

**COUNTY OF MENDOCINO**

**AUDIT REPORT**

**JUNE 30, 2006**

**COUNTY OF MENDOCINO  
AUDIT REPORT  
For the Year Ended June 30, 2006**

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## **INTRODUCTORY SECTION**



**MENDOCINO COUNTY**  
**EXECUTIVE OFFICE**  
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Ukiah, California 95482  
(707) 463-4441  
Fax: (707) 463-5649

April 2, 2007

To The Honorable Members of the Board of Supervisors of Mendocino County:

State law requires that all general-purpose local governments publish within nine (9) months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Effective with the Fiscal Year 2001-2002 budget, regulations were passed (Governmental Accounting Standards Board (GASB)) establishing uniform financial reporting rules for all state and local governments. The new rules for government accounting were established to move government to a higher level of accountability, aiming it easier for our constituents to understand the financial activities of the County. Two major goals were accomplished with these regulations:

1. Required disclosure of the value of the County's infrastructure (roads, buildings, bridges, etc.) including reporting of reduction in value of those assets over time, thereby indicating future costs of replacing infrastructure.
2. Required comprehensive (consolidated) annual report of the County's financial circumstances (Government-Wide Financial Statement).

Pursuant to that requirement, attached please find the comprehensive annual financial report of the County of Mendocino for the fiscal year ended June 30, 2006.

This report consists of the Chief Executive Officer (CEO) and Auditor/Controller's representations concerning the finances of Mendocino County. Consequently, the CEO and Auditor/Controller assume full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the CEO and Auditor/Controller have established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's

financial statements in conformity with GAAP. Because the cost of internal control should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As the CEO and Auditor/Controller, we attest that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Mendocino County's financial statements have been audited by Bartig, Basler & Ray, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Mendocino County for the fiscal year ending June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The firm of Bartig, Basler & Ray concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Mendocino County's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements for Mendocino County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP require that the CEO and Auditor/Controller provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Mendocino County's MD&A can be found immediately following the report of the independent auditors.

## **Profile of the Government**

The County of Mendocino was one of California's original 27 counties, created in 1850 by the State Legislature and remains a political subdivision, or unit, of the State. Its name is derived from Cape Mendocino, which lies northward of its northern boundary. Cape Mendocino was given its name by a famous Spanish navigator of the 16<sup>th</sup> century, Juan Rodriguez Cabrillo. Cabrillo discovered it in 1542 while on voyage of discovery along the Pacific Coast and named it in honor of Don Antonio de Mendoza, the first Viceroy of New Spain (Mexico), and the patron of the voyageur. The County of Mendocino currently occupies a land area of 3,510 square miles and serves a population of approximately 89,751. The County of Mendocino is empowered to levy a property tax on both real and personal properties located within its boundaries.

The County of Mendocino is a general law County. The Board of Supervisors which serves as the legislative and executive body of the County government and many special districts is comprised of five, full-time members elected by their respective districts. Pursuant to the California Government Code, the Board enacts legislation governing Mendocino County and determines overall policies for County departments and various special districts, adopts the annual budget and fixes salaries.

The Board also hears appeals from decisions for the Planning Commission, considers General Plan amendments, and sits as the Board of Equalization to provide taxpayers with a system for appealing the valuation placed on their property by the Assessor. The Chief Executive Officer is appointed by the Board and is responsible for day-to-day administration of County affairs as their agent.

The County of Mendocino provides a full range of services, including public protection; public ways and facilities; health and sanitation; public assistance; education; and recreation and culture. There are also lighting districts, a sanitation district, an air quality management district and public facilities corporation, which are considered components of the County and therefore have been included as an integral part of the County of Mendocino's financial statements. Additional information on these legally separate entities can be found in Note 1 in the notes to financial statements.

The annual budget serves as the foundation for the County of Mendocino's financial planning and control. All departments of the County of Mendocino are required to submit requests for appropriations to the Chief Executive Officer. The Executive Officer uses these requests as the starting point for developing a proposed budget. The Chief Executive officer then presents this proposed budget to the Board of Supervisors for review in late June each year. The Board is required to hold public hearings on the proposed budget and to adopt a final budget no later than October 1<sup>st</sup> of each year. The appropriated budget is prepared by fund, function (e.g., public protection), and department (e.g., Probation Department). Department Heads may make transfers of appropriations within a department with the Chief Executive Officer's approval. The Chief Executive Officer is also authorized to approve transfers of appropriations between departments in an amount not to exceed \$10,000. Transfer requests in excess of \$10,000 require the special approval of the Board of Supervisors. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on pages 60-61 as part of the basic financial statements for the governmental funds. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 62.

### **Factors Affecting Financial Condition**

**Local Economy.** Mendocino County is in a period of economic change from an extractive to a broader based economy. The service industry is the largest and fastest growing segment of its economy with the County's traditional economic base – agriculture, the timber industry and other natural resources based industries – continuing to play a large role in the County's economy. Manufacturing is the second largest earner in the County and is the fourth largest

employer. The influence of agriculture on this sector is easily seen in the significant growth of wine and food product manufacturing. The tourism industry, always an important contributor to the coastal economy, is becoming a larger economic force throughout the entire County. The increase in tourism has a positive impact on retail trade, which is already the County's second largest employer. The County's third largest employer is the government sector.

