

## **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, 2012. 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 2011-12 fiscal year by \$1,943,279,000 (*net assets*). Of this amount, \$331,804,000 (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors, \$336,548,000 is restricted for specific purposes (*restricted net assets*), and \$1,274,927,000 is invested in capital assets, net of related debt.
- The government's total net assets increased by \$68,314,000 during fiscal year 2011-12, due to increases in both governmental and business-type activities. Net assets invested in capital assets, net of related debt, increased by \$59,148,000. The increase represents capital acquisitions net of depreciation plus retirement of related long-term debt. Restricted net assets decreased by \$9,620,000, while unrestricted net assets increased by \$18,786,000.
- As of June 30, 2012, the County governmental funds reported combined fund balances of \$516,975,000, an increase of \$4,130,000 in comparison with the prior year.
- At the end of the fiscal year, unassigned general fund fund balance was \$133,437,000 or 17 percent, of total general fund expenditures, reflecting an increase from the prior fiscal year balance of \$129,247,000 primarily due to unexpended property taxes.
- The County's current and other assets and current and other liabilities decreased by \$132,194,000 and \$139,443,000, respectively in the governmental activities, primarily due to the payment of the County's Tax and Revenue Anticipation Notes prior to the end of the fiscal year.

### **OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

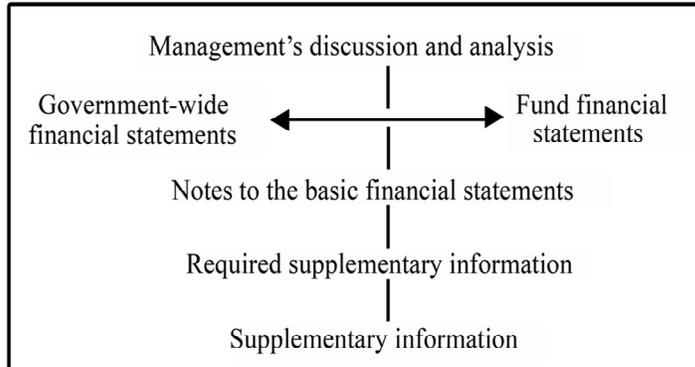
The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- 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** 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 pension, investment, and private-purpose trusts 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 activities are 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 entity with a self-balancing set of accounts. The County, like other state and local governments, uses fund accounting to demonstrate finance-related legal compliance.

- 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 fifty individual governmental funds in its financial system and presents them grouped by related activities as twenty-four separate governmental funds on this report. The equity for fund financial statements is displayed as fund balance. Purchase of capital assets and payment of principal on debt are 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 trust, the Investment Trust Fund, which includes external users of the County's investment pool, and the Ventura County Redevelopment Successor Agency Private-purpose trust. 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 - 103 of this report and are also itemized in the Table of Contents.

**Required Supplementary Information** includes the Ventura Counties Employee's Retirement Association (VCERA) schedule of funding progress, the SRP schedules of funding progress and employer contributions, the Management Retiree Health Benefits Program and the Subsidized Retiree Health Benefits Program schedules of funding progress. These schedules 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 report demonstrates compliance at the legal level of budgetary control 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 Avenue, Ventura, CA 93009-1540, or on the County website at: <http://portal.countyofventura.org/portal/page/portal/auditor/Financial%20%20Budget%20Reports/TAB1290223>.

Required supplementary information can be found on pages 105 - 114 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 115 - 180 of this report.

**Statistical Information** is provided beginning on page 181 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 \$1,943,279,000 at the close of the most recent fiscal year.

