

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, 2013. 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 and deferred inflows of resources at the close of the 2012-13 fiscal year by \$2,010,460,000 (*net position*). Of this amount, \$365,727,000 (*unrestricted net position*) may be used to meet ongoing obligations to citizens and creditors, \$343,037,000 is restricted for specific purposes (*restricted net position*), and \$1,301,696,000 is the *net investment in capital assets*.
- The government's total net position increased by \$70,086,000 during fiscal year 2012-13, mainly due to an increase in governmental activities. Net investment in capital assets increased by \$31,642,000. 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 increased by \$6,489,000, while unrestricted net position increased by \$31,955,000.
- As of June 30, 2013, the County governmental funds reported combined fund balances of \$535,691,000, an increase of \$18,716,000 in comparison with the prior year.
- At the end of the fiscal year, unassigned general fund fund balance was \$151,538,000, or 19 percent of total general fund expenditures, reflecting an increase from the prior fiscal year balance, which was \$133,437,000, primarily due to unexpended property taxes.
- The County's current and other assets and current and other liabilities increased by \$192,946,000 and \$156,925,000, respectively in the governmental activities, primarily due to the payment of the County's Tax and Revenue Anticipation Notes prior to the end of fiscal year 2011-12.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

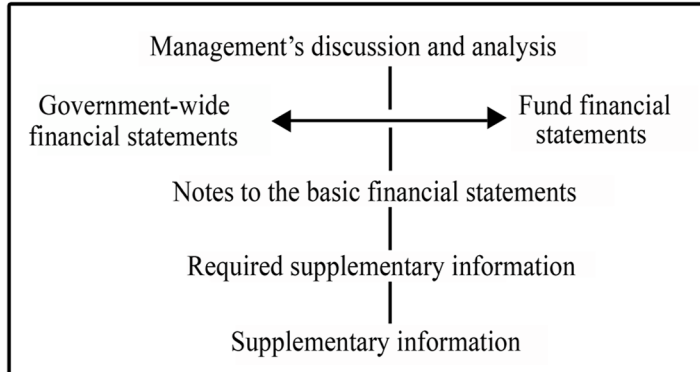
The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- 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, 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 37 - 39 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-one 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 40 - 46 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 47 - 50 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 51 - 52 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 53 - 106 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 position. 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 107 - 116 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 117 - 178 of this report.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Government-wide Summary of Net 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 \$2,010,460,000.

A summary of net position is as follows:

Summary of Net Position June 30, 2013 and 2012 (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2013	2012	2013	2012 As restated	2013	2012 As restated	
Assets:							
Current and other assets	\$ 1,075,336	\$ 882,390	\$ 483,406	\$ 191,275	\$ 1,558,742	\$ 1,073,665	45%
Capital assets	<u>1,114,767</u>	<u>1,102,060</u>	<u>368,119</u>	<u>316,855</u>	<u>1,482,886</u>	<u>1,418,915</u>	5%
Total assets	<u>2,190,103</u>	<u>1,984,450</u>	<u>851,525</u>	<u>508,130</u>	<u>3,041,628</u>	<u>2,492,580</u>	22%
Liabilities:							
Current and other liabilities	264,273	107,348	62,595	53,199	326,868	160,547	104%
Long-term liabilities	<u>286,295</u>	<u>285,246</u>	<u>408,026</u>	<u>96,162</u>	<u>694,321</u>	<u>381,408</u>	82%
Total liabilities	<u>550,568</u>	<u>392,594</u>	<u>470,621</u>	<u>149,361</u>	<u>1,021,189</u>	<u>541,955</u>	88%
Deferred inflows of resources:							
Deferred service concession arrangements	-	-	9,979	10,251	9,979	10,251	(3)%
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>9,979</u>	<u>10,251</u>	<u>9,979</u>	<u>10,251</u>	(3)%
Net position:							
Net investment in capital assets	1,045,671	1,030,088	256,025	239,966	1,301,696	1,270,054	2%
Restricted	320,719	324,859	22,318	11,689	343,037	336,548	2%
Unrestricted	<u>273,145</u>	<u>236,909</u>	<u>92,582</u>	<u>96,863</u>	<u>365,727</u>	<u>333,772</u>	10%
Total net position	<u>\$ 1,639,535</u>	<u>\$ 1,591,856</u>	<u>\$ 370,925</u>	<u>\$ 348,518</u>	<u>\$ 2,010,460</u>	<u>\$ 1,940,374</u>	4%

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

A significant component of the County's net position totaling \$1,301,696,000 (65 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, 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.