### **Long-term Financial Planning**

The County's annual budgets are responsive to local economic conditions and actions of the State, thereby limiting its ability to develop long-term plans to address all contingencies. The County of Mendocino has been fiscally prudent in the establishment of various reserves to allow maintaining strong financial and asset foundations. Those reserves include: General Reserve (\$1.9 million), Information Technology Reserve, and Vehicle Replacement Reserve.

The County uses a conservative method of Net County Cost basis of budgeting. In recent years, the County of Mendocino has experienced significant fund balances. Those available, unreserved fund balances helped finance either new or on-going levels of service or programs. However, due to this year's economic down turn and reductions in nonrecurring revenues, the County has eliminated its dependence on fund balance carry-forward, and budgets based on matching recurring revenues with recurring expenses.

Other financial planning efforts established and designed to avoid significant fluctuations in the demand upon the County's General Fund include:

- Establishment of multi-year Memorandum of Understandings with bargaining units to set County obligations at a specific level, one that budgetary decisions are established.
- Establishment of a trend adjustment for health insurance premiums to address the inflationary costs of employee health care.
- Establishment of a temporary reserve to address IHSS provider of record costs until such a time (2 fiscal years) as the costs are addressed within the state allocation to the County.
- Maintaining of the General Reserve, Building Maintenance Reserve, IT Reserve, Vehicle Replacement Fund, Reserve for Debt Management, and Unfunded Accrued Actuarial Liability (UAAL), a new policy, aimed at controlling the growth in UAAL within the Employees' Retirement Fund.
- Reductions in Force through maintaining existing vacancies, planning for and maintaining future vacancies (salary savings), voluntary time off (VTO), furloughs, necessary layoffs and position eliminations.

**Cash Management Policies and Practices.** Cash temporarily idle during the year was invested in medium-term notes, negotiable certificates of deposit, federal agency obligations, commercial paper, the State Local Agency Investment Fund, and mutual funds. The maturities of the investments range from one (1) day to fifteen (15) years, with an average maturity of eight (8) months. The average yield on investments was 4.42% for the County. Investment income

includes appreciation in the fair market value of investments. Increases in fair market value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair market value of investments that the governments intends to hold to maturity.

**Risk Management.** The County has four (4) risk management funds to administer the County's insurance programs that are fully or partially self-insured. The fifth risk management fund, Workers' Compensation fund, is a fully funded program. Fund revenues are primarily premium charges to other departments and funds are planned to equal estimated expenses resulting from the self-insurance program including claims expenses, and other operating expenses. Liability for unpaid claims is subject to change due to future re-estimations of claims by program administrators, inflation, and changes in laws and regulations. The primary activities of the funds consist of risk management programs related to the following:

- ❖ Unemployment Insurance – the County is self-insured.
- ❖ General Liability Insurance – the County maintains a self-insured retention of \$200,000 per occurrence for this program. Losses which exceed the self-insured retention are covered by excess insurance obtained through CSAC – Excess Insurance Authority.
- ❖ Workers' Compensation – fully funded program.
- ❖ Health Insurance – the County maintains a self-insured retention of \$175,000 per year for each enrollee. Losses which exceed the self-insured retention are covered by excess insurance. The program is administered by the County's Risk Management, assisted by health plan consultants, Driver Alliant Insurance Services.
- ❖ Retiree Health Insurance – the County maintains a self-insured retention of \$100,000 per year for each enrollee. Losses which exceed the self-insured retention are covered by excess insurance. The program is administered by the County's Risk Management, assisted by health plan consultants, Driver Alliant Insurance Services.

Additional information on the County of Mendocino's risk management activity can be found in Note 16 of the notes to the financial statement.

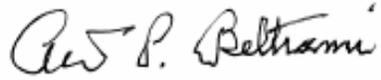
### **Pension and Other Post Employment Benefits**

The County of Mendocino participates in the Mendocino County Retirement Association, a multiple employer defined benefit pension plan, which serves the employees of the County and two special districts. It was established under the County Employee Retirement Act of 1937. The Association uses an entry age normal method with a supplemental present value for its actuarial computations.

The County of Mendocino also provides postretirement medical benefits for retirees who have at least ten years of County service. As of the end of the current fiscal year, there were 807 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information about pension benefits can be found in Notes 13 and 14 to the financial statements.

Respectfully submitted,



Albert P. Beltrami  
Chief Executive Officer



Meredith Ford  
Auditor-Controller

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors and Grand Jury  
County of Mendocino  
Ukiah, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mendocino, California, (the County), as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pension Trust Fund, a Fiduciary Fund, which statements reflect total assets of \$312,334,951 as of June 30, 2006, and total operating revenues of \$44,806,682 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included in the Pension Trust Fund, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Supervisors and Grand Jury  
County of Mendocino

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated September 7, 2006, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the County of Mendocino's basic financial statements. The accompanying information identified in the table of contents as combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BARTIG, BASLER & RAY, LLP  
A Gallina LLP Company



Roseville, California  
September 7, 2006

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

Prepared By: Al Beltrami, Chief Executive Officer  
Meredith Ford, Auditor-Controller

As management of Mendocino County, we offer readers of the County of Mendocino's financial statement this narrative overview and analysis of the financial activities of Mendocino County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-vi).