A summary of net assets is as follows:

Summary of Net Assets June 30, 2012 and 2011 (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
<b>Assets:</b>							
Current and other assets	\$ 882,390	\$ 1,014,584	\$ 188,453	\$ 176,451	\$ 1,070,843	\$ 1,191,035	(10)%
Capital assets	1,102,060	1,082,228	312,331	267,245	1,414,391	1,349,473	5%
Total assets	<u>\$ 1,984,450</u>	<u>\$ 2,096,812</u>	<u>\$ 500,784</u>	<u>\$ 443,696</u>	<u>\$ 2,485,234</u>	<u>\$ 2,540,508</u>	(2)%
<b>Liabilities:</b>							
Current and other liabilities	\$ 107,348	\$ 246,791	\$ 53,199	\$ 40,737	\$ 160,547	\$ 287,528	(44)%
Long-term liabilities	285,246	279,903	96,162	98,112	381,408	378,015	1%
Total liabilities	<u>392,594</u>	<u>526,694</u>	<u>149,361</u>	<u>138,849</u>	<u>541,955</u>	<u>665,543</u>	(19)%
<b>Net assets:</b>							
Invested in capital assets, net of related debt	1,030,088	1,016,133	244,839	199,646	1,274,927	1,215,779	5%
Restricted net assets	324,859	332,555	11,689	13,613	336,548	346,168	(3)%
Unrestricted net assets	236,909	221,430	94,895	91,588	331,804	313,018	6%
Total net assets	<u>1,591,856</u>	<u>1,570,118</u>	<u>351,423</u>	<u>304,847</u>	<u>1,943,279</u>	<u>1,874,965</u>	4%
Total liabilities and net assets	<u>\$ 1,984,450</u>	<u>\$ 2,096,812</u>	<u>\$ 500,784</u>	<u>\$ 443,696</u>	<u>\$ 2,485,234</u>	<u>\$ 2,540,508</u>	(2)%

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 \$1,274,927,000 (66 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 \$336,548,000 (17 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 \$331,804,000 (17 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 \$68,314,000. Net assets for governmental and business-type activities increased by \$21,738,000 and \$46,576,000, respectively.

General revenues for governmental activities decreased by \$3,219,000, primarily from unrestricted interest and investment earnings. Program revenues decreased by \$33,675,000, primarily due to decreased operating grants and contributions in health and sanitation services and public assistance. Program expenses decreased by \$6,020,000, or 1 percent, in all functions except health and sanitation services.

The increase in net assets attributable to business-type activities resulted from increases in the Medical Center, due to General Fund subsidies, and in the Waterworks Districts, primarily due to increased capital grants and contributions from improvements contributed by developers. Program revenues increased \$36,454,000, primarily in capital grants and contributions for the Medical Center, Department of Airports, Waterworks Districts, and Channel Islands Harbor and in charges for services for the Medical Center and Health Care Plan. Program expenses increased by \$35,320,000, or 9 percent, with the Medical Center, Waterworks - Water and Sewer, and Health Care Plan accounting for 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 a decrease in operating grants and contributions. Charges for services showed an increase of \$7,004,000, or 1 percent, followed by operating grants and contributions with a decrease of \$21,339,000, or 4 percent, when compared to the prior year, while capital grants and contributions increased by \$17,114,000, or 94 percent. Additional information on major revenue streams is provided on pages 25-27.

