

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, 2018. 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 2017-18 fiscal year by \$1,669,849,000 (*net position*). Of this amount, \$406,980,000 is restricted for specific purposes (*restricted net position*), \$1,416,817,000 is the *net investment in capital assets*, and the remaining portion of negative \$153,948,000 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 \$171,490,000 during fiscal year 2017-18, due to an increase in governmental activities. Net investment in capital assets decreased by \$14,855,000. The decrease 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 \$42,756,000, while unrestricted net position increased by \$47,570,000, due to a negative \$96,019,000 prior period adjustment to implement GASB Statement No. 75.
- As of June 30, 2018, the County governmental funds reported combined fund balances of \$717,953,000, an increase of \$64,287,000 in comparison with the prior year.
- At the end of the fiscal year, unassigned General Fund fund balance was \$138,970,000, or 14 percent of total General Fund expenditures, reflecting a decrease of \$16,678,000 from the prior fiscal year balance.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

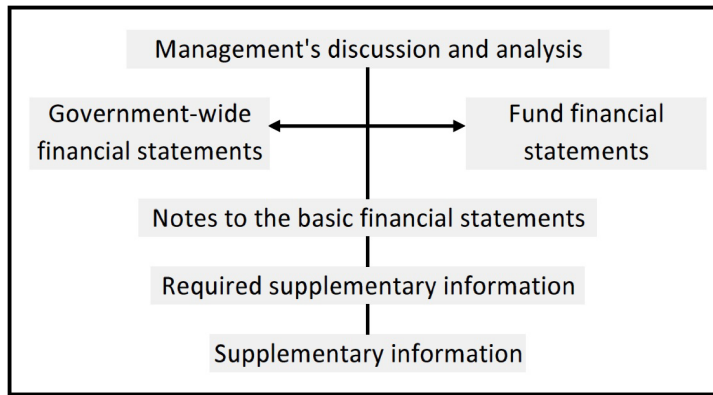
The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- 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 District. 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 Statement No. 34 (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 District, 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-three 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, 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 Supplemental Retirement Plan (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 - 132 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 and schedule of County's contributions, the SRP schedule of changes in net pension liability and related ratios and schedule of investment returns, and schedule of County's contributions, the Management Retiree Health Benefits Program schedule of changes in total pension liability and related ratios, the Subsidized Retiree Health Benefits Program schedule of total other postemployment benefits (OPEB) liability and related ratios, the Ventura County Deputy Sheriffs' Association (VCDSA) Retiree Medical Reimbursement Plan schedule of net OPEB liability and related ratios and schedule of County's contributions, and the Ventura County Professional Firefighters' Association (VCPFA) Premium Reimbursement Plan schedule of net OPEB liability (asset) and related ratios and schedule of County's contributions. These schedules provide trend data on pension and OPEB liabilities, contributions, and payroll amounts as well as factors that significantly affect these trends. 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/FY18_BudgetToActual.pdf

Required supplementary information can be found on pages 133 - 145 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 147 - 212 of this report.

Statistical Information is provided beginning on page 213 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 \$1,669,849,000.

A summary of net position is as follows:

Summary of Net Position June 30, 2018 and 2017 (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2018	2017	2018	2017	2018	2017	
Assets:							
Current and other assets	\$ 1,331,741	\$ 1,084,902	\$ 255,030	\$ 247,416	\$ 1,586,771	\$ 1,332,318	19%
Capital assets	<u>1,214,661</u>	<u>1,197,375</u>	<u>641,363</u>	<u>643,947</u>	<u>1,856,024</u>	<u>1,841,322</u>	1%
Total assets	<u>2,546,402</u>	<u>2,282,277</u>	<u>896,393</u>	<u>891,363</u>	<u>3,442,795</u>	<u>3,173,640</u>	8%
Deferred outflows of resources:							
Deferred outflows related to pensions	261,318	494,818	31,587	61,761	292,905	556,579	(47)%
Deferred outflows related to OPEB	5,890	-	-	-	5,890	-	100%
Deferred outflows-loss on debt refunding	-	-	4,606	5,389	4,606	5,389	(15)%
Total deferred outflows of resources	<u>267,208</u>	<u>494,818</u>	<u>36,193</u>	<u>67,150</u>	<u>303,401</u>	<u>561,968</u>	(46)%
Liabilities:							
Current and other liabilities	295,454	136,014	123,371	101,492	418,825	237,506	76%
Long-term liabilities	<u>1,046,924</u>	<u>1,267,161</u>	<u>469,660</u>	<u>513,721</u>	<u>1,516,584</u>	<u>1,780,882</u>	(15)%
Total liabilities	<u>1,342,378</u>	<u>1,403,175</u>	<u>593,031</u>	<u>615,213</u>	<u>1,935,409</u>	<u>2,018,388</u>	(4)%
Deferred inflows of resources:							
Deferred gain on refunding	410	479	-	-	410	479	(14)%
Deferred service concession arrangements	-	-	9,143	10,208	9,143	10,208	(10)%
Deferred inflows related to pensions	105,458	99,827	12,620	12,328	118,078	112,155	5%
Deferred inflows related to OPEB	<u>13,307</u>	-	-	-	<u>13,307</u>	-	100%
Total deferred inflows of resources	<u>119,175</u>	<u>100,306</u>	<u>21,763</u>	<u>22,536</u>	<u>140,938</u>	<u>122,842</u>	15%
Net position:							
Net investment in capital assets	1,149,011	1,124,728	267,806	306,944	1,416,817	1,431,672	(1)%
Restricted	370,750	347,088	36,230	17,136	406,980	364,224	12%
Unrestricted (deficit)	<u>(167,704)</u>	<u>(198,202)</u>	<u>13,756</u>	<u>(3,316)</u>	<u>(153,948)</u>	<u>(201,518)</u>	24%
Total net position	<u>\$ 1,352,057</u>	<u>\$ 1,273,614</u>	<u>\$ 317,792</u>	<u>\$ 320,764</u>	<u>\$ 1,669,849</u>	<u>\$ 1,594,378</u>	5%

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

A significant component of the County's net position totaling \$1,416,817,000 (85 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 \$406,980,000 (24 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 \$153,948,000 (negative 9 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 \$171,490,000. The change in net position for governmental and business-type activities was \$174,462,000 and negative \$2,972,000 respectively.

General revenues for governmental activities increased by \$31,846,000, primarily from property taxes and interest earnings. Program revenues increased by \$60,232,000, primarily due to increases in both charges for services and operating grants and contributions in public assistance, general government, and health and sanitation services. Program expenses increased by \$7,604,000, or 1 percent, with increases primarily in public protection and offset with a decrease in public assistance.

The current period decrease in net position attributable to business-type activities primarily resulted from a decrease in the Medical Center with small increases in net position for Department of Airports, the Channel Islands Harbor, Healthcare Plan and the Oak View District. Program revenues increased by \$33,328,000, or 6 percent, primarily due to increased charges for services in the Medical Center and Health Care Plan. Program expenses increased by \$44,175,000, or 8 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 \$125,733,000, or 7 percent, with increases in charges for services, operating grants and contributions, and property taxes of \$35,247,000, \$56,349,000, and \$17,487,000, respectively, and smaller increases in all other areas. Additional information on major revenue streams is provided on pages 29-31.