**Financial Highlights**

- ❖ The County of Mendocino's liabilities exceeded its assets at the close of the most recent fiscal year by (\$45,723,360) (net assets). There was a deficit of (\$115,756,485) in unrestricted net assets.
- ❖ The County's total net assets increased by \$9,771,469. The reason for the increase was a prior period adjustment of nearly \$5 million and a 13.8% increase in property tax revenues. Assessed valuation growth was 9% and the remaining increase was due to the State Vehicle License Fee Swap funds, which are now classified as property tax revenue.
- ❖ At the close of the current fiscal year, the County's combined (all funds) ending fund balance was \$9,669,452. This was an increase of \$1,335,289 in comparison with the prior year. Approximately 20% of this total amount or \$1,897,535 is available for spending at the government's discretion.
- ❖ Unreserved fund balance for the General Fund at the close of the current fiscal year was a deficit of (\$167,502).
- ❖ Total debt decreased by \$3,210,138 (2.45%) during the 2005/06 Fiscal Year.

**Overview of the Financial Statements.** This discussion and analysis is intended to serve as an introduction to the County of Mendocino's basic financial statements. The County's basic financial statements are comprised of three components: 1) Government-wide Financial Statements, 2) Individual Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains additional supplementary information to the basic Financial Statements.

**Government-wide Financial Statements.** The Government-wide Financial Statements are designed to provide readers with a broad overview of the County of Mendocino's finances, in a manner similar to a private-sector business. It is comprised of a Statement of Net Assets and Statement of Activities.

The Statement of Net Assets presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Mendocino County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net assets changed during the current fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

Both of the Government-wide Financial Statements distinguish functions of the County of Mendocino that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or significant portion of their costs through user fees, fines and charges for service. The governmental activities of the County include: General Government, Public Protection, Public Ways and Facilities (Transportation), Health and Sanitation, Public Assistance, Education, Recreation and Culture, and Debt Service and Contingencies. Internal Service Funds that provide insurance coverage, computer software acquisition and vehicle replacement are also included in governmental activities.

The Government-wide Financial Statements include not only the County of Mendocino itself (known as the primary government), but also several legally separate lighting districts, a sanitation district, a water agency, an air quality management district, and a public facilities corporation for which the County is financially accountable. Financial information for these component units, with the exception of the Water Agency and Air Quality Management District, is reported separately from the financial information presented for the primary government itself. The Water Agency and Air Quality Management District, although also legally separate, function for all practical purposes as departments of the County, and therefore have been included as an integral part of the primary government.

The Government-wide Financial Statements can be found on pages 13-14 of this report.

**Individual Fund Financial Statements.** A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements.

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 County's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and charges in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

The County of Mendocino maintains forty-one individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund, the road fund, the debt service fund and the pension obligation bonds fund, all of which are considered to be major funds. Data from the other thirty-seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County of Mendocino adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule (page 58) has been provided for the general fund to demonstrate compliance with this budget.

The basic Governmental Fund Financial Statements can be found on pages 15-20 of this report.

**Proprietary Funds.** The County maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County of Mendocino's various functions. The County uses internal service funds to account for its fleet of vehicles, its management information systems and for self-insurance coverage. Because all of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

All of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 21-24 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the Government-wide financial statement because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic Fiduciary Fund Financial Statement can be found on pages 25 and 26 of this report.

**Notes to Financial Statements.** The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-56 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information can be found on pages 57-64 of this report.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 65-95 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Mendocino, liabilities exceeded assets by \$45,723,360 at the close of the 2005/06 Fiscal Year.

By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County of Mendocino's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**County of Mendocino's Net Assets**

	Governmental Activities	
	2006	2005
Current and other assets	\$ 33,892,496	\$ 29,194,625
Capital assets	85,759,350	81,053,084
Total Assets	119,651,846	110,247,709
Long-term liabilities - outstanding	123,311,516	127,339,874
Other liabilities	42,063,690	38,402,664
Total Liabilities	165,375,206	165,742,538
Net Assets:		
Invest in capital assets, net of related debt	55,576,494	50,149,953
Restricted	14,456,631	8,163,025
Unrestricted	(115,756,485)	(113,807,807)
Total Net Assets	\$ (45,723,360)	\$ (55,494,829)

\*Because Internal Service funds predominantly benefit governmental rather than business-type functions they have been included within governmental activities.

Investments in capital assets are subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net assets in the amount of (\$115,756,485) cannot be used to meet the County's ongoing obligations to citizens and creditors.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

**Governmental Activities.** Governmental activities increased the County's net assets by \$9,771,469. Key elements of this increase are increases in property tax revenues and the State Vehicle License Fee Swap funds.

