

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, 2015. 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.

NEW SIGNIFICANT ACCOUNTING STANDARDS IMPLEMENTED

The most significant change to the County's financial statements during fiscal year 2014-15 was the implementation of Governmental Accounting Standards Board (GASB) Statement 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB 68*.

GASB 68 establishes standards of accounting and financial reporting, but not for funding or budgetary standards, for the County's defined benefit pension plans. This Statement replaces the requirements of prior GASB statements impacting accounting and disclosure of pensions.

The significant impact to the County of implementing GASB 68 is the reporting of the County's unfunded pension liability on the County's full accrual basis of accounting government-wide financial statements, as well as the proprietary funds. GASB 68 also requires new note disclosure and supplementary schedules.

The measurement date for the pension liabilities is as of June 30, 2014. This date reflects a one year lag and was used so that these financial statements could be issued in a timely manner. Activity occurring during fiscal year 2014-15 (e.g. contributions made by the County) are reported as deferred outflows of resources.

In order to implement GASB 68 and 71, a prior period adjustment was made to the County's July 1, 2014, net position. This prior period adjustment decreased the County's net position by \$799,344,000, from \$2,079,339,000 to \$1,279,995,000, and reflects the reporting of net pension liabilities of \$963,085,000, and deferred outflows of resources of \$163,741,000. Please refer to Note 14 for more information regarding the County's pensions.

The implementation of GASB 68 has no impact on the County's governmental fund financial statements, which continue to report expenditures equal to the amount of the County's actuarially determined contribution, formerly referred to as the "annual required contribution." The calculation of the pension contribution is, also, not impacted by GASB 68.

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 2014-15 fiscal year by \$1,425,087,000 (*net position*). Of this amount, \$343,570,000 is restricted for specific purposes (*restricted net position*), \$1,376,519,000 is the *net investment in capital assets*, and the remaining portion of negative \$295,002,000 (*unrestricted net position*) is a result of implementing GASB 68.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

- The government's total net position increased by \$145,092,000 during fiscal year 2014-15, mainly due to an increase in governmental activities. Net investment in capital assets increased by \$25,914,000. 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 \$255,000, while unrestricted net position decreased by \$680,421,000 due to a negative \$799,344,000 prior period adjustment to implement GASB 68.
- As of June 30, 2015, the County governmental funds reported combined fund balances of \$625,046,000, an increase of \$59,702,000 in comparison with the prior year.
- At the end of the fiscal year, unassigned general fund fund balance was \$174,986,000, or 20 percent of total general fund expenditures, reflecting an increase from the prior fiscal year balance, which was \$154,044,000, primarily due to unexpended property taxes.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

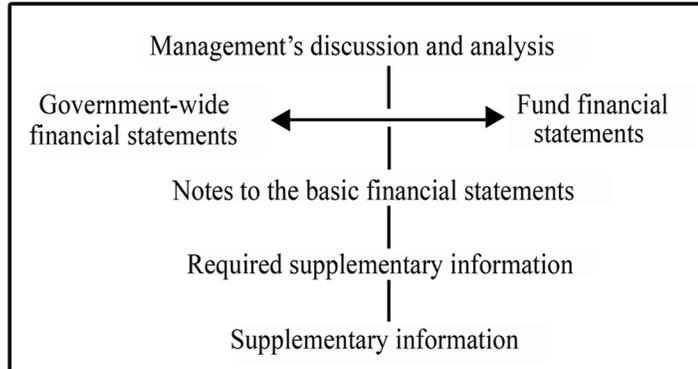
The Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include three components:

- 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. The Commission is reported as a *discretely presented component unit* because the County Board appoints the commission board members to serve at will.

The government-wide financial statements can be found on pages 41 - 43 of this report.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

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

The County maintains over fifty individual governmental funds in its financial system and presents them grouped by related activities as twenty-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 44 - 50 of this report.

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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

The fiduciary funds financial statements can be found on pages 55 - 56 of this report.

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These informative notes can be found on pages 57 - 119 of this report and are also itemized in the Table of Contents.

Required Supplementary Information includes the Ventura County Employees' Retirement Association (VCERA) schedule of the County's proportionate share of the net pension liability, schedule of County contributions, the SRP schedule of changes in net pension liability and related ratios, schedule of investment returns, and schedule of county contributions, and the Management Retiree Health Benefits Program and the Subsidized Retiree Health Benefits Program schedules of funding progress. These schedules provide trend data on the relationship between the actuarial value of plan assets and the related actuarial accrued liability and on the net pension liability and employer contributions. In addition, budgetary schedules for the major general and special revenue funds are included.

