51,717	\$ 51,680	0.07%
Easements	200,591	200,488	568	568	201,159	201,056	0.05%
Construction in progress	85,030	91,083	77,162	34,324	162,192	125,407	29.33%
Land improvements	13,304	11,869	61,293	56,823	74,597	68,692	8.60%
Structures and improvements	439,990	431,795	188,278	187,767	628,268	619,562	1.41%
Equipment	94,959	80,546	36,877	36,024	131,836	116,570	13.10%
Vehicles	72,249	71,395	704	854	72,953	72,249	0.97%
Software	41,639	39,860	8,170	8,134	49,809	47,994	3.78%
Infrastructure	449,260	435,950	-	-	449,260	435,950	3.05%
Total	<u>\$ 1,426,636</u>	<u>\$ 1,392,563</u>	<u>\$ 395,155</u>	<u>\$ 346,597</u>	<u>\$ 1,821,791</u>	<u>\$ 1,739,160</u>	4.75%

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Major capital asset events during the current fiscal year included the following:

Construction in progress had a net increase of \$36,785,000. Additions totaling \$72,825,000 included Fire Protection District projects for \$2,426,000, the El Rio Sewer Project for \$8,739,000, Watershed Protection District projects for \$5,953,000, Medical Center and Clinic improvements for \$24,717,000, Department of Airport projects for \$4,455,000, Waterworks projects for \$19,005,000 and various other projects for \$7,530,000. Construction in progress was reduced by \$36,040,000, including transfers of completed projects of \$35,690,000 to structures and improvements and equipment.

The County's infrastructure assets for both the watershed protection network and the roads network are recorded at historical cost in the government-wide financial statements as required by GASB 34.

Additional information on capital asset activity is provided in Note 7 of the Notes to the Basic Financial Statements.

Debt Administration - Government-wide Financial Statements

At June 30, 2010, the County had total debt outstanding of \$144,727,000, excluding capital leases, compensated absences, and other liabilities. The following table summarizes the categories of debt. During the year, retirement of debt amounted to \$73,250,000 and additions amounted to \$103,222,000. The following table summarizes the debt outstanding balances at June 30, 2010 and 2009 (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Certificates of participation and lease revenue bonds	\$ 42,043	\$ 46,870	\$ 68,963	\$ 15,255	\$ 111,006	\$ 62,125
Tax-exempt commercial paper	16,971	24,005	6,730	24,095	23,701	48,100
Loans payable	<u>5,252</u>	<u>3,182</u>	<u>4,768</u>	<u>1,348</u>	<u>10,020</u>	<u>4,530</u>
	<u>\$ 64,266</u>	<u>\$ 74,057</u>	<u>\$ 80,461</u>	<u>\$ 40,698</u>	<u>\$ 144,727</u>	<u>\$ 114,755</u>

For the fiscal year 2009-10, County debt limit is determined by statute at 1.25 percent of total assessed valuation or approximately \$1,327,036,000. The general obligation debt subject to the debt limit is \$144,727,000, which is under the limit by \$1,182,309,000.

The County's debt utilization policy establishes the review process by the Financial Planning Committee before submission to the Board of Supervisors and central coordination by the County Executive Officer. The policy outlines a fiscally conservative basis for borrowing to include short-term needs and borrowing for certain assets with substantial economic lives. The benchmarks include County debt outstanding at less than one percent of the assessed valuation and debt service payments not greater than six percent of total General Fund expenditures.

The County, like other local governments, has an annual borrowing program which finances operations during periods of low cash flows due to periodic collection dates for property taxes. On July 1, 2009, the County issued \$145,000,000 in Tax and Revenue Anticipation Notes (TRANs). Standard & Poor's Ratings Services and Moody's Investors Services gave the TRANs the highest rating for short-term securities of SP-1+ and

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

MIG 1, respectively. At June 30, 2010, the outstanding balance was \$145,000,000 and was paid with interest on July 1, 2010, the maturity date of the notes.

Additional information on long-term debt activity is provided in Note 10 of the Notes to the Basic Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The fiscal year 2010-11 adopted budget for all County funds totals \$1,711,583,000, a 2.3 percent decrease when compared to the prior year. The General Fund 2010-11 budget of \$883,807,000 was structurally balanced using projected ongoing available financing sources. Year-end fund balance is not considered an ongoing financing source and is used to finance reserve and designation adjustments and one-time expenditures.
- Assessed property valuations decreased by 0.3 percent for the 2010-11 fiscal year when compared with 2009-10. Property tax revenues were budgeted with a decrease of 1.0 percent.
- The 2010-11 budget includes increases in salaries and benefits of 4.9 percent as compared to the prior year's actual expenditures. Increases in regular salaries were offset by decreases in overtime.

Additional information is provided in Notes 17 and 18 of the Notes to the Basic Financial Statements, as well as the transmittal letter on page 5 of this report.

REQUESTS FOR INFORMATION

County information is available on-line at www.countyofventura.org.

The financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Further requests for information on this report or for the separate reports for the Public Facilities Corporation or the Public Financing Authority should be addressed to the Auditor-Controller, 800 South Victoria Avenue, Ventura, CA 93009-1540.

Questions concerning any of the information provided in this report regarding the discretely presented component unit, Children and Families First Commission, or requests for additional information should be addressed to the Executive Director, 2580 East Main Street, Suite 302, Ventura, CA 93003.

Questions concerning any of the information provided in this report or requests for additional information on the separate financial report of Ventura County Employees' Retirement Association should be addressed to the Retirement Administrator, 1190 South Victoria Avenue, Suite 200, Ventura, CA 93003-6572.