**County of Mendocino's Changes in Net Assets**

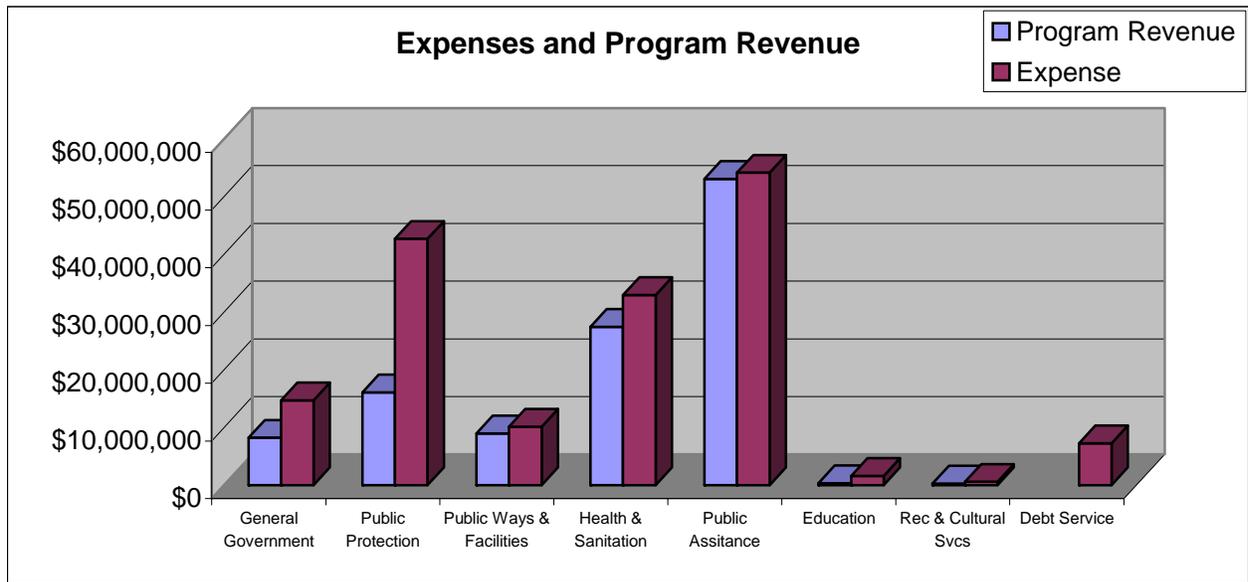
<b>Revenues</b>	2006	2005
<b>Program Revenues:</b>		
Charges for services	\$ 19,477,842	\$ 13,626,807
Operating grants & contributions	92,574,521	80,202,384
Capital grants & contributions	2,527,554	3,338,131
<b>General Revenues:</b>		
Property taxes	34,802,713	30,588,431
Sales & use taxes	9,499,642	9,359,157
Unrestricted interest & investment earnings	2,074,948	1,219,264
Other	4,603,212	4,240,384
Miscellaneous	3,512,179	15,982,104
<b>Total Revenues</b>	169,072,611	158,556,662
<b>Expenses</b>		
<b>Expenses:</b>		
General government	14,742,778	11,066,239
Public protection	42,702,841	41,151,247
Public ways & facilities	10,169,526	12,185,410
Health & sanitation	32,973,429	28,145,532
Public assistance	54,165,425	53,159,580
Recreation and cultural services	593,055	592,671
Interest on long-term debt	7,310,116	6,765,715
Education	1,599,004	1,386,637
<b>Total Expenses</b>	164,256,174	154,453,031
<b>Change in Net Assets</b>	4,816,437	4,103,631
<b>Prior Period Adjustment</b>	4,955,032	(1,061,255)
<b>Beginning Net Assets</b>	(55,494,829)	(58,537,205)
<b>Ending Net Assets</b>	\$ (45,723,360)	\$ (55,494,829)

\*Because Internal Service funds predominantly benefit governmental rather than business-type functions they have been included within governmental activities.

**MENDOCINO COUNTY**  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2006

- ❖ Property taxes increased by \$4,214,282(13.8%) during the year. Most of this increase is attributable to the State's Vehicle License Fee Swap and a 9% increase in assessed valuations.

**Expenses and Program Revenues – Governmental Activities**



**Governmental Funds**

General Government  
 Public Protection  
 Public Ways & Facilities  
 Health & Sanitation  
 Public Assistance  
 Education  
 Rec & Cultural Svcs  
 Debt Service