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

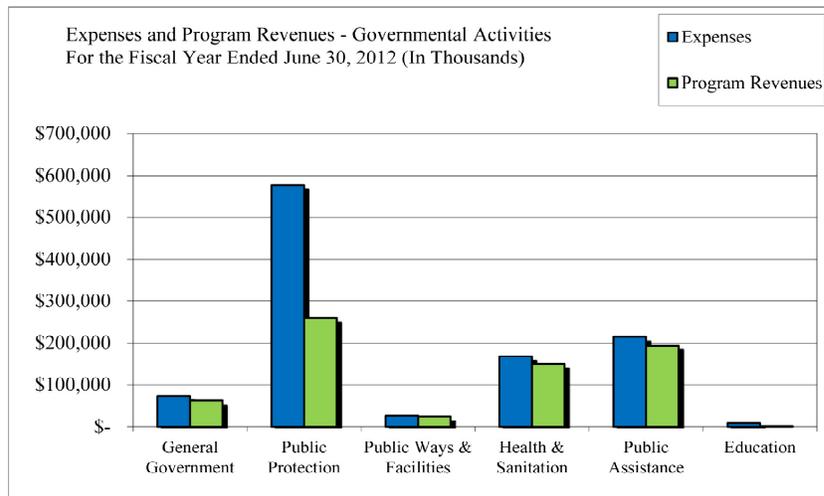
Summary of Activities  
For the Fiscal Years Ended June 30, 2012 and 2011  
(In Thousands)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program revenues:							
Charges for services	\$ 231,561	\$ 238,048	\$ 385,079	\$ 371,588	\$ 616,640	\$ 609,636	1%
Operating grants and contributions	453,377	473,746	6	976	453,383	474,722	(4)%
Capital grants and contributions	5,622	12,441	29,668	5,735	35,290	18,176	94%
General revenues:							
Property taxes	393,038	391,822	-	-	393,038	391,822	-%
Other taxes	12,135	11,891	-	-	12,135	11,891	2%
Aid from other governmental units	22,152	20,642	-	-	22,152	20,642	7%
Interest and investment earnings	1,519	6,341	413	829	1,932	7,170	(73)%
Other	16,886	18,253	-	-	16,886	18,253	(7)%
Total revenues	<u>1,136,290</u>	<u>1,173,184</u>	<u>415,166</u>	<u>379,128</u>	<u>1,551,456</u>	<u>1,552,312</u>	-%
Expenses:							
General government	72,477	75,481	-	-	72,477	75,481	(4)%
Public protection	577,240	578,421	-	-	577,240	578,421	-%
Public ways and facilities	26,676	31,068	-	-	26,676	31,068	(14)%
Health and sanitation services	167,971	154,408	-	-	167,971	154,408	9%
Public assistance	214,737	224,132	-	-	214,737	224,132	(4)%
Education	8,654	10,206	-	-	8,654	10,206	(15)%
Interest on long-term debt	4,944	5,003	-	-	4,944	5,003	-%
Medical Center	-	-	314,651	284,223	314,651	284,223	11%
Department of Airports	-	-	6,472	7,958	6,472	7,958	(19)%
Waterworks - Water and Sewer	-	-	24,655	23,712	24,655	23,712	4%
Parks Department	-	-	3,987	4,129	3,987	4,129	(3)%
Channel Islands Harbor	-	-	6,850	7,058	6,850	7,058	(3)%
Health Care Plan	-	-	52,229	46,411	52,229	46,411	13%
Oak View District	-	-	185	218	185	218	(15)%
Total expenses	<u>1,072,699</u>	<u>1,078,719</u>	<u>409,029</u>	<u>373,709</u>	<u>1,481,728</u>	<u>1,452,428</u>	2%
Excess (deficiency) before extraordinary item and transfers	63,591	94,465	6,137	5,419	69,728	99,884	(30)%
Extraordinary item	(1,414)	-	-	-	(1,414)	-	100%
Transfers	<u>(40,439)</u>	<u>(41,077)</u>	<u>40,439</u>	<u>41,077</u>	<u>-</u>	<u>-</u>	-%
Change in net assets	21,738	53,388	46,576	46,496	68,314	99,884	(32)%
Net assets - July 1, 2011	<u>1,570,118</u>	<u>1,516,730</u>	<u>304,847</u>	<u>258,351</u>	<u>1,874,965</u>	<u>1,775,081</u>	6%
Net assets - June 30, 2012	<u>\$ 1,591,856</u>	<u>\$ 1,570,118</u>	<u>\$ 351,423</u>	<u>\$ 304,847</u>	<u>\$ 1,943,279</u>	<u>\$ 1,874,965</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 \$21,738,000, thereby accounting for 32 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 3 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 2011-12, the County reported \$453,377,000 in operating grants and contributions, which comprised 66 percent of the total program revenues in the current year. Although decreasing by \$20,369,000 from the prior year, primarily due to decreased MHSA revenue in the health and sanitation services function, they represent the largest revenue source for governmental activities. The public protection, health and sanitation services, and public assistance functions received 93 percent of this funding source in fiscal year 2011-12.
- 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 \$121,721,000, or 53 percent, of the total of \$231,561,000. 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 District for various governmental agencies, and various assessments generated by the Watershed