The County adopts an annual appropriated budget for its governmental funds as required by Government Code. In the required supplementary information section, a budgetary comparison schedule is provided for all the major general and special revenue funds to demonstrate compliance with the final budget. Due to the large number of funds and departments, a separate Departmental Budget Report of Revenues and Expenditures – Budget and Actual on a Budgetary Basis has been prepared. The report demonstrates compliance at the legal level of budgetary control for those funds for which the County is legally required to adopt a budget. This document is available from the Auditor-Controller's Office, 800 South Victoria Avenue, Ventura, CA 93009-1540, or on the County website at: http://vcportal.ventura.org/auditor/docs/financial-reports/FY15_BudgettoActual.pdf.

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

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

Supplementary information can be found on pages 133 - 194 of this report.

Statistical Information is provided beginning on page 195 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 \$1,425,087,000.

A summary of net position is as follows:

Summary of Net Position June 30, 2015 and 2014 (In Thousands)							
	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2015	2014	2015	2014	2015	2014	
Assets:							
Current and other assets	\$ 1,144,919	\$ 1,094,589	\$ 355,680	\$ 413,025	\$ 1,500,599	\$ 1,507,614	-%
Capital assets	<u>1,160,113</u>	<u>1,158,981</u>	<u>486,137</u>	<u>419,111</u>	<u>1,646,250</u>	<u>1,578,092</u>	4%
Total assets	<u>2,305,032</u>	<u>2,253,570</u>	<u>841,817</u>	<u>832,136</u>	<u>3,146,849</u>	<u>3,085,706</u>	2%
Deferred outflows of resources							
Deferred outflows related to pensions	<u>150,511</u>	-	<u>18,330</u>	-	<u>168,841</u>	-	100%
Total deferred outflows of resources	<u>150,511</u>	-	<u>18,330</u>	-	<u>168,841</u>	-	100%
Liabilities:							
Current and other liabilities	255,759	250,638	62,328	52,746	318,087	303,384	5%
Long-term liabilities	<u>782,629</u>	<u>294,535</u>	<u>449,611</u>	<u>397,945</u>	<u>1,232,240</u>	<u>692,480</u>	78%
Total liabilities	<u>1,038,388</u>	<u>545,173</u>	<u>511,939</u>	<u>450,691</u>	<u>1,550,327</u>	<u>995,864</u>	56%
Deferred inflows of resources:							
Deferred gain on refunding	174	217	202	382	376	599	(37)%
Deferred service concession arrangements	-	-	9,796	9,904	9,796	9,904	(1)%
Deferred inflows related to pensions	<u>294,747</u>	-	<u>35,357</u>	-	<u>330,104</u>	-	100%
Total deferred inflows of resources	<u>294,921</u>	<u>217</u>	<u>45,355</u>	<u>10,286</u>	<u>340,276</u>	<u>10,503</u>	3,140%
Net position:							
Net investment in capital assets	1,079,922	1,075,474	296,597	275,131	1,376,519	1,350,605	2%
Restricted	333,367	323,619	10,203	19,696	343,570	343,315	-%
Unrestricted (deficit)	<u>(291,055)</u>	<u>309,087</u>	<u>(3,947)</u>	<u>76,332</u>	<u>(295,002)</u>	<u>385,419</u>	(177)%
Total net position	<u>\$ 1,122,234</u>	<u>\$ 1,708,180</u>	<u>\$ 302,853</u>	<u>\$ 371,159</u>	<u>\$ 1,425,087</u>	<u>\$ 2,079,339</u>	(31)%

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

A significant component of the County's net position totaling \$1,376,519,000 (97 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 \$343,570,000 (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 \$295,002,000 (negative 21 percent), due to a prior period adjustment of negative \$799,344,000 to implement GASB 68.

At the end of the current fiscal year, the County reported positive balances in two 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 \$145,092,000, offset by the prior period adjustment of negative \$799,344,000. The change in net position for governmental and business-type activities was \$126,751,000 and \$18,341,000 respectively.

General revenues for governmental activities increased by \$24,896,000, primarily from property taxes and unrestricted interest, offset by decreases in unrestricted aid from other governmental units and other revenue. Program revenues increased by \$18,074,000, due to increased charges for services primarily in health and sanitation services and general government, offset by decreases in operating grants and capital grants, primarily in general government and public ways and facilities. Program expenses decreased by \$7,518,000, or 1 percent, with increases in public assistance and education, offset by decreases in all other areas.

