

## **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, 2016. 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 and deferred outflows of resources of the County (governmental and business-type) exceeded liabilities and deferred inflows of resources at the close of the 2015-16 fiscal year by \$1,524,428,000 (*net position*). Of this amount, \$337,087,000 is restricted for specific purposes (*restricted net position*), \$1,397,051,000 is the *net investment in capital assets*, and the remaining portion of negative \$209,710,000 is *unrestricted net position*. The deficit balance is a result of reporting the County's unfunded pension liability.
- The government's total net position increased by \$99,341,000 during fiscal year 2015-16, mainly due to an increase in governmental activities. Net investment in capital assets increased by \$20,532,000. The increase represents capital acquisitions net of accumulated depreciation/amortization and capital-related deferred outflows of resources, less capital-related debt and deferred inflows of resources. Restricted net position decreased by \$6,483,000, while unrestricted net position increased by \$85,292,000.
- As of June 30, 2016, the County governmental funds reported combined fund balances of \$612,473,000, a decrease of \$12,573,000 in comparison with the prior year.
- At the end of the fiscal year, unassigned general fund fund balance was \$140,746,000, or 15 percent of total general fund expenditures, reflecting a decrease of \$34,240,000 from the prior fiscal year balance, which was offset by an increase of \$48,716,000 in nonspendable fund balance, primarily due to an increase in advances to other funds.

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

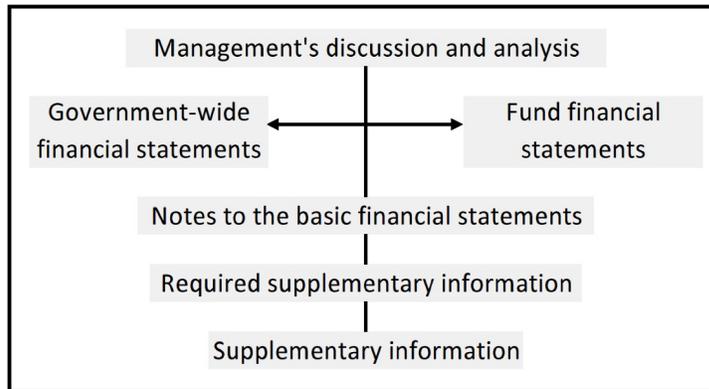
The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- 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 position* 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 position* presents information on all County assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the differences between them reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, education, and recreation and cultural services. 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. 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 41 - 43 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-two 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 44 - 50 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.

The proprietary funds financial statements can be found on pages 51 - 54 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**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 55 - 56 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 57 - 119 of this report and are also itemized in the Table of Contents.

**Required Supplementary Information** includes the Ventura County Employees' Retirement Association (VCERA) schedule of the County's proportionate share of the net pension liability, schedule of County's contributions, the SRP schedule of changes in net pension liability and related ratios, schedule of investment returns, and schedule of county's contributions, and 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 net pension liability and employer contributions. 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://vcportal.ventura.org/auditor/docs/financial-reports/FY16\\_BudgettoActual.pdf](http://vcportal.ventura.org/auditor/docs/financial-reports/FY16_BudgettoActual.pdf).

Required supplementary information can be found on pages 121 - 131 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 133 - 196 of this report.

**Statistical Information** is provided beginning on page 197 of this report.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Government-wide Summary of Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, the County's net position was \$1,524,428,000.

A summary of net position is as follows:

Summary of Net Position June 30, 2016 and 2015 (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2016	2015	2016	2015	2016	2015	
<b>Assets:</b>							
Current and other assets	\$ 1,168,853	\$ 1,144,919	\$ 271,517	\$ 355,680	\$ 1,440,370	\$ 1,500,599	(4)%
Capital assets	<u>1,182,000</u>	<u>1,160,113</u>	<u>588,896</u>	<u>486,137</u>	<u>1,770,896</u>	<u>1,646,250</u>	8%
Total assets	<u>2,350,853</u>	<u>2,305,032</u>	<u>860,413</u>	<u>841,817</u>	<u>3,211,266</u>	<u>3,146,849</u>	2%
<b>Deferred outflows of resources</b>							
Deferred outflows related to pensions	<u>315,607</u>	<u>150,511</u>	<u>39,265</u>	<u>18,330</u>	<u>354,872</u>	<u>168,841</u>	110%
Total deferred outflows of resources	<u>315,607</u>	<u>150,511</u>	<u>39,265</u>	<u>18,330</u>	<u>354,872</u>	<u>168,841</u>	110%
<b>Liabilities:</b>							
Current and other liabilities	272,421	255,759	77,924	62,328	350,345	318,087	10%
Long-term liabilities	<u>1,059,281</u>	<u>782,629</u>	<u>482,597</u>	<u>449,611</u>	<u>1,541,878</u>	<u>1,232,240</u>	25%
Total liabilities	<u>1,331,702</u>	<u>1,038,388</u>	<u>560,521</u>	<u>511,939</u>	<u>1,892,223</u>	<u>1,550,327</u>	22%
<b>Deferred inflows of resources:</b>							
Deferred gain on refunding	132	174	22	202	154	376	(59)%
Deferred service concession arrangements	-	-	9,397	9,796	9,397	9,796	(4)%
Deferred inflows related to pensions	<u>124,561</u>	<u>294,747</u>	<u>15,375</u>	<u>35,357</u>	<u>139,936</u>	<u>330,104</u>	(58)%
Total deferred inflows of resources	<u>124,693</u>	<u>294,921</u>	<u>24,794</u>	<u>45,355</u>	<u>149,487</u>	<u>340,276</u>	(56)%
<b>Net position:</b>							
Net investment in capital assets	1,099,380	1,079,922	297,671	296,597	1,397,051	1,376,519	1%
Restricted	322,177	333,367	14,910	10,203	337,087	343,570	(2)%
Unrestricted (deficit)	<u>(211,492)</u>	<u>(291,055)</u>	<u>1,782</u>	<u>(3,947)</u>	<u>(209,710)</u>	<u>(295,002)</u>	29%
Total net position	<u>\$ 1,210,065</u>	<u>\$ 1,122,234</u>	<u>\$ 314,363</u>	<u>\$ 302,853</u>	<u>\$ 1,524,428</u>	<u>\$ 1,425,087</u>	7%

Net position includes three components: *Net investment in capital assets; restricted; and unrestricted.*

A significant component of the County's net position totaling \$1,397,051,000 (92 percent) reflects the County's net investment in capital assets (land, easements, construction in progress, land improvements, structures and improvements, equipment, vehicles, software, and infrastructure), i.e. net of accumulated depreciation/amortization and capital-related deferred outflows of resources, less capital-related debt and deferred inflows of resources. 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 capital-related debt and deferred inflows of resources, 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.

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

The restricted component of the County's net position, totaling \$337,087,000 (22 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 is also reported as restricted, and therefore is not available for other uses by the County.

The third portion of the County's net position is unrestricted, totaling negative \$209,710,000 (negative 14 percent), due to reporting the County's unfunded pension liability.

At the end of the current fiscal year, the County reported positive balances in two categories of net position. The County's net position increased by \$99,341,000. The change in net position for governmental and business-type activities was \$87,831,000 and \$11,510,000 respectively.

General revenues for governmental activities increased by \$10,245,000, primarily from property taxes offset by a reduction in unrestricted aid from other governmental units. Program revenues increased by \$31,832,000, primarily due to increased operating grants and contributions in public assistance and health and sanitation services. There were smaller increases in charges for services. Program expenses increased by \$76,370,000, or 7 percent, with increases in all areas.

The current period increase in net position attributable to business-type activities primarily resulted from an increase in the Medical Center, offset by a decrease in net position in the Health Care Plan. Program revenues increased by \$43,124,000, or 9 percent, primarily due to increased charges for services in the Medical Center and Health Care Plan. Program expenses increased by \$54,869,000, or 11 percent, primarily in the Medical Center and the Health Care Plan. Additional information is provided on pages 34-35 of this report.

**Government-wide Summary of Activities**

The following table depicts the revenue, expenses, and changes in net position for governmental and business-type activities. Revenue for the County as a whole increased by \$85,488,000, or 5 percent, with increases in charges for services and property taxes of \$47,478,000 and \$40,262,000 respectively, with smaller increases and decreases in all other areas. Additional information on major revenue streams is provided on pages 29-31.