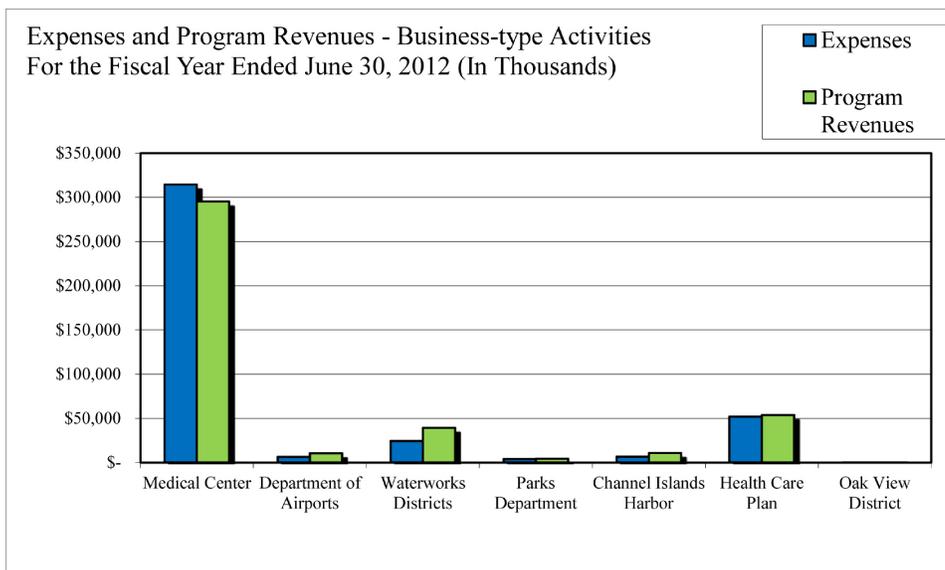
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(CONTINUED)**

Protection Districts. Charges for services provided 33 percent of total program revenues in 2011-12, the same as in the prior year.

- Capital grants and contributions of \$5,622,000 represented the smallest source of program revenues in 2011-12 at 1 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 \$393,038,000 reported in 2011-12, increasing less than 1 percent from 2010-11, due to little change in the assessed values of real property. Unrestricted aid from other governmental units increased \$1,510,000 from the prior year comprising 5 percent of general revenues.

**Expenses.** Total program expenses for governmental activities were \$1,072,699,000 for the current fiscal year as compared to \$1,078,719,000 for the prior fiscal year, a decrease of 1 percent. Public protection at \$577,240,000 accounted for 54 percent of total expenses for governmental activities. Public assistance expenses were \$214,737,000, or 20 percent, followed by health and sanitation services at \$167,971,000, or 15 percent, general government at \$72,477,000, or 7 percent, and various other costs of \$40,274,000, or 4 percent, of total expenses. Expenses decreased in all functions except health and sanitation services.