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

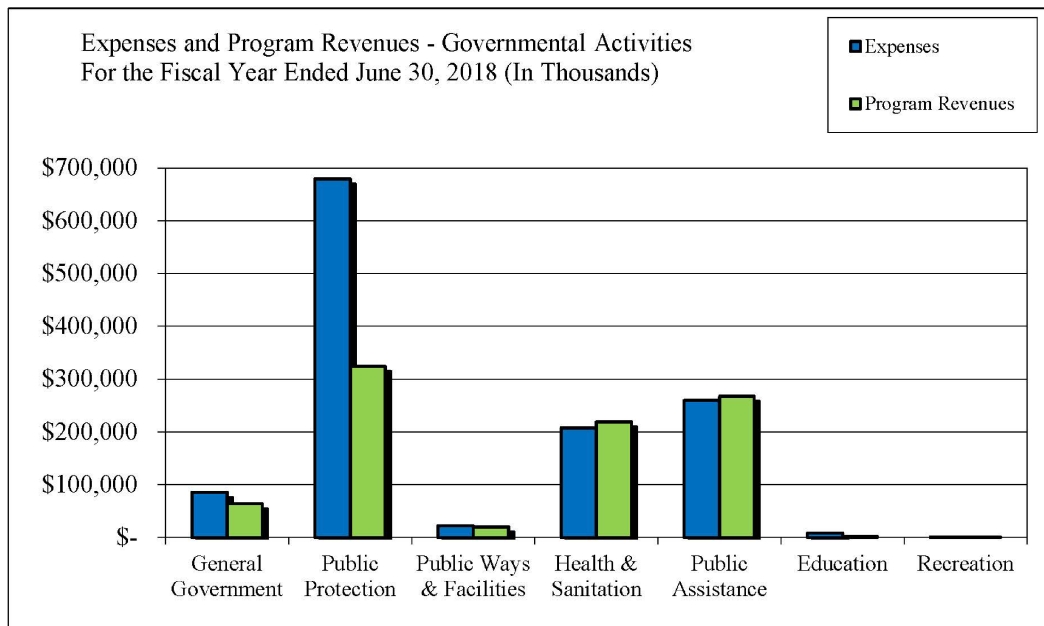
Summary of Activities
For the Fiscal Years Ended June 30, 2018 and 2017
(In Thousands)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2018	2017	2018	2017	2018	2017	
Revenues:							
Program revenues:							
Charges for services	\$ 284,278	\$ 276,055	\$ 567,920	\$ 540,896	\$ 852,198	\$ 816,951	4%
Operating grants and contributions	600,613	549,296	5,590	558	606,203	549,854	10%
Capital grants and contributions	11,122	10,430	3,597	2,325	14,719	12,755	15%
General revenues:							
Property taxes	520,713	503,226	-	-	520,713	503,226	3%
Other taxes	16,516	15,762	-	-	16,516	15,762	5%
Aid from other governmental units	2,917	2,812	-	-	2,917	2,812	4%
Interest and investment earnings	14,467	5,900	1,107	780	15,574	6,680	133%
Other	25,659	20,726	-	-	25,659	20,726	24%
Total revenues	<u>1,476,285</u>	<u>1,384,207</u>	<u>578,214</u>	<u>544,559</u>	<u>2,054,499</u>	<u>1,928,766</u>	7%
Expenses:							
General government	85,241	84,896	-	-	85,241	84,896	-%
Public protection	678,940	669,543	-	-	678,940	669,543	1%
Public ways and facilities	22,005	29,305	-	-	22,005	29,305	(25)%
Health and sanitation services	207,606	210,284	-	-	207,606	210,284	(1)%
Public assistance	259,854	269,345	-	-	259,854	269,345	(4)%
Education	8,304	8,843	-	-	8,304	8,843	(6)%
Recreation	57	152	-	-	57	152	(63)%
Interest on long-term debt	7,732	4,975	-	-	7,732	4,975	55%
Medical Center	-	-	481,116	445,644	481,116	445,644	8%
Department of Airports	-	-	7,351	6,833	7,351	6,833	8%
Waterworks - Water and Sewer	-	-	34,189	31,104	34,189	31,104	10%
Parks Department	-	-	5,483	5,529	5,483	5,529	(1)%
Channel Islands Harbor	-	-	8,539	8,193	8,539	8,193	4%
Health Care Plan	-	-	76,318	71,570	76,318	71,570	7%
Oak View District	-	-	274	222	274	222	23%
Total expenses	<u>1,269,739</u>	<u>1,277,343</u>	<u>613,270</u>	<u>569,095</u>	<u>1,883,009</u>	<u>1,846,438</u>	2%
Excess (deficiency) before transfers	206,546	106,864	(35,056)	(24,536)	171,490	82,328	108%
Transfers	<u>(32,084)</u>	<u>(30,937)</u>	<u>32,084</u>	<u>30,937</u>	<u>-</u>	<u>-</u>	-%
Change in net position	<u>174,462</u>	<u>75,927</u>	<u>(2,972)</u>	<u>6,401</u>	<u>171,490</u>	<u>82,328</u>	108%
Net position - beginning	1,273,614	1,210,065	320,764	314,363	1,594,378	1,524,428	5%
Prior period adjustment	<u>(96,019)</u>	<u>(12,378)</u>	<u>-</u>	<u>-</u>	<u>(96,019)</u>	<u>(12,378)</u>	-%
Net position - beginning, as restated	<u>1,177,595</u>	<u>1,197,687</u>	<u>320,764</u>	<u>314,363</u>	<u>1,498,359</u>	<u>1,512,050</u>	(1)%
Net position - ending	<u>\$ 1,352,057</u>	<u>\$ 1,273,614</u>	<u>\$ 317,792</u>	<u>\$ 320,764</u>	<u>\$ 1,669,849</u>	<u>\$ 1,594,378</u>	5%