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

Summary of Activities  
For the Fiscal Years Ended June 30, 2016 and 2015  
(In Thousands)

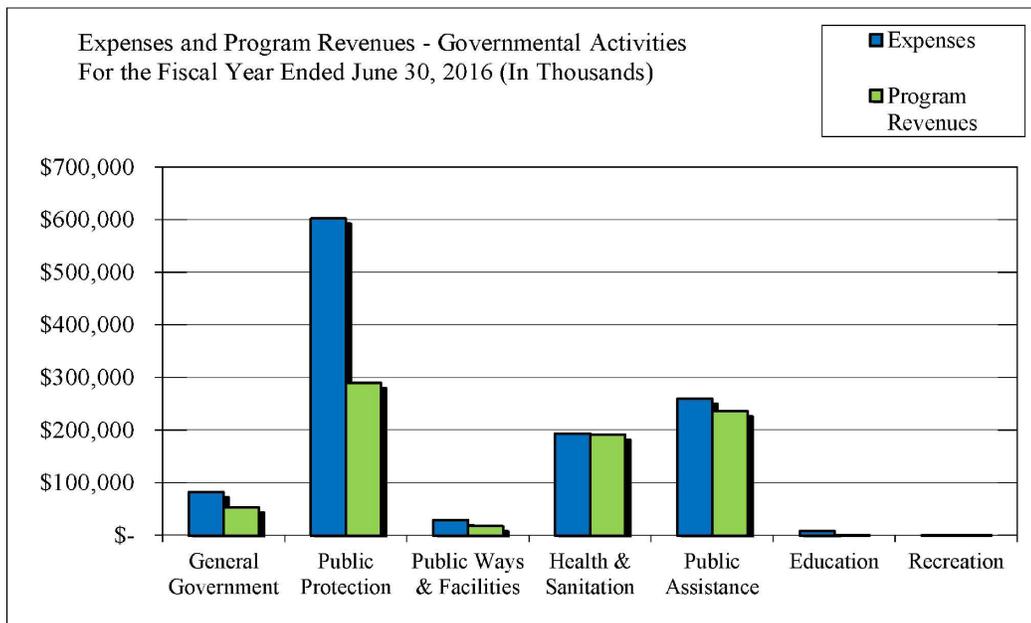
	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2016	2015*	2016	2015*	2016	2015*	
Revenues:							
Program revenues:							
Charges for services	\$ 255,604	\$ 247,588	\$ 503,405	\$ 463,943	\$ 759,009	\$ 711,531	7%
Operating grants and contributions	529,933	506,064	330	30	530,263	506,094	5%
Capital grants and contributions	4,818	4,871	8,587	5,225	13,405	10,096	33%
General revenues:							
Property taxes	470,263	430,001	-	-	470,263	430,001	9%
Other taxes	14,406	17,073	-	-	14,406	17,073	(16)%
Aid from other governmental units	4,315	34,893	-	-	4,315	34,893	(88)%
Interest and investment earnings	7,756	7,858	687	400	8,443	8,258	2%
Other	19,358	16,028	-	-	19,358	16,028	21%
Total revenues	<u>1,306,453</u>	<u>1,264,376</u>	<u>513,009</u>	<u>469,598</u>	<u>1,819,462</u>	<u>1,733,974</u>	5%
Expenses:							
General government	82,387	70,522	-	-	82,387	70,522	17%
Public protection	602,307	586,147	-	-	602,307	586,147	3%
Public ways and facilities	29,227	22,465	-	-	29,227	22,465	30%
Health and sanitation services	193,282	169,010	-	-	193,282	169,010	14%
Public assistance	259,743	243,256	-	-	259,743	243,256	7%
Education	8,368	7,922	-	-	8,368	7,922	6%
Recreation	4	-	-	-	4	-	-%
Interest on long-term debt	4,782	4,408	-	-	4,782	4,408	8%
Medical Center	-	-	421,233	375,451	421,233	375,451	12%
Department of Airports	-	-	6,484	6,214	6,484	6,214	4%
Waterworks - Water and Sewer	-	-	30,345	30,825	30,345	30,825	(2)%
Parks Department	-	-	5,259	5,491	5,259	5,491	(4)%
Channel Islands Harbor	-	-	7,540	7,816	7,540	7,816	(4)%
Health Care Plan	-	-	68,940	59,142	68,940	59,142	17%
Oak View District	-	-	220	213	220	213	3%
Total expenses	<u>1,180,100</u>	<u>1,103,730</u>	<u>540,021</u>	<u>485,152</u>	<u>1,720,121</u>	<u>1,588,882</u>	8%
Excess (deficiency) before transfers	126,353	160,646	(27,012)	(15,554)	99,341	145,092	(32)%
Transfers	<u>(38,522)</u>	<u>(33,895)</u>	<u>38,522</u>	<u>33,895</u>	<u>-</u>	<u>-</u>	-%
Change in net position	87,831	126,751	11,510	18,341	99,341	145,092	(32)%
Net position - beginning	1,122,234	995,483	302,853	284,512	1,425,087	1,279,995	11%
Net position - ending	<u>\$ 1,210,065</u>	<u>\$ 1,122,234</u>	<u>\$ 314,363</u>	<u>\$ 302,853</u>	<u>\$ 1,524,428</u>	<u>\$ 1,425,087</u>	7%

\*Net position beginning balances for fiscal year 2015 reflect a prior period adjustment as a result of implementing GASB 68.