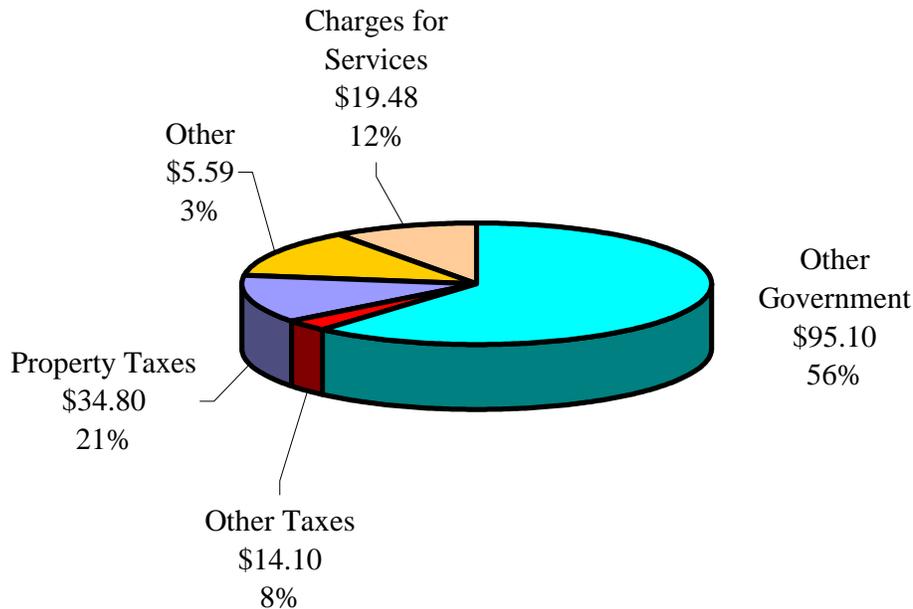
**Program Revenue**

**Expense**

\$8,260,035	\$14,742,778
\$16,132,487	\$42,702,841
\$8,994,412	\$10,169,526
\$27,460,596	\$32,973,429
\$53,108,503	\$54,165,425
\$334,051	\$1,599,004
\$289,833	\$593,055
	\$7,310,116

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

**Revenues by Source (in millions) – Governmental Activities**



The largest portion of revenue received by the County comes from Federal and State sources (approximately (56%). The second largest source comes from property taxes (21%). However, it should be noted that of every \$1.00 collected in property tax approximately 63% benefits schools, with 30% going toward the funding of County services and programs. Cities receive 2% and Special Districts receive 5%. Only 30% of total revenue received is discretionary (not dedicated to particular services/programs).

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

**Business-type activities.** None of Mendocino County's funds are classified as business-type activities.

**Financial Analysis of the Government's Funds.** As noted earlier, the County of Mendocino uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the County of Mendocino'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. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

As of the end of the current fiscal year, the County of Mendocino's governmental funds reported combined ending fund balances of \$9,669,452, an increase of \$1,335,289 from the prior year. Some of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$270,683); 2) to pay debt service (\$6,633,471); 3) for a variety of other restricted purposes (\$867,763).

The general fund is the chief operating fund of the County of Mendocino. At the end of the current fiscal year, unreserved fund balance of the general fund was \$(167,502), while total fund balance reached \$282,993.

The fund balance of the County of Mendocino's general fund increased by \$81,538 during the 2005/06 Fiscal Year.

The debt service fund had a total fund balance of \$2,640,013, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$19,853. Interest expenditures decreased during the current period by \$31,139.

**Proprietary Funds.** The County of Mendocino's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the internal service funds at the end of the year amounted to (\$2,482,558).

**General Fund Budgetary Highlights.** Difference between the original budget and the final amended budget is summarized below:

- ❖ Increased Alcohol and Other Drug Program's budgeted expenditures and corresponding revenues by \$161,970 for a program entered into after the budget was adopted.
- ❖ Increased District Attorney's budgeted expenditures and corresponding revenues by \$164,624 for fixed asset purchases reimbursed from Asset Forfeiture funds.
- ❖ Increased Sheriff's budgeted expenditures and corresponding revenues by \$400,000 for fixed asset purchases reimbursed from Asset Forfeiture funds.

**Capital Asset and Debt Administration**

**Capital assets.** The County of Mendocino's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$85,759,350 (net of accumulated depreciation).

This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the County of Mendocino's investment in capital assets for the current fiscal year was 6%.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

**County of Mendocino's Capital Assets**  
(Net of Depreciation)

	2006	2005
Land	\$ 3,298,969	\$ 3,298,969
Building and system	43,741,701	44,588,996
Improvements other than buildings	129,035	139,817
Machinery and equipment	8,015,127	6,708,404
Infrastructure	25,335,551	23,152,727
Construction in progress	5,238,967	3,164,171
Total	\$ 85,759,350	\$ 81,053,084

**Long-term debt.** At the end of the current fiscal year, the County of Mendocino has total debt outstanding of \$127,898,559.

**County of Mendocino's Outstanding Debt**  
General Obligation and Revenue Bonds

	2006	2005
General obligation bonds	\$ 97,475,000	\$ 99,930,000
Certificates of Participation	28,345,000	29,230,000
Capital leases & loans	2,078,559	1,948,697
Total	\$ 127,898,559	\$ 131,108,697

The County of Mendocino's total debt decreased by \$3,210,138 (2.45%) during the current fiscal year. The key factor in this decrease was an increase in principal payment on the general obligation bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue at 10% percent of its total assessed valuation. The current debt limitation for the County of Mendocino is \$777,829,915, which is significantly in excess of the County of Mendocino's outstanding general obligation debt.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2006

Additional information on the County of Mendocino's long-term debt can be found in note 10 on pages 46-50 of this report.

**Economic Factors which Impacted Budget.** All of the factors listed below were considered in preparing the County of Mendocino's budget for the 2005/06 fiscal years.

- ❖ Continued sluggish recovery of national, state & local economies.
- ❖ Increased expenses to employee salaries and benefits due to escalating health and workers compensation insurance costs.
- ❖ The Proposition 1A payment to the State of \$998,000 for assistance in the State's financial difficulties. This is expected to be the final payment.

**Requests for Information.** The financial report is designed to provide a general overview of the County of Mendocino's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Mendocino County Auditor-Controller, 501 Low Gap Road, Ukiah, California, 95482.