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

Governmental activities. Governmental activities, as reflected in the Statement of Activities, increased the County's net position in the current period by \$174,462,000, accounting for 102 percent of the total current period change 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 7 percent from the prior year.

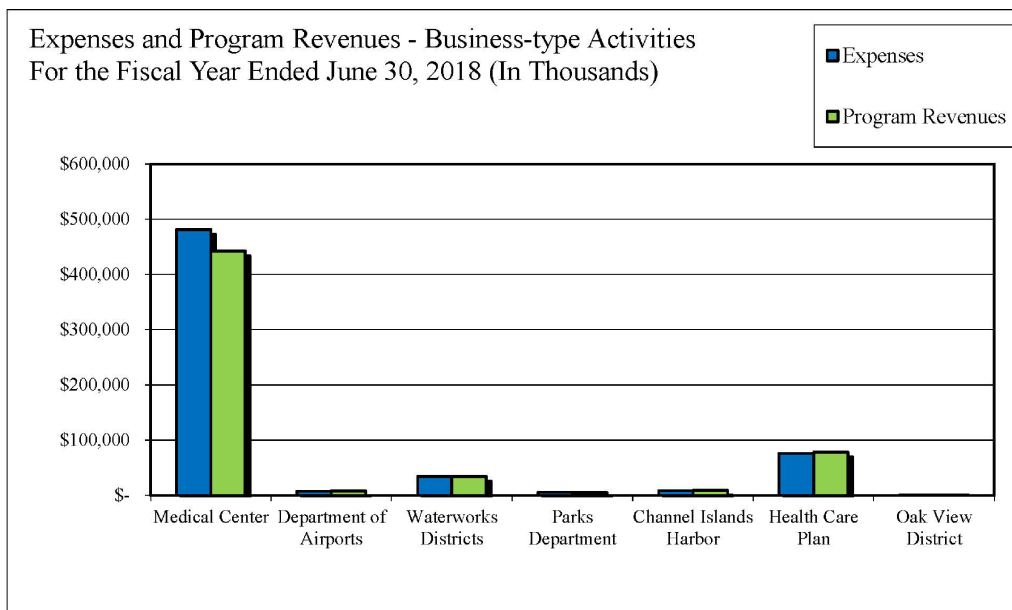
- Operating grants and contributions are revenues earned from entities outside of the County, primarily state and federal agencies, and are generally restricted to one or more specific programs. In 2017-18, the County reported \$600,613,000 in operating grants and contributions, which comprised 67 percent of the total program revenues in the current year. Operating grants and contributions increased by \$51,317,000 from the prior year, primarily in public assistance due to an increase in Senate Bill No. 90 (SB 90), Realignment, and other state aid. Operating grants and contributions represent the largest revenue source for governmental activities. The public protection, health and sanitation services, and public assistance functions received 96 percent of this funding source in fiscal year 2017-18.