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

**Governmental activities.** Governmental activities, as reflected in the Statement of Activities, increased the County’s change in net position in the current period by \$87,831,000, thereby accounting for 88 percent of the total current period growth in the County’s net position. 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 increased by 3 percent from the prior year.

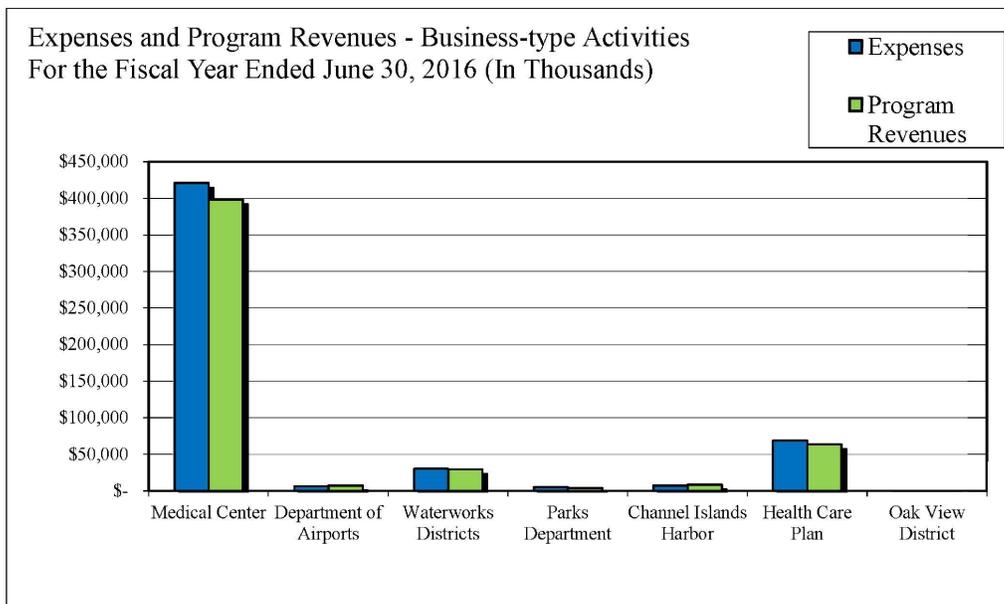
- Operating grants and contributions are revenues earned from entities outside of the County, primarily state and federal agencies, and are generally restricted to one or more specific programs. In 2015-16, the County reported \$529,933,000 in operating grants and contributions, which comprised 67 percent of the total program revenues in the current year. Operating grants and contributions increased by \$23,869,000 from the prior year, primarily in public assistance due to an increase in Medi-Cal revenues. Operating grants and contributions represent the largest revenue source for governmental activities. The public assistance, public protection, and health and sanitation services functions received 96 percent of this funding source in fiscal year 2015-16.

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

- 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 \$126,573,000, or 50 percent, of the total of \$255,604,000. 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 Protection Districts. Charges for services provided 32 percent of total program revenues in 2015-16, increasing 3 percent from the prior year.
- Capital grants and contributions of \$4,818,000 represented the smallest source of program revenues in 2015-16 at 1 percent of total program revenues.
- General revenue for governmental activities primarily consisted of taxes. Property tax revenue, the largest source of general revenue with \$470,263,000 reported in 2015-16, increased by 9 percent from 2014-15. The majority of the \$40,262,000 increase was due to the reclassification of RDA passthrough and residual property taxes from unrestricted aid from other government units to property taxes.

**Expenses.** Total program expenses for governmental activities were \$1,180,100,000 for the current fiscal year as compared to \$1,103,730,000 for the prior fiscal year, an increase of 7 percent. Public protection at \$602,307,000 accounted for 51 percent of total expenses for governmental activities. Public assistance expenses were \$259,743,000, or 22 percent, followed by health and sanitation services at \$193,282,000, or 16 percent, general government at \$82,387,000, or 7 percent, and various other costs of \$42,381,000, or 4 percent, of total expenses. Expenses increased in all functions.