The restricted component of the County's net position, totaling \$343,037,000 (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 is also reported as restricted, and therefore is not available for other uses by the County.

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

The third portion of the County's net position is unrestricted, totaling \$365,727,000 (18 percent), and 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 position, both for the County as a whole, as well as for its separate governmental and business-type activities. The County's net position increased by \$70,086,000. Net position for governmental and business-type activities increased by \$47,679,000 and \$22,407,000, respectively.

General revenues for governmental activities increased by \$30,825,000, primarily from unrestricted aid from other governmental units. Program revenues increased by \$26,676,000, primarily due to increased operating grants and contributions in public protection. Program expenses increased by \$29,424,000, or 3 percent, in all functions except education.

The increase in net position attributable to business-type activities resulted from increases in the Medical Center, due to General Fund subsidies. Program revenues remained flat with increases in charges for services offset by decreased capital grants and contributions. Program expenses increased by \$27,410,000, or 7 percent, primarily in the Medical Center, with smaller increases in all other areas. Additional information is provided on pages 32-33 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 \$57,554,000, or 4 percent, with increases in aid from other governmental units, charges for services, and operating grants and contributions of \$24,592,000, \$23,931,000, and 20,424,000, respectively, offset by a decrease in capital grants and contributions of \$17,555,000. Additional information on major revenue streams is provided on pages 27-29.

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

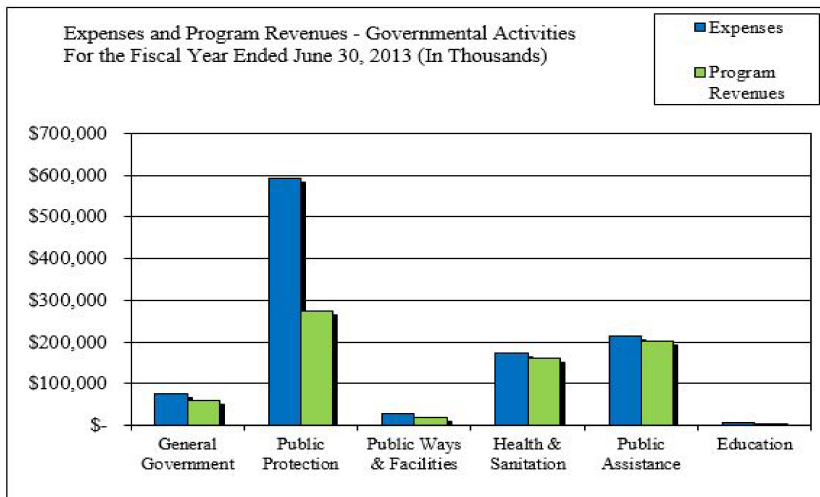
Summary of Activities
For the Fiscal Years Ended June 30, 2013 and 2012
(In Thousands)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2013	2012	2013	2012 As restated	2013	2012 As restated	
Revenues:							
Program revenues:							
Charges for services	\$ 233,858	\$ 231,561	\$ 406,713	\$ 385,079	\$ 640,571	\$ 616,640	4%
Operating grants and contributions	473,760	453,377	47	6	473,807	453,383	5%
Capital grants and contributions	9,618	5,622	8,318	29,869	17,936	35,491	(49)%
General revenues:							
Property taxes	390,685	393,038	-	-	390,685	393,038	(1)%
Other taxes	14,297	12,135	-	-	14,297	12,135	18%
Aid from other governmental units	46,744	22,152	-	-	46,744	22,152	111%
Interest and investment earnings	612	1,519	342	413	954	1,932	(51)%
Other	24,217	16,886	-	-	24,217	16,886	43%
Total revenues	<u>1,193,791</u>	<u>1,136,290</u>	<u>415,420</u>	<u>415,367</u>	<u>1,609,211</u>	<u>1,551,657</u>	4%
Expenses:							
General government	75,597	72,477	-	-	75,597	72,477	4%
Public protection	592,192	577,240	-	-	592,192	577,240	3%
Public ways and facilities	27,562	26,676	-	-	27,562	26,676	3%
Health and sanitation services	174,920	167,971	-	-	174,920	167,971	4%
Public assistance	216,112	214,737	-	-	216,112	214,737	1%
Education	8,166	8,654	-	-	8,166	8,654	(6)%
Interest on long-term debt	7,574	4,944	-	-	7,574	4,944	53%
Medical Center	-	-	332,606	314,651	332,606	314,651	6%
Department of Airports	-	-	7,289	6,472	7,289	6,472	13%
Waterworks - Water and Sewer	-	-	27,286	24,655	27,286	24,655	11%
Parks Department	-	-	5,215	4,550	5,215	4,550	15%
Channel Islands Harbor	-	-	7,719	6,850	7,719	6,850	13%
Health Care Plan	-	-	56,642	52,229	56,642	52,229	8%
Oak View District	-	-	245	185	245	185	32%
Total expenses	<u>1,102,123</u>	<u>1,072,699</u>	<u>437,002</u>	<u>409,592</u>	<u>1,539,125</u>	<u>1,482,291</u>	4%
Excess (deficiency) before extraordinary item and transfers	91,668	63,591	(21,582)	5,775	70,086	69,366	1%
Extraordinary item	-	(1,414)	-	-	-	(1,414)	100%
Transfers	(43,989)	(40,439)	43,989	40,439	-	-	-%
Change in net position	47,679	21,738	22,407	46,214	70,086	67,952	3%
Net position - July 1, 2012, as restated	<u>1,591,856</u>	<u>1,570,118</u>	<u>348,518</u>	<u>302,304</u>	<u>1,940,374</u>	<u>1,872,422</u>	4%
Net position - June 30, 2013	<u>\$ 1,639,535</u>	<u>\$ 1,591,856</u>	<u>\$ 370,925</u>	<u>\$ 348,518</u>	<u>\$ 2,010,460</u>	<u>\$ 1,940,374</u>	4%