**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 \$138,299,000, or 49 percent, of the total of \$284,278,000. 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 District. Charges for services provided 32 percent of total program revenues in 2017-18, increasing 3 percent from the prior year.
- Capital grants and contributions of \$11,122,000 represented the smallest source of program revenues in 2017-18 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 \$520,713,000 reported in 2017-18, increased by 3 percent from 2016-17.

Expenses. Total program expenses for governmental activities were \$1,269,739,000 for the current fiscal year as compared to \$1,277,343,000 for the prior fiscal year, a decrease of 1 percent. Public protection at \$678,940,000 accounted for 53 percent of total expenses for governmental activities. Public assistance expenses were \$259,854,000, or 21 percent, followed by health and sanitation services at \$207,606,000, or 16 percent, general government at \$85,241,000, or 7 percent, and various other costs of \$38,098,000, or 3 percent, of total expenses. Expenses increased in all functions.

Business-type activities. Business-type activities decreased the County's net position in the current period by \$2,972,000, or negative 2 percent, of the total current period change in the County’s net position, primarily due to the loss in 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 Districts - 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 \$567,920,000, of total program revenues were generated from charges for services, as compared to the prior year's, 99 percent, or \$540,896,000. The Medical Center accounted for 77 percent of total program revenues for business-type activities at \$442,853,000 and the Health Care Plan accounted for 13 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 \$613,270,000 in 2017-18 compared to \$569,095,000 in 2016-17, representing an increase of about 8 percent. About 78 percent of total expenses, or \$481,116,000, were incurred by the Medical Center. The Health Care Plan accounted for 12 percent of the total cost, while Waterworks - Water and Sewer activities, accounted for 6 percent. The remaining 4 percent of expenses were incurred by the Department of Airports, Parks Department, Channel Islands Harbor, and the Oak View District business activities, with a combined total of \$21,647,000.

The increase in expense for the business-type activities was primarily due to increased services and supplies, depreciation, and interest expense at the Medical Center, and an increased provision for claims for the Health Care Plan. Medical Center services and supplies increases were primarily due to newly recruited physicians, revised physician contracts, County cost allocation charges, pharmaceutical costs, and consulting services related to the Huron engagement. The increase in provision for claims for the Health Care Plan is due to inflation of medical expenses combined with a higher level of acuity of the illnesses treated.

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 District, and the Fire Protection District.

At June 30, 2018, the County's governmental funds reported total fund balances of \$717,953,000, an increase of \$64,287,000 from the prior year. Approximately \$73,277,000 or 10 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 90 percent or \$644,676,000 is available to meet the County's current and future needs.

Revenues for governmental funds totaled \$1,463,449,000 in the year ended June 30, 2018, representing an increase of about 5 percent from the fiscal year ended June 30, 2017. This was primarily attributable to an increase in aid from other governments and taxes. Expenditures, at \$1,386,187,000, increased 5 percent when compared to the fiscal year ended June 30, 2017, with increases primarily in public protection, debt service, and capital outlay.

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

GENERAL FUND

The General Fund is the primary operating fund of the County. At June 30, 2018, the General Fund's total fund balance was \$454,048,000, increasing \$64,289,000 from the prior year. The nonspendable portion of fund balance was \$70,607,000 and the spendable portion was \$383,441,000. 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 46 percent of total General Fund expenditures while spendable fund balance equates to 39 percent. Of the General Fund spendable fund balance, \$129,161,000, or 34 percent, is restricted, and \$5,583,000, 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, 2018, this fund had a total fund balance of \$29,745,000, of which \$12,577,000 was restricted, \$15,938,000 was committed, and \$1,230,000 was assigned. Total fund balance increased by 1 percent when compared to the prior year.

WATERSHED PROTECTION DISTRICT - 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, 2018, of \$62,555,000, increased 7 percent or \$3,911,000 from the prior year. Restricted fund balance of \$60,908,000 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, 2018, the Fire Protection District's total fund balance was \$99,021,000, a decrease of \$10,556,000 from the prior year. Fund balance included a nonspendable portion of \$1,476,000. Restricted fund balance totaled \$96,772,000, or 98 percent, with the remaining \$773,000 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 \$6,405,000 or by 10 percent. This increase was primarily attributable to an increase in the Mental Health Services Act special revenue fund and is offset by a decrease in the Public Financing Authority capital project fund.