**Business-type activities.** Business-type activities increased the change in net position in the current period by \$11,510,000, or 12 percent, of the total growth in the County’s net position, primarily due to General Fund subsidies for the Medical Center. 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, 98 percent, or \$503,405,000, of total program revenues were generated from charges for services, as compared to the prior year's, 99 percent, or \$463,943,000. The Medical Center accounted for 78 percent of total program revenues for business-type activities at \$398,536,000 and the Health Care Plan accounted for 12 percent of total program revenues, the same as in the prior year. The Waterworks Districts' combined water and sewer activities generated 6 percent of total program revenues, and all other business-type activities accounted for the remaining 4 percent.

**Expenses.** Total expenses for business-type activities were \$540,021,000 in 2015-16 compared to \$485,152,000 in 2014-15, representing an increase of about 11 percent. About 78 percent of total expenses, or \$421,233,000, were incurred by the Medical Center. The Health Care Plan accounted for 13 percent of the total cost, while Waterworks - Water and Sewer activities, accounted for 6 percent. The remaining 3 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 \$19,503,000.

The increase in expense for the business-type activities was primarily due to increased salaries and benefits and increased medical and specialty pharmaceutical costs due to an unprecedented number of high cost cases at the Health Care Plan. Medical Center increases were primarily due to negotiated nurses' salaries that brought compensation to market in order to address recruitment and retention challenges especially in critical care areas. Services and supplies increases were primarily due to newly recruited physicians and revised physician contracts, nursing registry from un-recruited positions, and pharmaceutical costs from 340B discount reconciliation adjustments.

### 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, 2016, the County's governmental funds reported total fund balances of \$612,473,000, a decrease of \$12,573,000 from the prior year. Approximately \$70,161,000 or 11 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 89 percent or \$542,312,000 is available to meet the County's current and future needs.

Revenues for governmental funds totaled \$1,302,943,000 in the year ended June 30, 2016, representing an increase of about 2 percent from the fiscal year ended June 30, 2015. This was primarily attributable to an increase in taxes. Expenditures, at \$1,279,453,000, increased 8 percent when compared to the fiscal year ended June 30, 2015, with increases primarily in public protection and health and sanitation services.

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

**GENERAL FUND**

The General Fund is the primary operating fund of the County. At June 30, 2016, the General Fund's total fund balance was \$358,563,000, decreasing \$9,906,000 from the prior year. The nonspendable portion of fund balance was \$67,217,000 and the spendable portion was \$291,346,000. 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. Total fund balance equates to 38 percent of total General Fund expenditures while spendable fund balance equates to 31 percent. Of the General Fund spendable fund balance, \$94,529,000, or 32 percent, is restricted, and \$4,244,000, 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 the County's share of state highway use taxes and fuel taxes. At June 30, 2016, this fund had a total fund balance of \$39,633,000, of which \$20,631,000 was restricted, \$17,773,000 was committed, and \$1,229,000 was assigned. Total fund balance decreased by 28 percent when compared to the prior year.

**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, 2016, of \$49,481,000, increased 3 percent or \$1,476,000 from the prior year. Restricted fund balance of \$47,662,000 accounted for 96 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, 2016, the Fire Protection District's total fund balance was \$101,984,000, increasing \$3,137,000 from the prior year. Fund balance included a Nonspendable portion of \$1,714,000. Restricted fund balance totaled \$100,237,000, or 98 percent, with the remaining \$33,000 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 to \$8,235,000 or by 30 percent. This increase was primarily attributable to an increase in the Public Financing Authority capital projects fund, offset by a decrease in the Mental Health Services Act special revenue fund.

Additional information on 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, 2016 and 2015  
(In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances		Increase (Decrease)
	2016	2015	2016	2015	2016	2015	Change
General Fund	\$ 989,657	\$ 975,987	\$ 999,563	\$ 931,293	\$ (9,906)	\$ 44,694	\$ (54,600)
Roads	17,691	21,824	33,206	22,977	(15,515)	(1,153)	(14,362)
Watershed Protection Districts	35,834	33,990	34,358	32,819	1,476	1,171	305
Fire Protection District	153,874	144,281	150,737	135,631	3,137	8,650	(5,513)
Non-major funds	131,323	125,288	123,088	118,948	8,235	6,340	1,895
Total	<u>\$ 1,328,379</u>	<u>\$ 1,301,370</u>	<u>\$ 1,340,952</u>	<u>\$ 1,241,668</u>	<u>\$ (12,573)</u>	<u>\$ 59,702</u>	<u>\$ (72,275)</u>