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

Governmental activities. Governmental activities, as reflected in the Statement of Activities, increased the County's net position by \$47,679,000, thereby accounting for 68 percent of the total 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 5 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 2012-13, the County reported \$473,760,000 in operating grants and contributions, which comprised 66 percent of the total program revenues in the current year. Operating grants and contributions increased by \$20,383,000 from the prior year, primarily due to increased 2011 Realignment revenue in the public protection function. Operating grants and contributions represent the largest revenue source for governmental activities. The public protection, health and sanitation services, and public assistance functions received 94 percent of this funding source in fiscal year 2012-13.
- 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 \$120,914,000, or 52 percent, of the total of \$233,858,000. Among the major sources are contracted law enforcement services provided by the Sheriff's Department to several cities, emergency and contract services performed by the Fire Protection

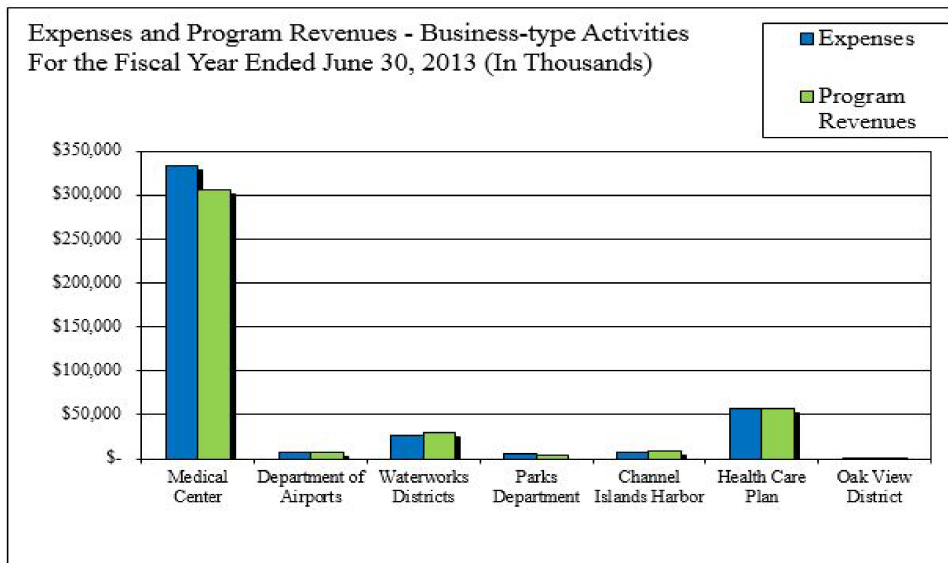
**MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