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, 2018 and 2017
(In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances		Increase (Decrease) Change
	2018	2017	2018	2017	2018	2017	
General Fund	\$ 1,096,263	\$ 1,045,531	\$ 1,031,974	\$ 1,014,335	\$ 64,289	\$ 31,196	\$ 33,093
Roads	24,652	22,037	24,414	32,163	238	(10,126)	10,364
Watershed Protection District	44,177	40,210	40,266	31,047	3,911	9,163	(5,252)
Fire Protection District	177,657	166,617	188,213	159,024	(10,556)	7,593	(18,149)
Non-major funds	175,012	141,722	168,607	138,355	6,405	3,367	3,038
Total	<u>\$ 1,517,761</u>	<u>\$ 1,416,117</u>	<u>\$ 1,453,474</u>	<u>\$ 1,374,924</u>	<u>\$ 64,287</u>	<u>\$ 41,193</u>	<u>\$ 23,094</u>

GENERAL FUND

Taxes, aid from other governmental units, and charges for services comprise 92 percent of total revenues. Taxes increased by \$9,341,000, or 3 percent, while aid from other governmental units increased \$16,952,000, primarily due to an increase in Realignment funds and SB 90 revenues. Charges for services increased \$13,158,000, primarily from cost allocation plan charges and contractual services. All other revenues increased \$11,281,000.

ROADS

Fund balance increased at June 30, 2018, by \$238,000, compared to a decrease in the prior year of \$10,126,000. Revenues and other financing sources increased by \$2,615,000, with expenditures and other financing uses decreasing by \$7,749,000. The increase in revenue was primarily due to an increase in State Highway User Tax (HUTA) revenue. The decrease in expenditures was mainly due to a decrease in completed construction projects, such as pavement resurfacing, bicycle lanes, and sidewalk projects.

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

WATERSHED PROTECTION DISTRICT

Fund balance increased by \$3,911,000 in 2017-18, compared with an increase in the prior fiscal year of \$9,163,000. Revenues and other financing sources in 2017-18 of \$44,177,000, were greater than revenues and other financing sources in 2016-17 of \$40,210,000 by \$3,967,000, primarily from an increase in property tax revenue and insurance proceeds from the Thomas fire. Expenditures and other financing uses in 2017-18 of \$40,266,000, increased by \$9,219,000, when compared with the prior year, primarily due to increase in maintenance projects and construction project activity.

FIRE PROTECTION DISTRICT

The District's fund balance decreased by \$10,556,000, compared to an increase of \$7,593,000, in 2016-17. Revenues and other financing sources at June 30, 2018, totaled \$177,657,000, an increase of \$11,040,000 from the prior fiscal year, primarily from increased aid from other governmental units due to the Thomas fire and increased property tax revenue and is offset by charges for services and other revenue. Expenditures and other financing uses were \$188,213,000, increasing by \$29,189,000, when compared to 2016-17, due to an increase in salaries and benefits and services and supplies primarily from the Thomas fire and increased cost allocation plan charges.

NON-MAJOR GOVERNMENTAL FUNDS

Fund balances at June 30, 2018, increased by \$6,405,000, compared with a prior year increase of \$3,367,000. The increase is primarily attributable to an increase in the Mental Health Services Act special revenue fund and is offset by a decrease in 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, 2018
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 434,721	\$ 7,252	\$ 33,877	\$ 90,961	\$ 566,811
Operating expenses	(468,543)	(7,375)	(34,491)	(90,736)	(601,145)
Operating income (loss)	(33,822)	(123)	(614)	225	(34,334)
Non-operating revenues (expenses) and capital grants and contributions, net	(5,163)	953	291	1,646	(2,273)
Income (loss) before transfers	(38,985)	830	(323)	1,871	(36,607)
Transfers	31,173	-	(241)	1,152	32,084
Change in net position	(7,812)	830	(564)	3,023	(4,523)
Net position - beginning	88,326	54,395	134,371	44,126	321,218
Net position - ending	\$ 80,514	\$ 55,225	\$ 133,807	\$ 47,149	\$ 316,695