**Business-type activities.** Business-type activities increased net assets by \$46,576,000, or 68 percent, of the total growth in the County’s net assets, primarily from General Fund subsidies for the Medical Center and developer contributions for the Waterworks Districts. 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, 93 percent, or \$385,079,000, of total program and general revenues were generated from charges for services, as compared to the prior year's, 98 percent, or \$371,588,000. The Medical Center accounted for 71 percent of total program revenues for business-type activities at \$295,194,000, a decrease of 5 percent from the prior fiscal year. The Health Care Plan accounted for 13 percent of total program revenues, an increase of 1 percent from the prior 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 \$409,029,000 in 2011-12 compared to \$373,709,000 in 2010-11, representing an increase of about 9 percent. About 77 percent of total expenses, or \$314,651,000, were incurred by the Medical Center. The Health Care Plan and Waterworks - Water and Sewer activities, at \$76,884,000, accounted for 19 percent of the total cost. The remaining 4 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 \$17,494,000.

Increased services and supplies and salaries and benefits were due to higher patient volumes and inflation at the Medical Center. These costs, which rose by 11 percent from 2010-11, contributed to the Medical Center's increase in total expenses when compared to the prior year. Waterworks - Water and Sewer and Health Care Plan had increases in expenses, with all remaining business-type activities having decreases.

### 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 spendable resources. Such information is useful in assessing the County's financing requirements. Major governmental funds reported by the County include the General Fund, Roads Fund, Watershed Protection Districts, and the Fire Protection District.

At June 30, 2012, the County's governmental funds reported total fund balances of \$516,975,000, an increase of \$4,130,000 from the prior year. Approximately \$9,126,000 or 2 percent of the total is Nonspendable fund balance, which are amounts that are not in spendable form or amounts that are legally or contractually required to be maintained intact. The remaining 98 percent or \$507,849,000 is available to meet the County's current and future needs.

Revenues for governmental functions totaled \$1,137,958,000 in the year ended June 30, 2012, representing a decrease of about 3 percent from the fiscal year ended June 30, 2011, largely attributable to decreases in aid from other governmental units and charges for services. Expenditures, at \$1,106,412,000, remained flat when compared to the fiscal year ended June 30, 2011, with increases in public protection, health and sanitation services, capital outlay, and debt service, offset by decreases in general government, public ways and facilities, public assistance and education.

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

**GENERAL FUND**

The General Fund is the primary operating fund of the County. At June 30, 2012, the General Fund's total fund balance was \$249,617,000, increasing \$18,902,000 from the prior year. The nonspendable portion of fund balance was \$6,525,000 and the spendable portion was \$243,092,000. As a measure of the General Fund's liquidity, it is useful to compare both total fund balance and spendable fund balance to total fund expenditures. Both total fund balance and spendable fund balance equate to 31 percent of total General Fund expenditures. Of the General Fund spendable fund balance, \$82,067,000, or 34 percent, is restricted, and \$3,137,000, or 1 percent, is committed.

**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, 2012, this fund had a total fund balance of \$60,809,000, of which \$37,709,000 was restricted and \$21,880,000 was committed. Total fund balance decreased when compared to the prior year by 5 percent.

**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. Total fund balance at June 30, 2012, of \$52,306,000 declined 15 percent or \$9,003,000 from the prior year. Restricted fund balance of \$50,759,000 accounted for 97 percent of the total fund balance.

**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. At June 30, 2012, the Fire Protection District's total fund balance was \$83,580,000, decreasing \$4,482,000 from the prior year. Fund balance included a Nonspendable portion of \$1,412,000. Restricted fund balance totaled \$81,197,000, or 97 percent, with the remaining \$971,000, or 1 percent, classified as committed.

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

**NON-MAJOR GOVERNMENTAL FUNDS**

As compared with the prior year, the total fund balances of the remaining governmental funds increased 3 percent or by \$1,808,000. The Mental Health Services Act fund balance decreased by \$9,565,000, which was offset by an increase in the Public Financing Authority capital projects fund and other special revenue and debt service funds.