**BASIC FINANCIAL STATEMENTS –  
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# COUNTY OF MENDOCINO

## Statement of Net Assets June 30, 2006

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Current Assets:	
Pooled cash and investments in county treasury	\$ 5,864,282
Restricted Assets:	
Cash with fiscal agent	10,057,373
Imprest cash	11,991
Accounts receivable	2,354,436
Property taxes receivable	2,295,833
Interest receivable	22,863
Due from other governments	10,075,459
Inventory	855,772
Deferred charges	2,354,437
Other assets	50
Total Current Assets	<u>33,892,496</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	8,537,936
Depreciable, net	77,221,414
Total Noncurrent Assets	<u>85,759,350</u>
Total Assets	<u>\$ 119,651,846</u>
<b><u>LIABILITIES</u></b>	
Current Liabilities:	
Accounts payable	\$ 3,293,605
Accrued salaries and benefits	3,425,494
Due to other governmental agencies	5,448,333
Interest payable	3,603,443
Deferred revenues	5,633,716
Loans payable	36,094
Bonds payable	2,585,000
Certificate of participation	1,470,000
Liability for unpaid claims	3,840,163
Compensated absences	4,269,243
Capital lease obligation	495,949
Total Current Liabilities	<u>34,101,040</u>
Long-term liabilities, due beyond one year	123,311,516
Accrued landfill closure/postclosure care costs	7,962,650
Total Liabilities	<u>165,375,206</u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	55,576,494
Restricted for:	
Legally segregated taxes, grants and fees	8,248,243
Debt service and capital projects	6,208,388
Unrestricted	<u>(115,756,485)</u>
Total Net Assets	<u>(45,723,360)</u>
Total Liabilities and Net Assets	<u>\$ 119,651,846</u>

The accompanying notes are an integral part of these financial statements.

# COUNTY OF MENDOCINO

## Statement of Activities For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 14,742,778	\$ 5,257,821	\$ 3,002,214	\$ --	\$ (6,482,743)
Public protection	42,702,841	9,821,861	6,310,626	--	(26,570,354)
Public ways and facilities	10,169,526	258,559	6,208,299	2,527,554	(1,175,114)
Health and sanitation	32,973,429	3,751,639	23,708,957	--	(5,512,833)
Public assistance	54,165,425	336,701	52,771,802	--	(1,056,922)
Education	1,599,004	--	334,051	--	(1,264,953)
Recreation and cultural services	593,055	51,261	238,572	--	(303,222)
Debt Service:					
Interest	7,310,116	--	--	--	(7,310,116)
Total Governmental Activities	\$ 164,256,174	\$ 19,477,842	\$ 92,574,521	\$ 2,527,554	(49,676,257)
General Revenues:					
Taxes:					
Property taxes					34,802,713
Sales and use taxes					9,499,642
Other					4,603,212
Unrestricted interest and investment earnings					2,074,948
Miscellaneous					3,512,179
Total General Revenues					54,492,694
Change in Net Assets					
					4,816,437
					(55,494,829)
					4,955,032
					\$ (45,723,360)

The accompanying notes are an integral part of these financial statements.

**BASIC FINANCIAL STATEMENTS –  
FUND FINANCIAL STATEMENTS**

**COUNTY OF MENDOCINO**

Balance Sheet  
Governmental Funds  
June 30, 2006

	General	Debt Service	Pension Obligation Bonds
<b><u>ASSETS</u></b>			
Pooled cash and investments in county treasury	\$ 304,573	\$ 85	\$ 45
Restricted Assets:			
Cash with fiscal agent	--	2,799,460	7,257,913
Imprest cash	11,432	--	--
Accounts receivable	1,117,460	--	370,500
Property taxes receivable	2,295,833	--	--
Interest receivable	22,863	--	--
Due from other governments	3,538,382	--	--
Due from other funds	8,818,900	--	--
Inventory	255,645	--	--
Other assets	50	--	--
Total Assets	\$ 16,365,138	\$ 2,799,545	\$ 7,628,458
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 1,612,442	\$ --	\$ --
Accrued salaries and benefits	2,880,289	--	--
Due to other funds	3,676,500	18,200	3,091,000
Matured principal and interest payable	--	141,332	544,000
Deferred revenue	2,464,581	--	--
Advances from other funds	5,448,333	--	--
Total Liabilities	16,082,145	159,532	3,635,000
<b><u>FUND BALANCES</u></b>			
Reserved:			
Encumbrances	183,418	--	--
Inventory	255,645	--	--
Imprest cash	11,432	--	--
Debt service	--	2,640,013	3,993,458
Unreserved, reported in:			
General fund	(167,502)	--	--
Special revenue funds	--	--	--
Capital project funds	--	--	--
Debt service funds	--	--	--
Total Fund Balances	282,993	2,640,013	3,993,458
Total Liabilities and Fund Balances	\$ 16,365,138	\$ 2,799,545	\$ 7,628,458

continued

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Balance Sheet (continued)  
 Governmental Funds  
 June 30, 2006