District for various governmental agencies, and various assessments generated by the Watershed Protection Districts. Charges for services provided 33 percent of total program revenues in 2012-13, the same as in the prior year.

- Capital grants and contributions of \$9,618,000 represented the smallest source of program revenues in 2012-13 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, the largest source of general revenue with \$390,685,000 reported in 2012-13, remained relatively flat decreasing by less than 1 percent from 2011-12. Unrestricted aid from other governmental units, comprising 11 percent of general revenue, increased \$24,592,000 primarily due to increased Redevelopment Agency (RDA) pass-through.

Expenses. Total program expenses for governmental activities were \$1,102,123,000 for the current fiscal year as compared to \$1,072,699,000 for the prior fiscal year, an increase of 3 percent. Public protection at \$592,192,000 accounted for 54 percent of total expenses for governmental activities. Public assistance expenses were \$216,112,000, or 19 percent, followed by health and sanitation services at \$174,920,000, or 16 percent, general government at \$75,597,000, or 7 percent, and various other costs of \$43,302,000, or 4 percent, of total expenses. Expenses increased in all functions except education.

Business-type activities. Business-type activities increased net position by \$22,407,000, or 32 percent, of the total growth in the County's net position, primarily from 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 \$406,713,000, of total program and general revenues were generated from charges for services, as compared to the prior year's, 93 percent, or \$385,079,000. The Medical Center accounted for 74 percent of total program revenues for business-type activities at \$306,021,000, an increase of 3 percent from the prior fiscal year. The Health Care Plan accounted for 14 percent of total program revenues, an increase of 1 percent from the prior year. The Waterworks Districts' combined water and sewer activities generated 7 percent of total program revenues, and all other business-type activities accounted for the remaining 5 percent.

Expenses. Total expenses for business-type activities were \$437,002,000 in 2012-13 compared to \$409,592,000 in 2011-12, representing an increase of about 7 percent. About 76 percent of total expenses, or \$332,606,000, 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 5 percent of expenses were incurred by the Department of Airports, Parks Department, Channel Islands Harbor, and the Oak View District business activities, with a combined total of \$20,468,000.

The increase in expense for the business type activities was primarily due to increased salaries and benefits and services and supplies at the Medical Center. Higher retirement costs, salaries and benefits for campus maintenance, and extra help led to this increase. Also contributing to the increase was the Health Care Plan, with an increase of \$4,413,000, primarily due to an increase in the provision for claims.

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, 2013, the County's governmental funds reported total fund balances of \$535,691,000, an increase of \$18,716,000 from the prior year. Approximately \$6,402,000 or 1 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 99 percent or \$529,289,000 is available to meet the County's current and future needs.

Revenues for governmental functions totaled \$1,180,093,000 in the year ended June 30, 2013, representing an increase of about 4 percent from the fiscal year ended June 30, 2012, largely attributable to increases in aid from other governmental units. Expenditures, at \$1,122,389,000, increased 1 percent when compared to the fiscal year ended June 30, 2012, with increases in all functions except education, offset by a decrease in capital outlay.