Additional information on fund balances is provided in Note 10 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, 2012 and 2011  
(In Thousands)

	<u>Revenues and Other Financing Sources</u>		<u>Expenditures, Other Financing Uses, and Extraordinary Item</u>		<u>Net Change in Fund Balances</u>		<u>Increase (Decrease) Change</u>
	2012	2011	2012	2011	2012	2011	
General Fund	\$ 872,040	\$ 861,843	\$ 853,138	\$ 846,018	\$ 18,902	\$ 15,825	\$ 3,077
Roads	26,059	31,384	29,154	31,173	(3,095)	211	(3,306)
Watershed Protection Districts	31,173	35,002	40,176	36,161	(9,003)	(1,159)	(7,844)
Fire Protection District	125,459	120,739	129,941	131,538	(4,482)	(10,799)	6,317
Non-major funds	115,280	138,896	113,472	116,028	1,808	22,868	(21,060)
Total	<u>\$ 1,170,011</u>	<u>\$ 1,187,864</u>	<u>\$ 1,165,881</u>	<u>\$ 1,160,918</u>	<u>\$ 4,130</u>	<u>\$ 26,946</u>	<u>\$ (22,816)</u>

**GENERAL FUND**

Aid from other governmental units, taxes, and charges for services comprise 92 percent of total revenues. Aid from other governmental units increased by \$17,408,000, or 5 percent, primarily due to the new 2011 Public Safety Realignment, while taxes remained flat. Charges for services decreased by \$7,125,000, or 4 percent, primarily due to a change in funding for Court Security from charges for services to 2011 Public Safety Realignment.

**ROADS**

Fund balance decreased at June 30, 2012, by \$3,095,000, compared with an increase in the prior year of \$211,000. Revenues and other financing sources decreased by \$5,325,000, with expenditures and other financing uses decreasing by \$2,019,000. The decrease in revenue was due to a decrease in federal funding for construction projects, disaster reimbursements and developer contributions. The decrease in expenditures was due to the decrease in construction projects.

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

**WATERSHED PROTECTION DISTRICTS**

Fund balance decreased by \$9,003,000 in 2011-12, compared with a decrease in the prior fiscal year of \$1,159,000. Revenues and other financing sources in 2011-12 of \$31,173,000, were less than revenues and other financing sources in 2010-11 of \$35,002,000 by \$3,829,000, primarily due to a decrease in aid from other governmental units related to the receipt of disaster aid for damages incurred in 1998. Receivables of disaster-related revenues of \$1,267,000, 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 2011-12 of \$40,176,000, increased by \$4,015,000, when compared with the prior year, due to increased capital expenditures offset by decreases in services and supplies.

**FIRE PROTECTION DISTRICT**

The District's fund balance decreased by \$4,482,000, compared to a decrease of \$10,799,000, in 2010-11. Revenues and other financing sources at June 30, 2012, totaled \$125,459,000, an increase of \$4,720,000 from the prior fiscal year, primarily due to the receipt of prior year RDA passthrough revenue. Expenditures and other financing uses were \$129,941,000, decreasing by \$1,597,000, when compared to 2010-11, with increases in salaries and benefits and services and supplies offset by a decrease in capital outlay.

**NON-MAJOR GOVERNMENTAL FUNDS**

Fund balances at June 30, 2012, increased by \$1,808,000, compared with a prior year increase of \$22,868,000. The prior year increase was attributable to an increase in Mental Health Services Act revenue which decreased by \$24,912,000 in the current year.