The current period increase in net position attributable to business-type activities primarily resulted from increases in the Medical Center, Department of Airports, Channel Islands Harbor and Waterworks Districts - Sewer, offset by decreases in net position in the Waterworks Districts - Water, Parks Department and Health Care Plan. Program revenues increased by \$44,433,000, or 10 percent, primarily due to increases in charges for services, primarily in the Medical Center, with offsets in capital grants. Program expenses increased by \$20,011,000, or 4 percent, primarily in the Medical Center and the Health Care Plan, with offsets in the Department of Airports. Additional information is provided on pages 35-36 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 \$87,411,000, or 5 percent, with increases in charges for services and property taxes of \$75,011,000 and \$21,906,000 respectively, with smaller increases and decreases in all other areas. Additional information on major revenue streams is provided on pages 30-32.

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

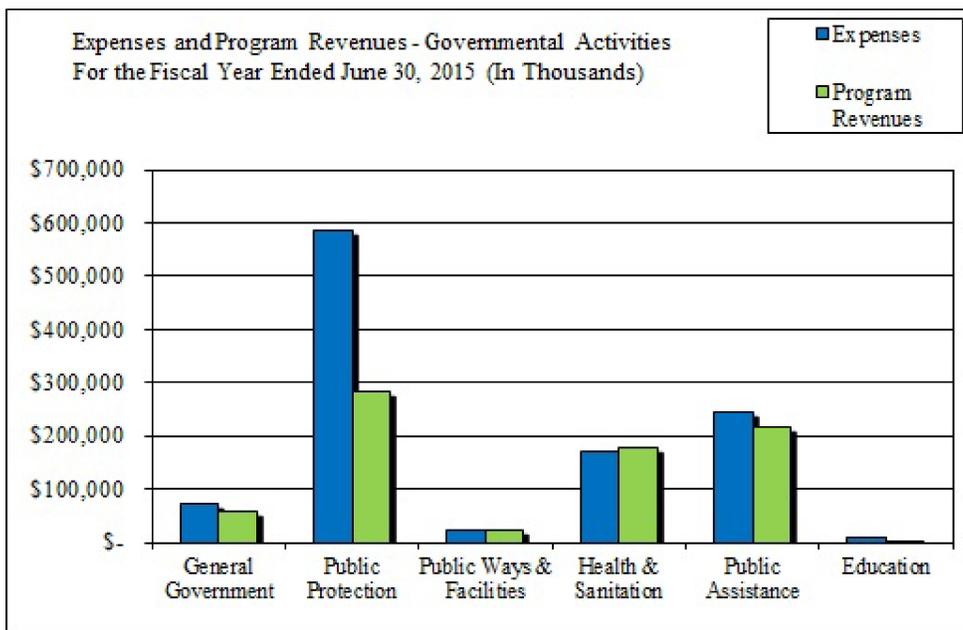
Summary of Activities
For the Fiscal Years Ended June 30, 2015 and 2014
(In Thousands)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2015	2014	2015	2014	2015	2014	
Revenues:							
Program revenues:							
Charges for services	\$ 247,588	\$ 222,464	\$ 463,943	\$ 414,056	\$ 711,531	\$ 636,520	12%
Operating grants and contributions	506,064	510,197	30	20	506,094	510,217	(1)%
Capital grants and contributions	4,871	7,788	5,225	10,689	10,096	18,477	(45)%
General revenues:							
Property taxes	430,001	408,095	-	-	430,001	408,095	5%
Other taxes	17,073	15,509	-	-	17,073	15,509	10%
Aid from other governmental units	34,893	36,340	-	-	34,893	36,340	(4)%
Interest and investment earnings	7,858	2,614	400	392	8,258	3,006	175%
Other	16,028	18,399	-	-	16,028	18,399	(13)%
Total revenues	<u>1,264,376</u>	<u>1,221,406</u>	<u>469,598</u>	<u>425,157</u>	<u>1,733,974</u>	<u>1,646,563</u>	5%
Expenses:							
General government	70,522	72,193	-	-	70,522	72,193	(2)%
Public protection	586,147	608,750	-	-	586,147	608,750	(4)%
Public ways and facilities	22,465	25,939	-	-	22,465	25,939	(13)%
Health and sanitation services	169,010	170,208	-	-	169,010	170,208	(1)%
Public assistance	243,256	225,682	-	-	243,256	225,682	8%
Education	7,922	7,778	-	-	7,922	7,778	2%
Interest on long-term debt	4,408	698	-	-	4,408	698	532%
Medical Center	-	-	375,451	361,302	375,451	361,302	4%
Department of Airports	-	-	6,214	6,954	6,214	6,954	(11)%
Waterworks - Water and Sewer	-	-	30,825	30,081	30,825	30,081	2%
Parks Department	-	-	5,491	5,142	5,491	5,142	7%
Channel Islands Harbor	-	-	7,816	7,503	7,816	7,503	4%
Health Care Plan	-	-	59,142	53,929	59,142	53,929	10%
Oak View District	-	-	213	230	213	230	(7)%
Total expenses	<u>1,103,730</u>	<u>1,111,248</u>	<u>485,152</u>	<u>465,141</u>	<u>1,588,882</u>	<u>1,576,389</u>	1%
Excess (deficiency) before transfers	160,646	110,158	(15,554)	(39,984)	145,092	70,174	107%
Transfers	<u>(33,895)</u>	<u>(41,189)</u>	<u>33,895</u>	<u>41,189</u>	<u>-</u>	<u>-</u>	-%
Change in net position	<u>126,751</u>	<u>68,969</u>	<u>18,341</u>	<u>1,205</u>	<u>145,092</u>	<u>70,174</u>	107%
Net position - beginning	1,708,180	1,639,211	371,159	369,954	2,079,339	2,009,165	3%
Prior period adjustment	<u>(712,697)</u>	<u>-</u>	<u>(86,647)</u>	<u>-</u>	<u>(799,344)</u>	<u>-</u>	-%
Net position - beginning, as restated	995,483	1,639,211	284,512	369,954	1,279,995	2,009,165	(36)%
Net position - ending	<u>\$ 1,122,234</u>	<u>\$ 1,708,180</u>	<u>\$ 302,853</u>	<u>\$ 371,159</u>	<u>\$ 1,425,087</u>	<u>\$ 2,079,339</u>	(31)%