	Mental Health Services	Other Governmental Funds	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b><u>ASSETS</u></b>			
Pooled cash and investments in county treasury	\$ 68,263	\$ 3,755,624	\$ 4,128,590
Restricted Assets:			
Cash with fiscal agent	--	--	10,057,373
Imprest cash	--	559	11,991
Accounts receivable	325,518	118,562	1,932,040
Property taxes receivable	--	--	2,295,833
Interest receivable	--	--	22,863
Due from other governments	5,060,503	1,476,574	10,075,459
Due from other funds	--	3,676,500	12,495,400
Inventory	--	600,127	855,772
Other assets	--	--	50
Total Assets	<u>\$ 5,454,284</u>	<u>\$ 9,627,946</u>	<u>\$ 41,875,371</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 832,230	\$ 391,961	\$ 2,836,633
Accrued salaries and benefits	256,411	276,561	3,413,261
Due to other funds	4,979,500	405,200	12,170,400
Matured principal and interest payable	--	--	685,332
Deferred revenue	3,992,550	1,194,829	7,651,960
Advances from other funds	--	--	5,448,333
Total Liabilities	<u>10,060,691</u>	<u>2,268,551</u>	<u>32,205,919</u>
<b><u>FUND BALANCES</u></b>			
Reserved:			
Encumbrances	--	87,265	270,683
Inventory	--	600,127	855,772
Imprest cash	--	559	11,991
Debt service	--	--	6,633,471
Unreserved, reported in:			
General fund	--	--	(167,502)
Special revenue funds	(4,606,407)	6,533,561	1,927,154
Capital project funds	--	(709)	(709)
Debt service funds	--	138,592	138,592
Total Fund Balances	<u>(4,606,407)</u>	<u>7,359,395</u>	<u>9,669,452</u>
 Total Liabilities and Fund Balances	 <u>\$ 5,454,284</u>	 <u>\$ 9,627,946</u>	 <u>\$ 41,875,371</u>

The accompanying notes are an integral part of these financial statements.

## COUNTY OF MENDOCINO

### Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities June 30, 2006

Fund Balance - total governmental funds (page 16)	\$ 9,669,452
Amounts reported for governmental activities in the statement of net assets are different because:	
Deferred charges in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,354,437
Deferred revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	2,018,244
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	84,559,973
Internal service funds are used by the County to charge the cost of unemployment insurance, dental insurance, fleet services and telephone services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets are:	(1,283,181)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of June 30, 2006, are:	
Loans payable	(240,703)
Bonds payable	(97,475,000)
Certificates of participation	(28,345,000)
Capital leases	(1,837,856)
Accrued interest on long-term debt	(2,918,111)
Compensated absences	(4,262,965)
Landfill closure/post closure care costs	<u>(7,962,650)</u>
Net assets of governmental activities (page 13)	<u>\$ (45,723,360)</u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>
<b>Revenues:</b>			
Taxes	\$ 48,094,238	\$ --	\$ --
Licenses, permits and franchises	2,911,738	--	--
Intergovernmental	64,736,380	--	--
Revenue from use of money and property	1,787,720	34,466	--
Fines, forfeitures and penalties	2,048,625	--	--
Charges for services	10,365,279	--	9,667,856
Other revenue	2,421,491	--	21,443
Total Revenues	<u>132,365,471</u>	<u>34,466</u>	<u>9,689,299</u>
<b>Expenditures:</b>			
Current:			
General government	15,388,207	13,033	10,164
Public protection	42,254,373	--	--
Public ways and facilities	152,063	--	--
Health and sanitation	12,583,565	--	--
Public assistance	52,979,684	--	--
Education	215,496	--	--
Recreation and culture services	283,292	--	--
Debt service - principal	--	919,863	2,455,000
Debt service - interest	--	1,444,584	5,917,332
Capital outlay	1,508,885	--	--
Total Expenditures	<u>125,365,565</u>	<u>2,377,480</u>	<u>8,382,496</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,999,906</u>	<u>(2,343,014)</u>	<u>1,306,803</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,239,642	2,323,161	--
Transfers out	(8,810,035)	--	--
Capital leases	652,025	--	--
Total Other Financing Sources (Uses)	<u>(6,918,368)</u>	<u>2,323,161</u>	<u>--</u>
<b>Net change in fund balances</b>	<u>81,538</u>	<u>(19,853)</u>	<u>1,306,803</u>
Fund balances - beginning	<u>201,455</u>	<u>2,659,866</u>	<u>2,686,655</u>
Fund balances - ending	<u>\$ 282,993</u>	<u>\$ 2,640,013</u>	<u>\$ 3,993,458</u>

The accompanying notes are an integral part of these financial statements.

continued

## COUNTY OF MENDOCINO

### Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Governmental Funds For the Year Ended June 30, 2006