**GENERAL FUND**

Aid from other governmental units, taxes, and charges for services comprise 93 percent of total revenues. Taxes increased by \$21,390,000, or 7 percent, while aid from other governmental units decreased \$13,482,000, primarily due to the reclassification of RDA passthrough and residual property taxes from aid from other governmental units. Charges for services increased \$5,369,000. The increase in charges for services was due to increases in Mental Health Medi-Cal services and a number of minor increases in various areas. All other revenues increased \$828,000.

**ROADS**

Fund balance decreased at June 30, 2016, by \$15,515,000, compared to a decrease in the prior year of \$1,153,000. Revenues and other financing sources decreased by \$4,133,000, with expenditures and other financing uses increasing by \$10,229,000. The decrease in revenue was primarily attributable to a decrease in Highway User Tax Account (HUTA) revenue due to decreased gas consumption. The increase in expenditures was mainly due to increased maintenance and infrastructure projects.

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

**WATERSHED PROTECTION DISTRICTS**

Fund balance increased by \$1,476,000 in 2015-16, compared with an increase in the prior fiscal year of \$1,171,000. Revenues and other financing sources in 2015-16 of \$35,834,000, were greater than revenues and other financing sources in 2014-15 of \$33,990,000 by \$1,844,000, primarily due to increased property tax revenue offset by a decrease in charges for services. Expenditures and other financing uses in 2015-16 of \$34,358,000, increased by \$1,539,000, when compared with the prior year, primarily due to increased maintenance projects, offset by decreased construction project activity.

**FIRE PROTECTION DISTRICT**

The District's fund balance increased by \$3,137,000, compared to an increase of \$8,650,000, in 2014-15. Revenues and other financing sources at June 30, 2016, totaled \$153,874,000, an increase of \$9,593,000 from the prior fiscal year, primarily from increased property tax revenue due to the reclassification of RDA passthrough and residual property taxes from aid from other governmental units and an increase in assessed valuation. Expenditures and other financing uses were \$150,737,000, increasing by \$15,106,000, when compared to 2014-15, with increases in salaries and benefits, services and supplies and capital outlay.

**NON-MAJOR GOVERNMENTAL FUNDS**

Fund balances at June 30, 2016, increased by \$8,235,000, compared with a prior year increase of \$6,340,000. The increase is primarily attributable to an increase in the Public Financing Authority Capital Projects fund, offset by a decrease in the Mental Health Services Act special revenue fund.

**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, changes in fund net position, and a prior period adjustment in 2014-15, as a result of implementing GASB 68:

Summary of Revenues, Expenses, Transfers and Changes in Fund Net Position  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2016  
(In Thousands)

	<u>Major Funds</u>				<u>Total</u>
	<u>Medical Center</u>	<u>Department of Airports</u>	<u>Waterworks Districts</u>	<u>Non-major Funds</u>	
Operating revenues	\$ 391,844	\$ 7,474	\$ 28,309	\$ 75,745	\$ 503,372
Operating expenses	(419,270)	(6,497)	(30,284)	(82,059)	(538,110)
Operating income (loss)	(27,426)	977	(1,975)	(6,314)	(34,738)
Non-operating revenues (expenses) and capital grants and contributions, net	4,523	334	1,272	882	7,011
Income (loss) before transfers	(22,903)	1,311	(703)	(5,432)	(27,727)
Transfers	37,016	-	-	1,506	38,522
Change in net position	14,113	1,311	(703)	(3,926)	10,795
Net position - beginning	68,529	52,671	134,150	48,003	303,353
Net position - ending	<u>\$ 82,642</u>	<u>\$ 53,982</u>	<u>\$ 133,447</u>	<u>\$ 44,077</u>	<u>\$ 314,148</u>