**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, 2017
(In Thousands)

	Major Funds				Total
	Medical Center	Department of Airports	Waterworks Districts	Non-major Funds	
Operating revenues	\$ 419,921	\$ 7,364	\$ 29,672	\$ 83,937	\$ 540,894
Operating expenses	(442,918)	(7,019)	(30,561)	(85,461)	(565,959)
Operating income (loss)	(22,997)	345	(889)	(1,524)	(25,065)
Non-operating revenues (expenses) and capital grants and contributions, net	(1,426)	331	1,901	392	1,198
Income (loss) before transfers	(24,423)	676	1,012	(1,132)	(23,867)
Transfers	30,107	(263)	(88)	1,181	30,937
Change in net position	5,684	413	924	49	7,070
Net position - beginning	82,642	53,982	133,447	44,077	314,148
Net position - ending	<u>\$ 88,326</u>	<u>\$ 54,395</u>	<u>\$ 134,371</u>	<u>\$ 44,126</u>	<u>\$ 321,218</u>

The net loss before transfers of \$36,607,000 for all enterprise funds resulted primarily from the net loss before transfers in the Medical Center of \$38,985,000, offset by net income from the Department of Airports, Channel Islands Harbor, and the Health Care Plan. Net transfers of \$31,173,000 to the Medical Center from the General Fund up from \$30,107,000 in the prior year, resulted in a decrease in net position of \$7,812,000 for the Medical Center. The increase in the Medical Center operating revenues of \$14,800,000, or 4 percent, primarily resulted from new supplemental revenues related to the Enhanced Payment Program and the Quality Improvement Program that started in 2017-18, offset by the loss of the AB85 incentive payments and increased audit reserves.

Medical Center operating expenses increased by \$25,625,000, or 6 percent, from the prior year, resulting in an operating loss of \$33,822,000, compared to the prior year operating loss of \$22,997,000. Services and supplies increased \$11,823,000 or 6 percent, primarily due to newly recruited physicians and revised physician contracts, nursing registry from un-recruited positions, and pharmaceutical costs from 340B discount reconciliation adjustments. Depreciation increased by 12,777,000 primarily due to the opening of the Hospital Replacement Wing.

The change in net position for all other enterprise funds except for the Medical Center totaled an increase of \$3,289,000, compared to an increase of \$1,386,000 in 2016-17. Operating revenues and expenses were \$132,090,000 and \$132,602,000, respectively, increasing by 9 percent and 8 percent, respectively, from the prior year.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget Compared to Final Budget, June 30, 2018

Appropriations for the General Fund final budget, including transfers out, exceeded the original budget by \$23,831,000. Final budget appropriations for salaries and benefits increased in all areas except general government and health and sanitation services, 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 \$13,500,000 was transferred in 2017-18. Capital outlay increased by \$17,531,000, for required maintenance projects that were reclassified from services and supplies, the Ventura County Human Resources/Payroll System upgrade, Sheriff System upgrades, and a number of projects approved during the year. Appropriations for transfers out increased by about \$10,053,000. Approximately \$7,438,000, 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, 2018

The final budget appropriations exceeded actual expenditures, including transfers out, by \$105,912,000, while the final budget estimated revenues were more than actual revenues, including other financing sources, by \$33,485,000. The largest component of excess appropriations over expenditures was \$38,707,000 for services and supplies, primarily in general government, public protection, and health and sanitation services. Unexpended appropriations for services and supplies and capital outlay of \$29,015,000 were encumbered for expenditure in 2018-19. The largest revenue shortfall in comparison with the final budget was in aid from other governmental units in the amount of \$18,274,000.