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

Governmental activities. Governmental activities, as reflected in the Statement of Activities, increased the County's change in net position in the current period by \$126,751,000, thereby accounting for 87 percent of the total current period growth in the County's net position. In addition, implementation of GASB 68 resulted in a prior period adjustment which decreased net position by \$712,697,000. 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 4 percent from the prior year.

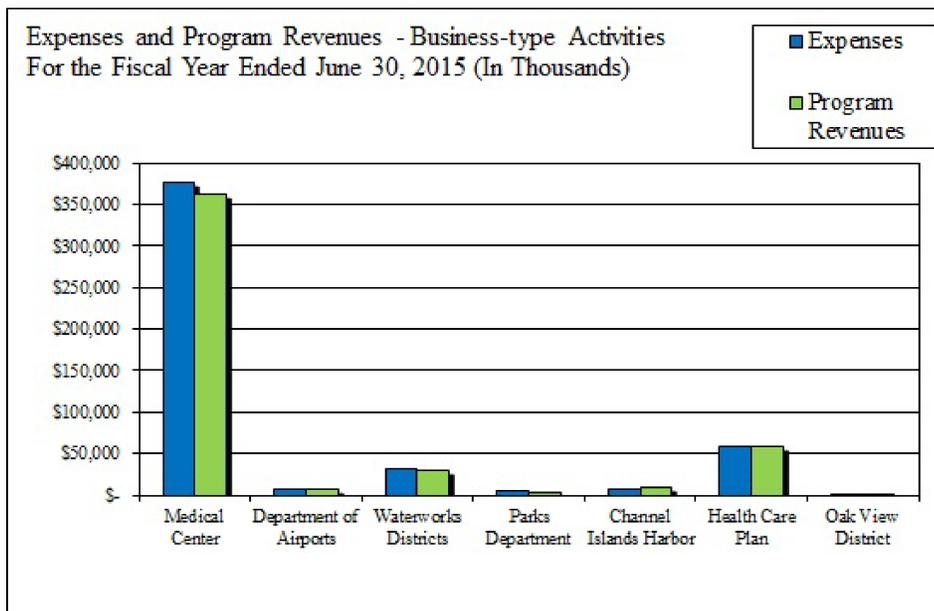
- Operating grants and contributions are revenues earned from entities outside of the County, primarily state and federal agencies, and are generally restricted to one or more specific programs. In 2014-15, the County reported \$506,064,000 in operating grants and contributions, which comprised 67 percent of the total program revenues in the current year. Operating grants and contributions decreased by \$4,133,000 from the prior year, primarily due to decreased 1993 Realignment revenues and Proposition 172 restricted for public protection in the general government function. Operating grants and contributions represent the largest revenue source for governmental activities. The public assistance, public protection, and health and sanitation services functions received 94 percent of this funding source in fiscal year 2014-15.