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

Summary of Revenues, Expenses, Transfers and Changes in Fund Net Position  
Enterprise Funds  
For the Fiscal Year Ended June 30, 2015  
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 357,748	\$ 6,309	\$ 30,008	\$ 69,887	\$ 463,952
Operating expenses	<u>(372,375)</u>	<u>(6,182)</u>	<u>(30,136)</u>	<u>(72,195)</u>	<u>(480,888)</u>
Operating income (loss)	(14,627)	127	(128)	(2,308)	(16,936)
Non-operating revenues (expenses) and capital grants and contributions, net	<u>1,404</u>	<u>1,277</u>	<u>184</u>	<u>310</u>	<u>3,175</u>
Income (loss) before transfers	(13,223)	1,404	56	(1,998)	(13,761)
Transfers	<u>32,809</u>	<u>-</u>	<u>(118)</u>	<u>1,204</u>	<u>33,895</u>
Change in net position	19,586	1,404	(62)	(794)	20,134
Net position - beginning	126,117	53,355	134,212	56,181	369,865
Prior period adjustment	<u>(77,174)</u>	<u>(2,088)</u>	<u>-</u>	<u>(7,384)</u>	<u>(86,646)</u>
Net position - beginning, as restated	<u>48,943</u>	<u>51,267</u>	<u>134,212</u>	<u>48,797</u>	<u>283,219</u>
Net position - ending	<u>\$ 68,529</u>	<u>\$ 52,671</u>	<u>\$ 134,150</u>	<u>\$ 48,003</u>	<u>\$ 303,353</u>

The net loss before transfers of \$27,727,000 for all enterprise funds resulted primarily from the net loss before transfers in the Medical Center of \$22,903,000, offset by net income from the Department of Airports of \$1,311,000. Net transfers to the Medical Center, are primarily from the General Fund of \$37,016,000, up from \$32,809,000, in the prior year, resulted in a change in net position of \$14,113,000. The increase in the Medical Center operating revenues of \$34,096,000, or 10 percent, primarily resulted from an increase in negotiated contract rates from Medi-Cal Managed Care and from an increase in Medi-Cal for the Federally Qualified Health Center clinics that is now being reimbursed at the audited prospective payment system rate. In addition, the Medical Center was one of fifteen County Medical Centers to be awarded the Whole Person Care Program revenue over the next five years. Due to the Affordable Care Act the payor mix improved, expanding Medi-Cal and reducing the uninsured population to 2 percent.

Operating expenses increased by \$46,895,000, or 13 percent, from the prior year, resulting in an operating loss of \$27,426,000, compared to the prior year operating loss of \$14,627,000. Salaries and benefits increased \$23,275,000, or 12 percent, from the prior year, primarily due to negotiated nursing salaries that brought compensation to market in order to address recruitment and retention challenges especially in critical care areas. Services and supplies increased by \$22,871,000, or 14 percent, due to increases in newly recruited physicians and revised physician contracts, nursing registry from un-recruited positions, and pharmaceutical costs from 340B discount reconciliation adjustment.

The change in net position for all other enterprise funds except for the Medical Center totaled a decrease of \$3,318,000, compared to an increase of \$548,000 in 2014-15. Operating revenues and expenses were \$111,528,000 and \$118,840,000, respectively, increasing by 5 percent and 10 percent, respectively, from the prior year.

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

**Original Budget Compared to Final Budget, June 30, 2016**

Appropriations for the General Fund final budget, including other financing uses, exceeded the original budget by \$71,451,000. Some of the larger changes include an increase in final budget appropriations for salaries and benefits in all areas primarily due to transfers of appropriations for vacation/annual leave buydowns. For control purposes, vacation/annual leave buydowns are budgeted in a general government budget unit and are transferred as related expenditures are incurred. Over \$13,300,000 was transferred in 2015-16. Services and supplies increased by \$8,596,000 primarily in public assistance with additional increases in public protection, and health and sanitation services while capital outlay increased by \$43,008,000 for a number of projects including a new property tax system (\$12,500,000), the Horizon View Mental Health Rehabilitation Center (\$8,200,000), the purchase of new buildings (\$4,900,000), leasehold improvements (\$4,500,000), and a number of smaller improvements and equipment acquisitions. Appropriations for transfers out increased by about \$21,216,000. Approximately \$8,896,000, 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 Compared to Actual Expenditures and Revenues, June 30, 2016**

The final budget appropriations exceeded actual expenditures, including transfers out, by \$101,045,000, while the final budget estimated revenues were more than actual revenues, including other financing sources, by \$54,534,000. The largest component of excess appropriations over expenditures was \$32,907,000 for services and supplies, primarily in health and sanitation services, general government, and public protection. Unexpended appropriations for services and supplies and capital outlay of \$29,467,000 were encumbered for expenditure in 2016-17. The largest revenue shortfall in comparison with the final budget was in aid from other governmental units in the amount of \$45,263,000 due in part to the reclassification of RDA passthrough and residual property taxes from aid from other governmental units to taxes.