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

GENERAL FUND

The General Fund is the primary operating fund of the County. At June 30, 2013, the General Fund's total fund balance was \$284,865,000, increasing \$35,248,000 from the prior year. The nonspendable portion of fund balance was \$3,906,000 and the spendable portion was \$280,959,000. 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 35 percent of total General Fund expenditures. Of the General Fund spendable fund balance, \$99,170,000, or 35 percent, is restricted, and \$3,139,000, 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, 2013, this fund had a total fund balance of \$54,996,000, of which \$33,112,000 was restricted, \$20,660,000 was committed, and \$1,224,000 was assigned. Total fund balance decreased when compared to the prior year by 10 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, 2013, of \$56,934,000 increased 9 percent or \$4,628,000 from the prior year. Restricted fund balance of \$55,303,000 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, 2013, the Fire Protection District's total fund balance was \$85,137,000, increasing \$1,557,000 from the prior year. Fund balance included a Nonspendable portion of \$1,308,000. Restricted fund balance totaled \$83,257,000, or 98 percent, with the remaining \$572,000, 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 decreased 24 percent or by \$16,904,000. The Mental Health Services Act fund balance decreased by \$15,603,000, while the Public Financing Authority capital projects fund decreased by \$7,457,000. These decreases were offset by an increase in the Public Financing Authority debt service fund and other special revenue funds.

Additional information on fund balances is provided in Note 12 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, 2013 and 2012
(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>
	2013	2012	2013	2012	2013	2012	
General Fund	\$ 897,699	\$ 872,040	\$ 862,451	\$ 853,138	\$ 35,248	\$ 18,902	\$ 16,346
Roads	20,677	26,059	26,490	29,154	(5,813)	(3,095)	(2,718)
Watershed Protection Districts	39,955	31,173	35,327	40,176	4,628	(9,003)	13,631
Fire Protection District	135,206	125,459	133,649	129,941	1,557	(4,482)	6,039
Non-major funds	<u>114,642</u>	<u>115,280</u>	<u>131,546</u>	<u>113,472</u>	<u>(16,904)</u>	<u>1,808</u>	<u>(18,712)</u>
Total	<u>\$ 1,208,179</u>	<u>\$ 1,170,011</u>	<u>\$ 1,189,463</u>	<u>\$ 1,165,881</u>	<u>\$ 18,716</u>	<u>\$ 4,130</u>	<u>\$ 14,586</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 \$29,678,000, or 8 percent, primarily due to 2011 Realignment and RDA pass-through. Charges for services decreased by \$9,118,000, or 6 percent, primarily due to Medical Center maintenance costs being paid directly by the Medical Center resulting in a decrease in indirect cost recovery.

ROADS

Fund balance decreased at June 30, 2013, by \$5,813,000, compared with a decrease in the prior year of \$3,095,000. Revenues and other financing sources decreased by \$5,382,000, with expenditures and other financing uses decreasing by \$2,664,000. The decrease in revenue was primary attributable to a decrease in Highway User Tax Account (HUTA) revenue due to the implementation of AB1465 which altered HUTA allocations from the State and a decrease in federal aid due to fewer construction projects with federal funding. The decrease in expenditures was mainly due to decreases in supplies and equipment charges for maintenance activities and consultant services for construction projects.

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

WATERSHED PROTECTION DISTRICTS

Fund balance increased by \$4,628,000 in 2012-13, compared with a decrease in the prior fiscal year of \$9,003,000. Revenues and other financing sources in 2012-13 of \$39,955,000, were greater than revenues and other financing sources in 2011-12 of \$31,173,000 by \$8,782,000, primarily due to increases in developer contributions for the Calleguas Creek Project, grant reimbursements for various levee projects, RDA pass-through and disaster reimbursements. Expenditures and other financing uses in 2012-13 of \$35,327,000, decreased by \$4,849,000, when compared with the prior year, due to decreases in services and supplies and capital outlay.

FIRE PROTECTION DISTRICT

The District's fund balance increased by \$1,557,000, compared to a decrease of \$4,482,000, in 2011-12. Revenues and other financing sources at June 30, 2013, totaled \$135,206,000, an increase of \$9,747,000 from the prior fiscal year, primarily due to RDA passthrough revenue and an increase in emergency services reimbursement due to an increase in emergency incidents. Expenditures and other financing uses were \$133,649,000, increasing by \$3,708,000, when compared to 2011-12, 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, 2013, decreased by \$16,904,000, compared with a prior year increase of \$1,808,000. The decrease is attributable to a decrease in the Mental Health Services Act fund and the Public Financing Authority Capital Project 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, and changes in fund net position:

Summary of Revenues, Expenses, Transfers and Changes in Fund Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2013
(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	\$ 303,282	\$ 5,121	\$ 30,071	\$ 68,254	\$ 406,728
Operating expenses	<u>(329,625)</u>	<u>(6,273)</u>	<u>(26,862)</u>	<u>(69,452)</u>	<u>(432,212)</u>
Operating income (loss)	(26,343)	(1,152)	3,209	(1,198)	(25,484)
Non-operating revenues (expenses) and capital grants and contributions, net	<u>66</u>	<u>1,733</u>	<u>147</u>	<u>2,136</u>	<u>4,082</u>
Income (loss) before transfers	(26,277)	581	3,356	938	(21,402)
Transfers	<u>42,576</u>	<u>-</u>	<u>(256)</u>	<u>1,668</u>	<u>43,988</u>
Change in net position	16,299	581	3,100	2,606	22,586
Net position - beginning, as restated	<u>119,342</u>	<u>52,193</u>	<u>128,571</u>	<u>48,144</u>	<u>348,250</u>
Net position - ending	<u>\$ 135,641</u>	<u>\$ 52,774</u>	<u>\$ 131,671</u>	<u>\$ 50,750</u>	<u>\$ 370,836</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, 2012
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds As restated	
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>(63,846)</u>	<u>(406,815)</u>
Operating income (loss)	(23,408)	(890)	2,241	304	(21,753)
Non-operating revenues (expenses) and capital grants and contributions, net	<u>3,804</u>	<u>5,017</u>	<u>12,500</u>	<u>5,693</u>	<u>27,014</u>
Income (loss) before transfers	(19,604)	4,127	14,741	5,997	5,261
Transfers	<u>39,304</u>	<u>-</u>	<u>-</u>	<u>1,135</u>	<u>40,439</u>
Change in net position	19,700	4,127	14,741	7,132	45,700
Net position - beginning, as restated	<u>99,642</u>	<u>48,066</u>	<u>113,830</u>	<u>41,012</u>	<u>302,550</u>
Net position - ending, as restated	<u>\$ 119,342</u>	<u>\$ 52,193</u>	<u>\$ 128,571</u>	<u>\$ 48,144</u>	<u>\$ 348,250</u>

The net loss before transfers of \$21,402,000 for all enterprise funds resulted primarily from the net loss before transfers in the Medical Center of \$26,277,000, offset by net income from the Waterworks Districts of \$3,356,000. Net transfers to the Medical Center, that are primarily from the General Fund of \$42,576,000, up from \$39,304,000, in the prior year, resulted in net income of \$16,299,000. The increase in operating revenues of \$14,662,000, or 5 percent, primarily resulted from an increase in charges for services. Operating expenses increased by \$17,597,000, or 6 percent, from the prior year, resulting in an operating loss of \$26,343,000, compared to the prior year operating loss of \$23,408,000. Salaries and benefits increased \$12,012,000, or 8 percent, primarily due to an increase in retirement cost and campus maintenance staff salaries and benefits, which were paid out of the Medical Center instead of the General Fund. In addition extra help costs went up due to increased staffing needs. Other operating costs increased by \$5,585,000, or 4 percent, due to inflation and the increase of cost of the Low Income Health Plan program.

The change in net position for all other enterprise funds except for the Medical Center totaled \$6,287,000, down 76 percent from 2011-12. Operating revenues and expenses were \$103,446,000 and \$102,587,000, up by 7 and 8 percent respectively from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget Compared to Final Budget, June 30, 2013

Appropriations for the General Fund final budget, including other financing uses, exceeded the original budget by \$41,724,000. Some of the larger changes are summarized below.

Appropriations for transfers out increased by about \$10,244,000. Approximately \$10,147,000, related to certain debt service costs that were 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

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

salaries and benefits expenditures, are budgeted in a general government budget unit and are transferred as related expenditures are incurred. Over \$11,000,000 was transferred during 2012-13. Services and supplies increased by \$9,650,000 primarily in public protection and health and sanitation services while capital outlay increased by \$13,274,000, primarily due to a number of projects approved during the year.