**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 \$124,373,000, or 50 percent, of the total of \$247,588,000. Among the major sources are contracted law enforcement services provided by the Sheriff’s Department to several cities, emergency and contract services performed by the Fire Protection District for various governmental agencies, and various assessments generated by the Watershed Protection Districts. Charges for services provided 32 percent of total program revenues in 2014-15, increasing 11 percent from the prior year.
- Capital grants and contributions of \$4,871,000 represented the smallest source of program revenues in 2014-15 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 \$430,001,000 reported in 2014-15, increased by 5 percent from 2013-14. Unrestricted aid from other governmental units, comprising 7 percent of general revenue, decreased \$1,447,000 primarily due to decreased Redevelopment Agency (RDA) passthrough.

Expenses. Total program expenses for governmental activities were \$1,103,730,000 for the current fiscal year as compared to \$1,111,248,000 for the prior fiscal year, a decrease of 1 percent. Public protection at \$586,147,000 accounted for 53 percent of total expenses for governmental activities. Public assistance expenses were \$243,256,000, or 22 percent, followed by health and sanitation services at \$169,010,000, or 15 percent, general government at \$70,522,000, or 6 percent, and various other costs of \$34,795,000, or 4 percent, of total expenses. Expenses decreased in all functions except public assistance and education.

Business-type activities. Business-type activities increased the change in net position in the current period by \$18,341,000, or 13 percent, of the total growth in the County’s net position, primarily due to General Fund subsidies for the Medical Center. In addition, implementation of GASB 68 resulted in a prior period adjustment which decreased net position by \$86,647,000. 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, 99 percent, or \$463,943,000, of total program revenues were generated from charges for services, as compared to the prior year's, 97 percent, or \$414,056,000. The Medical Center accounted for 78 percent of total program revenues for business-type activities at \$361,238,000, as compared to the prior year's 74 percent. The Health Care Plan accounted for 12 percent of total program revenues, a decrease of 2 percent from 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 \$485,152,000 in 2014-15 compared to \$465,141,000 in 2013-14, representing an increase of about 4 percent. About 78 percent of total expenses, or \$375,451,000, 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 \$19,734,000.

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. These increases were primarily due to merit increases, salaries and benefits which were capitalized during fiscal year 2013-14 for the Electric Health Records (EHR) System that were expensed in fiscal year 2014-15, on going maintenance of the EHR System, and physician costs.

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, 2015, the County's governmental funds reported total fund balances of \$625,046,000, an increase of \$59,702,000 from the prior year. Approximately \$20,922,000 or 3 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 97 percent or \$604,124,000 is available to meet the County's current and future needs.

Revenues for governmental funds totaled \$1,277,299,000 in the year ended June 30, 2015, representing an increase of about 5 percent from the fiscal year ended June 30, 2014, largely attributable to increases in taxes, charges for services, and aid from other governmental units. Expenditures, at \$1,187,629,000, remained flat when compared to the fiscal year ended June 30, 2014, with increases primarily in public protection, public assistance, and health and sanitation services, with offsets primarily in public ways and facilities, capital outlay, and debt service.

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

GENERAL FUND

The General Fund is the primary operating fund of the County. At June 30, 2015, the General Fund's total fund balance was \$368,469,000, increasing \$44,694,000 from the prior year. The nonspendable portion of fund balance was \$18,501,000 and the spendable portion was \$349,968,000. 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 42 percent of total General Fund expenditures while spendable fund balance equates to 40 percent. Of the General Fund spendable fund balance, \$106,774,000, or 31 percent, is restricted, and \$3,911,000, 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, 2015, this fund had a total fund balance of \$55,148,000, of which \$32,494,000 was restricted, \$21,429,000 was committed, and \$1,225,000 was assigned. Total fund balance decreased by 2 percent when compared to the prior year.

WATERSHED PROTECTION DISTRICTS - SPECIAL REVENUE FUND

The function of this fund is the control of flood and storm waters, and the conservation of such waters for beneficial public use. Total fund balance at June 30, 2015, of \$48,005,000, increased 3 percent or \$1,171,000 from the prior year. Restricted fund balance of \$46,287,000 accounted for 96 percent of the total fund balance.