**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 tables below depict 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, 2012  
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 288,620	\$ 5,569	\$ 26,723	\$ 64,150	\$ 385,062
Operating expenses	<u>(312,028)</u>	<u>(6,459)</u>	<u>(24,482)</u>	<u>(63,283)</u>	<u>(406,252)</u>
Operating income (loss)	(23,408)	(890)	2,241	867	(21,190)
Non-operating revenues (expenses) and capital grants and contributions, net	<u>3,804</u>	<u>5,017</u>	<u>12,500</u>	<u>5,492</u>	<u>26,813</u>
Income (loss) before transfers	(19,604)	4,127	14,741	6,359	5,623
Transfers	<u>39,304</u>	<u>-</u>	<u>-</u>	<u>1,135</u>	<u>40,439</u>
Change in net assets	19,700	4,127	14,741	7,494	46,062
Net assets - beginning	99,642	48,066	113,830	43,555	305,093
Net assets - ending	<u>\$ 119,342</u>	<u>\$ 52,193</u>	<u>\$ 128,571</u>	<u>\$ 51,049</u>	<u>\$ 351,155</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, 2011  
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 285,959	\$ 5,046	\$ 24,408	\$ 56,175	\$ 371,588
Operating expenses	(281,133)	(7,614)	(23,722)	(57,793)	(370,262)
Operating income (loss)	4,826	(2,568)	686	(1,618)	1,326
Non-operating revenues (expenses) and capital grants and contributions, net	(1,412)	2,878	1,382	1,119	3,967
Income (loss) before transfers	3,414	310	2,068	(499)	5,293
Transfers	40,297	-	-	780	41,077
Change in net assets	43,711	310	2,068	281	46,370
Net assets - beginning	55,931	47,756	111,762	43,274	258,723
Net assets - ending	<u>\$ 99,642</u>	<u>\$ 48,066</u>	<u>\$ 113,830</u>	<u>\$ 43,555</u>	<u>\$ 305,093</u>

The net income before transfers of \$5,623,000 for all enterprise funds resulted primarily from the Waterworks Districts net income of \$14,741,000 with a net loss before transfers in the Medical Center of \$19,604,000. Transfers to the Medical Center, that are primarily from the General Fund of \$39,304,000, down from \$40,297,000, in the prior year, resulted in net income of \$19,700,000. The increase in operating revenues of \$2,661,000, or 1 percent, from the prior year primarily resulted from an increase in patient volume. Operating expenses increased by \$30,895,000, or 11 percent, from the prior year, resulting in an operating loss of \$23,408,000, compared to the prior year operating income of \$4,826,000. Salaries and benefits increased \$12,116,000, or 8 percent, primarily due to merit increases, vacant positions filled, and new positions added due to a Centers for Medicare and Medicaid Services audit and the opening of the Pediatric Intensive Care Unit. Other operating costs increased by \$18,779,000, or 14 percent, due to increased patient volume and inflation.

The change in net assets for all other enterprise funds except for the Medical Center totaled \$26,362,000, up 891 percent from 2010-11. Operating revenues and expenses were \$96,442,000 and \$94,224,000, up by 13 and 6 percent respectively from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

**Original Budget Compared to Final Budget, June 30, 2012**

Appropriations for the General Fund final budget, including other financing uses, exceeded the original budget by \$29,658,000. Some of the larger changes are summarized below.

Appropriations for transfers out increased by about \$11,421,000. Approximately \$8,210,000, 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 transfers of appropriations for vacation/annual leave buydowns. For control purposes, vacation/annual leave buydowns, a component of salaries and benefits

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

expenditures, are budgeted in a general government budget unit and are transferred as related expenditures are incurred. Over \$10,000,000 was transferred during 2011-12. Capital outlay increased by \$16,360,000, primarily due to the reclassification of expenditures from services and supplies to capital outlay and a mid-year adjustment for the purchase of the Ruben Castro Human Services Center in Moorpark.

**Final Budget Compared to Actual Expenditures and Revenues, June 30, 2012**

The final budget appropriations exceeded actual expenditures, including transfers out, by \$61,574,000, while the final budget estimated revenues were more than actual revenues, including other financing sources, by \$39,975,000. The largest component of excess appropriations over expenditures was \$30,652,000 for services and supplies, primarily in general government and health and sanitation services. Unexpended appropriations for services and supplies and capital outlay of \$13,907,000 were encumbered for expenditure in 2012-13. The largest revenue shortfalls in comparison with the final budget were in aid from other governmental units in the amount of \$24,133,000 and charges for services in the amount of \$9,286,000.