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, 2016, amounted to \$2,511,635,000 at cost or \$1,770,896,000 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 accumulated depreciation for the current period was 8 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.

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

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
	2016	2015	2016	2015 (1)	2016	2015 (1)	
Land	\$ 40,195	\$ 38,828	\$ 22,759	\$ 22,674	\$ 62,954	\$ 61,502	2%
Easements	200,045	199,880	1,297	1,297	201,342	201,177	-%
Construction in progress	44,362	37,900	296,503	177,996	340,865	215,896	58%
Land improvements	45,743	43,970	83,913	83,668	129,656	127,638	2%
Structures and improvements	522,436	512,630	319,340	314,743	841,776	827,373	2%
Equipment	100,676	101,045	47,579	46,833	148,255	147,878	-%
Vehicles	92,419	88,424	1,120	1,137	93,539	89,561	4%
Software	81,924	66,904	49,860	49,442	131,784	116,346	13%
Infrastructure	561,464	553,283	-	-	561,464	553,283	1%
Total	<u>\$ 1,689,264</u>	<u>\$ 1,642,864</u>	<u>\$ 822,371</u>	<u>\$ 697,790</u>	<u>\$ 2,511,635</u>	<u>\$ 2,340,654</u>	7%

(1) Certain amounts reported at June 30, 2015 have been reclassified to the appropriate asset class. Such reclassifications had no effect on the previously reported capital asset total.

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

Construction in progress had a net increase of \$124,969,000. Additions totaling \$151,735,000, included Medical Center and Clinic improvements for \$115,489,000, General Fund projects for \$11,653,000, Waterworks projects for \$5,849,000, Watershed Protection District projects for \$5,398,000, Fire Protection District projects for \$3,996,000, General Services Agency projects for \$3,973,000, Stormwater projects for \$2,096,000, and various other projects for \$3,281,000. Construction in progress was reduced by \$26,766,000 including transfers of completed projects of \$24,693,000 to structures and improvements, equipment, and software.

Software had a net increase of \$15,438,000 primarily due to the County's financial management system upgrade.

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, 2016, the County had total debt outstanding of \$447,987,000, excluding capital leases, compensated absences, and other liabilities. The following table summarizes the categories of debt. During the year, retirement of debt amounted to \$17,684,000 and additions amounted to \$11,400,000. The following table summarizes the debt outstanding balances at June 30, 2016 and 2015 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Certificates of participation and lease revenue bonds	\$ 53,492	\$ 60,442	\$ 352,072	\$ 360,192	\$ 405,564	\$ 420,634
Tax-exempt commercial paper	20,926	11,232	4,775	5,369	25,701	16,601
Loans payable	8,662	8,935	8,060	8,069	16,722	17,004
Total	<u>\$ 83,080</u>	<u>\$ 80,609</u>	<u>\$ 364,907</u>	<u>\$ 373,630</u>	<u>\$ 447,987</u>	<u>\$ 454,239</u>

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

For the fiscal year 2015-16, County debt limit is determined by statute at 1.25 percent of total assessed valuation or approximately \$1,528,776,000. The County's general obligation bonded debt subject to the debt limit is \$0, which is under the debt limit by \$1,528,776,000.

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, 2015, the County issued \$140,585,000 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. At June 30, 2016, the outstanding balance was \$140,585,000 and was paid with interest on July 1, 2016, the maturity date of the notes.

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 2016-17 adopted budget for all County funds totals \$2,181,333,000, a 3.9 percent increase when compared to the prior year. The General Fund 2016-17 budget of \$1,069,929,000 was structurally balanced using projected ongoing available financing sources. Year-end fund balance is not considered an ongoing financing source and is used to maintain policy-set fund balance levels and fund one-time expenditures.
- Assessed property valuations increased by 3.74 percent for the 2016-17 fiscal year when compared with 2015-16. Property tax revenues were budgeted with an increase of 3.5 percent.
- The 2016-17 budget includes an increase in salaries and benefits of 8.74 percent as compared to the prior year's actual expenditures with increases primarily in regular salaries, retirement contributions, and call back staffing, with reductions in overtime and supplemental payments.

Additional information is provided in Notes 18 and 19 of the Notes to the Basic Financial Statements, as well as the transmittal letter on page 5 of this report.

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

**REQUESTS FOR INFORMATION**

County information is available on-line at [www.ventura.org](http://www.ventura.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 203, 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.