FIRE PROTECTION DISTRICT - SPECIAL REVENUE FUND

The Fire Protection District provides fire protection to the unincorporated areas of the County, as well as the cities of Camarillo, Moorpark, Ojai, Port Hueneme, Simi Valley, and Thousand Oaks. Support is derived principally from property taxes. At June 30, 2015, the Fire Protection District's total fund balance was \$98,847,000, increasing \$8,650,000 from the prior year. Fund balance included a Nonspendable portion of \$1,225,000. Restricted fund balance totaled \$96,371,000, or 98 percent, with the remaining \$1,251,000, or 1 percent, classified as committed.

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

NON-MAJOR GOVERNMENTAL FUNDS

As compared with the prior year, the total fund balances of the remaining governmental funds increased 13 percent or by \$6,340,000. This increase was primarily attributable to an increase in the Mental Health Services Act special revenue fund, 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, 2015 and 2014
(In Thousands)

	Revenues and Other Financing Sources		Expenditures and Other Financing Uses		Net Change in Fund Balances		Increase (Decrease) Change
	2015	2014	2015	2014	2015	2014	
General Fund	\$ 975,987	\$ 923,304	\$ 931,293	\$ 884,394	\$ 44,694	\$ 38,910	\$ 5,784
Roads	21,824	29,902	22,977	28,597	(1,153)	1,305	(2,458)
Watershed Protection Districts	33,990	36,049	32,819	46,149	1,171	(10,100)	11,271
Fire Protection District	144,281	136,831	135,631	131,771	8,650	5,060	3,590
Non-major funds	125,288	146,044	118,948	151,566	6,340	(5,522)	11,862
Total	<u>\$ 1,301,370</u>	<u>\$ 1,272,130</u>	<u>\$ 1,241,668</u>	<u>\$ 1,242,477</u>	<u>\$ 59,702</u>	<u>\$ 29,653</u>	<u>\$ 30,049</u>

GENERAL FUND

Aid from other governmental units, taxes, and charges for services comprise 93 percent of total revenues. Taxes increased by \$16,383,000, or 6 percent, primarily due to increases in assessed value and in real estate activity. Aid from other governmental units and charges for services increased \$23,696,000 and \$6,522,000, respectively. The increase in aid from other governmental units was primarily due to increases in State Aid for SB90 reimbursements and Federal and State public assistance. The increase in charges for services was due to increases in indirect cost recovery, law enforcement contracts, and Mental Health Medi-Cal services. All other revenues increased \$6,133,000, or 1 percent.

ROADS

Fund balance decreased at June 30, 2015, by \$1,153,000, compared with an increase in the prior year of \$1,305,000. Revenues and other financing sources decreased by \$8,078,000, with expenditures and other financing uses decreasing by \$5,620,000. The decrease in revenue was primary attributable to a decrease in Highway User Tax Account (HUTA) revenue due to decreased gas consumption and an decrease in federal aid due to a decrease in construction projects with federal funding. The decrease in expenditures was mainly due to decreased construction projects.

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

WATERSHED PROTECTION DISTRICTS

Fund balance increased by \$1,171,000 in 2014-15, compared with an decrease in the prior fiscal year of \$10,100,000. Revenues and other financing sources in 2014-15 of \$33,990,000, were less than revenues and other financing sources in 2013-14 of \$36,049,000 by \$2,059,000, primarily due to decreased federal and state grants for construction projects, offset by an increase in property tax revenue. Expenditures and other financing uses in 2014-15 of \$32,819,000, decreased by \$13,330,000, when compared with the prior year, due to decreased construction project activity.

FIRE PROTECTION DISTRICT

The District's fund balance increased by \$8,650,000, compared to an increase of \$5,060,000, in 2013-14. Revenues and other financing sources at June 30, 2015, totaled \$144,281,000, an increase of \$7,450,000 from the prior fiscal year, primarily from increased property tax revenue due to an increase in assessed valuation offset by a decrease in Resource Development Agency (RDA) passthrough revenue. Expenditures and other financing uses were \$135,631,000, increasing by \$3,860,000, when compared to 2013-14, with increases in salaries and benefits, services and supplies and offset by capital outlay.