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, 2018, amounted to \$2,712,179,000 at cost or \$1,856,024,000 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 1 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
	2018	2017	2018	2017	2018	2017	
Land	\$ 50,898	\$ 40,195	\$ 22,766	\$ 22,766	\$ 73,664	\$ 62,961	17%
Easements	200,195	200,133	1,297	1,297	201,492	201,430	-%
Construction in progress	54,952	45,995	30,109	364,889	85,061	410,884	(79)%
Land improvements	51,157	49,666	84,849	84,942	136,006	134,608	1%
Structures and improvements	554,051	544,641	652,841	322,315	1,206,892	866,956	39%
Equipment	104,018	102,124	80,866	50,095	184,884	152,219	21%
Vehicles	107,264	102,880	1,083	1,120	108,347	104,000	4%
Software	84,479	82,832	51,834	50,447	136,313	133,279	2%
Infrastructure	579,520	566,375	-	-	579,520	566,375	2%
Total	<u>\$ 1,786,534</u>	<u>\$ 1,734,841</u>	<u>\$ 925,645</u>	<u>\$ 897,871</u>	<u>\$ 2,712,179</u>	<u>\$ 2,632,712</u>	3%

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

Land had a net increase of \$10,703,000 primarily due to the Fire Protection District's acquisition of property in Camarillo for the Regional Training Center and property in Thousand Oaks for Fire Station 34.

Construction in progress had a net decrease of \$325,823,000. Additions totaling \$39,034,000, included Fire Protection District projects for \$11,710,000, Watershed Protection District projects for \$7,993,000, General Fund projects for \$7,686,000, Medical Center and Clinic improvements for \$5,448,000, Waterworks projects for \$1,974,000, Roads projects for \$1,321,000, Airports projects for \$1,048,000, and various other projects for \$1,854,000. Construction in progress was reduced by \$364,857,000 of which \$336,910,000 relates to the Medical Center's Hospital Replacement Wing that opened in August 2018. The remaining construction in progress reduction of \$27,947,000 included transfers of completed projects to structures and improvements, equipment, software, and vehicles.

Structures and improvements had a net increase of \$339,936,000 primarily due to the opening of the Medical Center's Hospital Replacement Wing.

Equipment had a net increase of \$32,665,000 primarily due to the Medical Center's acquisition of hospital equipment for the Hospital Replacement Wing.

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.

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

Debt Administration - Government-wide Financial Statements

At June 30, 2018, the County had total debt outstanding of \$408,550,000, excluding capital leases, compensated absences, and other liabilities. The following table summarizes the categories of debt. During the year, retirement of debt amounted to \$40,203,000 and additions amounted to \$24,399,000. The following table summarizes the debt outstanding balances at June 30, 2018 and 2017 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Certificates of participation and lease revenue bonds	\$ 39,675	\$ 44,996	\$ 334,568	\$ 339,818	\$ 374,243	\$ 384,814
Tax-exempt commercial paper	-	19,206	-	4,193	-	23,399
Revolving credit agreement	17,883	-	3,617	-	21,500	-
Loans payable	8,100	8,384	4,707	7,757	12,807	16,141
Total	<u>\$ 65,658</u>	<u>\$ 72,586</u>	<u>\$ 342,892</u>	<u>\$ 351,768</u>	<u>\$ 408,550</u>	<u>\$ 424,354</u>

For the fiscal year 2017-18, County debt limit is determined by statute at 1.25 percent of total assessed valuation or approximately \$1,658,126,000. The County's general obligation bonded debt subject to the debt limit is \$0, which is under the debt limit by \$1,658,126,000.

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 3, 2017, the County issued \$145,535,000 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. TRANs was paid with interest on July 2, 2018, the maturity date of the notes, leaving an outstanding balance of \$145,535,000 at June 30, 2018.

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The fiscal year 2018-19 adopted budget for all County funds totals \$2,237,605,000, a decrease of 5,919,000 when compared to the prior year. The General Fund 2018-19 budget of \$1,107,418,000 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 4.42 percent for the 2018-19 fiscal year when compared with 2017-18. Property tax revenues were budgeted with an increase of 3.5 percent.
- The 2018-19 budget includes an increase in salaries and benefits of 6.13 percent as compared to the prior year's actual expenditures with increases primarily in regular salaries, retirement contributions, call back staffing, and group insurance offset by a reduction in overtime.

Additional information is provided in Notes 19 and 20 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.

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