Budgetary information is included in the Required Supplementary Information (RSI) section, which also contains 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, 2012, amounted to \$1,981,671,000 (at cost) or \$1,414,391,000 (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 5 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):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>		<u>Total Percent Change</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Land	\$ 31,066	\$ 29,926	\$ 23,492	\$ 23,314	\$ 54,558	\$ 53,240	2%
Easements	200,559	200,535	787	593	201,346	201,128	-%
Construction in progress	80,903	110,157	45,998	17,243	126,901	127,400	-%
Land improvements	39,705	15,442	71,484	63,604	111,189	79,046	41%
Structures and improvements	456,847	446,932	278,797	261,598	735,644	708,530	4%
Equipment	104,209	98,256	42,005	39,542	146,214	137,798	6%
Vehicles	80,540	77,080	1,137	1,137	81,677	78,217	4%
Software	50,377	43,209	8,384	8,378	58,761	51,587	14%
Infrastructure	465,381	448,608	-	-	465,381	448,608	4%
Total	<u>\$ 1,509,587</u>	<u>\$ 1,470,145</u>	<u>\$ 472,084</u>	<u>\$ 415,409</u>	<u>\$ 1,981,671</u>	<u>\$ 1,885,554</u>	5%

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

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

Construction in progress had a net decrease of \$499,000. Additions totaling \$72,202,000, included General Fund projects for \$9,342,000, Fire Protection District projects for \$8,196,000, Roads projects for \$3,604,000, Watershed Protection District projects for \$13,322,000, Medical Center and Clinic improvements for \$17,498,000, Waterworks projects for \$4,348,000, Harbor projects for \$7,923,000, Airport projects for \$3,972,000, and various other projects for \$3,997,000. Deletions of construction in progress totaled \$72,701,000; this included transfers of completed projects of \$71,235,000 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 6 of the Notes to the Basic Financial Statements.

**Debt Administration - Government-wide Financial Statements**

At June 30, 2012, the County had total debt outstanding of \$148,734,000, excluding capital leases, compensated absences, and other liabilities. The following table summarizes the categories of debt. During the year, retirement of debt amounted to \$14,724,000 and additions amounted to \$18,921,000. The following table summarizes the debt outstanding balances at June 30, 2012 and 2011 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Certificates of participation and lease revenue bonds	\$ 33,645	\$ 37,949	\$ 61,851	\$ 65,554	\$ 95,496	\$ 103,503
Tax-exempt commercial paper	27,727	19,221	8,473	6,579	36,200	25,800
Loans payable	10,774	9,117	6,264	6,117	17,038	15,234
	<u>\$ 72,146</u>	<u>\$ 66,287</u>	<u>\$ 76,588</u>	<u>\$ 78,250</u>	<u>\$ 148,734</u>	<u>\$ 144,537</u>

For the fiscal year 2011-12, County debt limit is determined by statute at 1.25 percent of total assessed valuation or approximately \$1,316,049,000. The general obligation debt subject to the debt limit is \$148,734,000, which is under the limit by \$1,167,315,000.

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, 2011, the County issued \$137,315,000 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 MIG 1, respectively. The TRANs were paid with interest on June 29, 2012, the maturity date of the notes.

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

Additional information on long-term debt activity is provided in Note 9 of the Notes to the Basic Financial Statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The fiscal year 2012-13 adopted budget for all County funds totals \$1,739,524,000, a 0.2 percent increase when compared to the prior year. The General Fund 2012-13 budget of \$882,170,000 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 increased by 0.61 percent for the 2012-13 fiscal year when compared with 2011-12. Property tax revenues were budgeted with an increase of 0.9 percent.
- The 2012-13 budget includes increases in salaries and benefits of 5.2 percent as compared to the prior year's actual expenditures with increases primarily in regular salaries and retirement contributions.

Additional information is provided in Notes 16 and 17 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](http://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 report for 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.