NON-MAJOR GOVERNMENTAL FUNDS

Fund balances at June 30, 2015, increased by \$6,340,000, compared with a prior year decrease of \$5,522,000. The increase is primarily attributable to an increase in Mental Health Services Act special revenue fund, offset by a decrease in 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, changes in fund net position, and a prior period adjustment in 2014-15, as a result of implementing GASB 68:

Summary of Revenues, Expenses, Transfers and Changes in Fund Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2015
(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	\$ 357,748	\$ 6,309	\$ 30,008	\$ 69,887	\$ 463,952
Operating expenses	<u>(372,375)</u>	<u>(6,182)</u>	<u>(30,136)</u>	<u>(72,195)</u>	<u>(480,888)</u>
Operating income (loss)	(14,627)	127	(128)	(2,308)	(16,936)
Non-operating revenues (expenses) and capital grants and contributions, net	<u>1,404</u>	<u>1,277</u>	<u>184</u>	<u>310</u>	<u>3,175</u>
Income (loss) before transfers	(13,223)	1,404	56	(1,998)	(13,761)
Transfers	<u>32,809</u>	<u>-</u>	<u>(118)</u>	<u>1,204</u>	<u>33,895</u>
Change in net position	<u>19,586</u>	<u>1,404</u>	<u>(62)</u>	<u>(794)</u>	<u>20,134</u>
Net position - beginning	126,117	53,355	134,212	56,181	369,865
Prior period adjustment	<u>(77,174)</u>	<u>(2,088)</u>	<u>-</u>	<u>(7,384)</u>	<u>(86,646)</u>
Net position - beginning, as restated	48,943	51,267	134,212	48,797	283,219
Net position - ending	<u>\$ 68,529</u>	<u>\$ 52,671</u>	<u>\$ 134,150</u>	<u>\$ 48,003</u>	<u>\$ 303,353</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, 2014
(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	\$ 310,394	\$ 5,261	\$ 32,883	\$ 65,537	\$ 414,075
Operating expenses	(358,647)	(6,303)	(30,166)	(66,863)	(461,979)
Operating income (loss)	(48,253)	(1,042)	2,717	(1,326)	(47,904)
Non-operating revenues (expenses) and capital grants and contributions, net	189	1,608	(73)	4,991	6,715
Income (loss) before transfers	(48,064)	566	2,644	3,665	(41,189)
Transfers	39,511	15	(103)	1,766	41,189
Change in net position	(8,553)	581	2,541	5,431	-
Net position - beginning, as restated	134,670	52,774	131,671	50,750	369,865
Net position - ending	<u>\$ 126,117</u>	<u>\$ 53,355</u>	<u>\$ 134,212</u>	<u>\$ 56,181</u>	<u>\$ 369,865</u>

The net loss before transfers of \$13,761,000 for all enterprise funds resulted primarily from the net loss before transfers in the Medical Center of \$13,223,000, offset by net income from the Waterworks Districts of \$56,000 and Department of Airports of \$1,404,000. Net transfers to the Medical Center, are primarily from the General Fund of \$32,809,000, down from \$39,511,000, in the prior year, resulted in a change in net position of \$19,586,000. The increase in the Medical Center operating revenues of \$47,354,000, or 15 percent, primarily resulted from an increase in reimbursement from AB 85 Medicaid Expansion, allowing for 100 percent reimbursement of costs and additional incentive for quality performance initiatives, and negotiated increases in contracted reimbursement rates, and decreases in Realignment funding of \$10,000,000 and \$7,800,000 in Disproportionate Share Hospital (DSH) program due to recalculation of allocated funding to the Medical Center. Operating expenses increased by \$13,728,000, or 4 percent, from the prior year, resulting in an operating loss of \$14,627,000, compared to the prior year operating loss of \$48,253,000. Salaries and benefits increased \$7,352,000, or 4 percent, from the prior year, primarily due to merit increases, and salaries and benefits which were capitalized during fiscal year 2013-14 for the EHR System that were expensed in fiscal year 2014-15. Services and supplies increased by \$3,644,000, or 2 percent, due to increases in physician costs, and on going maintenance of the EHR System. Depreciation expense increased by \$1,388,000 due to the implementation of the EHR System.

The change in net position for all other enterprise funds except for the Medical Center totaled \$548,000, down 94 percent from 2013-14. Operating revenues and expenses were \$106,204,000 and \$108,513,000, respectively, increasing by 2 percent and 5 percent, respectively, from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Original Budget Compared to Final Budget, June 30, 2015

Appropriations for the General Fund final budget, including other financing uses, exceeded the original budget by \$46,525,000. Some of the larger changes are summarized below.

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

Appropriations for transfers out increased by \$14,660,000. Approximately \$8,554,000, of the transfers out 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 and public assistance, primarily due to transfers of appropriations for vacation/annual leave buydowns. For control purposes, vacation/annual leave buydowns, a component of salaries and benefits expenditures, are budgeted in a general government budget unit and are transferred as related expenditures are incurred. Over \$11,800,000 was transferred during 2014-15. Services and supplies increased by \$20,348,000 primarily in public protection, public assistance, and health and sanitation services while capital outlay increased by \$14,281,000, for a number of equipment acquisitions and capital projects, including \$2,511,000 for a computer aided dispatch/mobile data terminal and mobile report entry system, \$1,500,000 for a vehicle storage facility, and \$627,000 for a helicopter, all for the Sheriff's department.