Final Budget Compared to Actual Expenditures and Revenues, June 30, 2013

The final budget appropriations exceeded actual expenditures, including transfers out, by \$73,623,000, while the final budget estimated revenues were more than actual revenues, including other financing sources, by \$41,186,000. The largest component of excess appropriations over expenditures was \$30,859,000 for services and supplies, primarily in health and sanitation services, public protection, and general government. Unexpended appropriations for services and supplies and capital outlay of \$13,708,000 were encumbered for expenditure in 2013-14. The largest revenue shortfalls in comparison with the final budget were in charges for services in the amount of \$18,475,000 and aid from other governmental units in the amount of \$10,626,000.

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, 2013, amounted to \$2,076,951,000 (at cost) or \$1,482,886,000 (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 net investment in capital assets 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>
	2013	2012	2013	2012 As restated	2013	2012 As restated	
Land	\$ 31,801	\$ 31,066	\$ 23,184	\$ 23,492	\$ 54,985	\$ 54,558	1%
Easements	200,607	200,559	787	787	201,394	201,346	-%
Construction in progress	55,215	80,903	84,894	45,998	140,109	126,901	10%
Land improvements	40,312	39,705	72,763	78,222	113,075	117,927	(4)%
Structures and improvements	475,965	456,847	301,045	281,071	777,010	737,918	5%
Equipment	96,261	104,209	43,832	42,005	140,093	146,214	(4)%
Vehicles	83,082	80,540	1,137	1,137	84,219	81,677	3%
Software	58,527	50,377	11,315	8,384	69,842	58,761	19%
Infrastructure	496,224	465,381	-	-	496,224	465,381	7%
Total	<u>\$ 1,537,994</u>	<u>\$ 1,509,587</u>	<u>\$ 538,957</u>	<u>\$ 481,096</u>	<u>\$ 2,076,951</u>	<u>\$ 1,990,683</u>	4%

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

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

Construction in progress had a net increase of \$13,208,000. Additions totaling \$81,920,000, included General Fund projects for \$5,789,000, Fire Protection District projects for \$2,868,000, Watershed Protection District projects for \$12,071,000, Medical Center and Clinic improvements for \$50,307,000, Waterworks projects for \$1,574,000, Airport projects for \$2,368,000, and various other projects for \$6,943,000. Deletions of construction in progress totaled \$68,712,000; this included transfers of completed projects of \$66,368,000 to structures and improvements and equipment.

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

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

Debt Administration - Government-wide Financial Statements

At June 30, 2013, the County had total debt outstanding of \$458,188,000, excluding capital leases, compensated absences, and other liabilities. The following table summarizes the categories of debt. During the year, retirement of debt amounted to \$32,549,000 and additions amounted to \$342,003,000. The following table summarizes the debt outstanding balances at June 30, 2013 and 2012 (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Certificates of participation and lease revenue bonds	\$ 46,892	\$ 33,645	\$ 376,751	\$ 61,851	\$ 423,643	\$ 95,496
Tax-exempt commercial paper	12,738	27,727	6,362	8,473	19,100	36,200
Loans payable	9,466	10,774	5,979	6,264	15,445	17,038
	<u>\$ 69,096</u>	<u>\$ 72,146</u>	<u>\$ 389,092</u>	<u>\$ 76,588</u>	<u>\$ 458,188</u>	<u>\$ 148,734</u>

For the fiscal year 2012-13, County debt limit is determined by statute at 1.25 percent of total assessed valuation or approximately \$1,325,183,000. The general obligation debt subject to the debt limit is \$458,188,000, which is under the limit by \$866,995,000.

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 2, 2012, the County issued \$136,870,000 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, 2013, the outstanding balance was \$136,870,000 and was paid with interest on July 1, 2013, the maturity date of the notes.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The fiscal year 2013-14 adopted budget for all County funds totals \$1,818,686,000, a 4.6 percent increase when compared to the prior year. The General Fund 2013-14 budget of \$931,669,000 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 3.20 percent for the 2013-14 fiscal year when compared with 2012-13. Property tax revenues were budgeted with an increase of 2.5 percent.
- The 2013-14 budget includes an increase in salaries and benefits of 8.27 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 18 and 19 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.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.