Final Budget Compared to Actual Expenditures and Revenues, June 30, 2015

The final budget appropriations exceeded actual expenditures, including transfers out, by \$80,036,000, while the final budget estimated revenues were more than actual revenues, including other financing sources, by \$18,492,000. The largest component of excess appropriations over expenditures was \$32,367,000 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 \$19,673,000 were encumbered for expenditure in 2015-16. The largest revenue shortfall in comparison with the final budget was in charges for services in the amount of \$17,932,000.

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, 2015, amounted to \$2,340,654,000 (at cost) or \$1,646,250,000 (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 2 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
	2015	2014	2015	2014	2015	2014	
Land	\$ 38,828	\$ 38,641	\$ 23,184	\$ 23,184	\$ 62,012	\$ 61,825	-%
Easements	199,880	200,878	787	787	200,667	201,665	-%
Construction in progress	37,900	54,349	177,996	108,240	215,896	162,589	33%
Land improvements	43,970	42,100	83,668	75,412	127,638	117,512	9%
Structures and improvements	512,630	503,448	314,743	307,788	827,373	811,236	2%
Equipment	101,045	98,895	46,833	45,091	147,878	143,986	3%
Vehicles	88,424	82,910	1,137	1,137	89,561	84,047	7%
Software	66,904	64,278	49,442	47,361	116,346	111,639	4%
Infrastructure	553,283	524,180	-	-	553,283	524,180	6%
Total	<u>\$ 1,642,864</u>	<u>\$ 1,609,679</u>	<u>\$ 697,790</u>	<u>\$ 609,000</u>	<u>\$ 2,340,654</u>	<u>\$ 2,218,679</u>	6%

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

Construction in progress had a net increase of \$53,307,000. Additions totaling \$106,428,000, included General Fund projects for \$11,084,000, Fire Protection District projects for \$1,948,000, Roads projects of \$2,826,000, Watershed Protection District projects for \$1,304,000, Medical Center and Clinic improvements for \$81,260,000, Waterworks projects for \$2,970,000, Health Care Plan projects for \$1,299,000, and various other projects for \$3,737,000. Deletions of construction in progress totaled \$53,121,000; this included transfers of completed projects of \$47,247,000 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, 2015, the County had total debt outstanding of \$454,239,000, excluding capital leases, compensated absences, and other liabilities. The following table summarizes the categories of debt. During the year, retirement of debt amounted to \$17,107,000 and additions amounted to \$7,582,000. The following table summarizes the debt outstanding balances at June 30, 2015 and 2014 (in thousands):

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Certificates of participation and lease revenue bonds	\$ 60,442	\$ 67,040	\$ 360,192	\$ 368,070	\$ 420,634	\$ 435,110
Tax-exempt commercial paper	11,232	7,637	5,369	5,964	16,601	13,601
Loans payable	8,935	9,203	8,069	5,814	17,004	15,017
Total	<u>\$ 80,609</u>	<u>\$ 83,880</u>	<u>\$ 373,630</u>	<u>\$ 379,848</u>	<u>\$ 454,239</u>	<u>\$ 463,728</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

For the fiscal year 2014-15, County debt limit is determined by statute at 1.25 percent of total assessed valuation or approximately \$1,461,509,000. Certificates of participation, lease revenue bonds, tax exempt commercial paper and loans payable subject to the debt limit are \$454,239,000, which is under the limit by \$1,007,270,000.

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

The County, like other local governments, has an annual borrowing program which finances operations during periods of low cash flows due to periodic collection dates for property taxes. On July 1, 2014, the County issued \$138,110,000 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, 2015, the outstanding balance was \$138,110,000 and was paid with interest on July 1, 2015, the maturity date of the notes.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The fiscal year 2015-16 adopted budget for all County funds totals \$2,099,883,000, a 10.5 percent increase when compared to the prior year. The General Fund 2015-16 budget of \$1,058,542,000 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 4.07 percent for the 2015-16 fiscal year when compared with 2014-15. Property tax revenues were budgeted with an increase of 5.0 percent.
- The 2015-16 budget includes an increase in salaries and benefits of 7.74 percent as compared to the prior year's actual expenditures with increases primarily in regular salaries, call back staffing and insurance, with reductions in overtime and retirement contributions.

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.

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

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.