	Mental Health Services	Other Governmental Funds	Totals
<b>Revenues:</b>			
Taxes	\$ --	\$ 811,329	\$ 48,905,567
Licenses, permits and franchises	--	283,085	3,194,823
Intergovernmental	12,615,212	17,453,798	94,805,390
Revenue from use of money and property	(217,391)	249,401	1,854,196
Fines, forfeitures and penalties	--	187,676	2,236,301
Charges for services	80,773	1,394,493	21,508,401
Other revenue	689,274	212,505	3,344,713
<b>Total Revenues</b>	<b>13,167,868</b>	<b>20,592,287</b>	<b>175,849,391</b>
<b>Expenditures:</b>			
Current:			
General government	--	267,494	15,678,898
Public protection	--	3,164,504	45,418,877
Public ways and facilities	--	8,971,833	9,123,896
Health and sanitation	14,399,188	4,296,737	31,279,490
Public assistance	--	2,513,217	55,492,901
Education	--	1,361,615	1,577,111
Recreation and culture services	--	251,133	534,425
Debt service - principal	--	--	3,374,863
Debt service - interest	--	--	7,361,916
Capital outlay	--	3,778,490	5,287,375
<b>Total Expenditures</b>	<b>14,399,188</b>	<b>24,605,023</b>	<b>175,129,752</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,231,320)</u>	<u>(4,012,736)</u>	<u>719,639</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	908,314	5,538,626	10,009,743
Transfers out	(344,311)	(891,772)	(10,046,118)
Capital leases	--	--	652,025
<b>Total Other Financing Sources (Uses)</b>	<b>564,003</b>	<b>4,646,854</b>	<b>615,650</b>
<b>Net change in fund balances</b>	<b>(667,317)</b>	<b>634,118</b>	<b>1,335,289</b>
Fund balances - beginning	<u>(3,939,090)</u>	<u>6,725,277</u>	<u>8,334,163</u>
Fund balances - ending	<u><u>\$ (4,606,407)</u></u>	<u><u>\$ 7,359,395</u></u>	<u><u>\$ 9,669,452</u></u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the  
Government-Wide Statement of Activities - Governmental Activities  
For the Year Ended June 30, 2006

Net change to fund balance - total governmental funds (page 19)		\$ 1,335,289
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	4,995,007	
Less current year depreciation	<u>(5,246,565)</u>	(251,558)
Governmental fund revenues deferred at year end due to unavailability, and therefore, deferred under the modified accrual basis method of accounting, were recognized as revenue on the full accrual method of accounting.		820,676
Loan proceeds and new capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(652,025)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal and refunded debt repayments:		
Capital leases	487,300	
Loans payable	34,863	
Bonds payable and certificates of participation	<u>3,340,000</u>	3,862,163
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Change in accrued interest on long-term debt	75,942	
Amortization of bond issuance costs	(24,142)	
Change in compensated absences	(143,590)	
Change in liability for closure/post closure care	<u>(2,313,093)</u>	(2,404,883)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities.		<u>2,106,775</u>
Change in net assets of governmental activities (page 14)		<u>\$ 4,816,437</u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Fund Net Assets  
Proprietary Funds  
June 30, 2006

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 1,735,692
Accounts receivable	422,396
Total Current Assets	<u>2,158,088</u>
Noncurrent Assets:	
Capital Assets:	
Depreciable:	
Equipment	3,851,855
Accumulated depreciation	<u>(2,652,478)</u>
Total Noncurrent Assets	<u>1,199,377</u>
<b>Total Assets</b>	<u><u>\$ 3,357,465</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 456,972
Accrued salaries and benefits	12,233
Compensated absences payable	6,278
Due to other funds	325,000
Liability for unpaid claims	<u>3,840,163</u>
Total Current Liabilities	<u>4,640,646</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,199,377
Unrestricted	<u>(2,482,558)</u>
Total Net Assets	<u>(1,283,181)</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,357,465</u></u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2006

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 21,904,459
Other revenue	39,509
Total Operating Revenues	<u>21,943,968</u>
<b>Operating Expenses:</b>	
Salaries and employee benefits	318,115
Services and supplies	13,949,757
Insurance	5,454,457
Depreciation	8,149
Claims and judgments	154,646
Total Operating Expenses	<u>19,885,124</u>
<b>Operating Income (Loss)</b>	<u>2,058,844</u>
<b>Non-Operating Revenues (Expenses):</b>	
Interest income (expense)	11,556
Total Non-Operating Revenues (Expenses)	<u>11,556</u>
<b>Net Income (Loss) Before Transfers</b>	2,070,400
Transfers in	240,000
Transfers out	<u>(203,625)</u>
<b>Change in Net Assets</b>	<u>2,106,775</u>
Net Assets - Beginning of Year	(4,564,586)
Prior period adjustment	1,174,630
Net Assets - beginning as restated	<u>(3,389,956)</u>
<b>Net Assets - End of Year</b>	<u>\$ (1,283,181)</u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2006

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from interfund services provided	\$ 21,870,594
Cash paid to suppliers for goods and services	(20,563,821)
Cash paid to employees for services	<u>(328,591)</u>
Net Cash Provided (Used) by Operating Activities	<u>978,182</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers in	240,000
Transfers out	(203,625)
Interest payments	<u>(40,368)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(3,993)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of capital assets	<u>(10,941)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(10,941)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>51,924</u>
Net Cash Provided by Investing Activities	<u>51,924</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,015,172
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>720,520</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,735,692</u></u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Cash Flows (continued)  
Proprietary Funds  
For the Year Ended June 30, 2006

	<u>Governmental Activities</u> Internal Service Funds <u>                    </u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ 2,058,844
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	8,149
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(73,374)
Increase (decrease) in:	
Accounts payable	(501,381)
Due to other funds	(967,040)
Accrued salaries	(407)
Compensated absences	(10,069)
Liability for self-insurance	<u>463,460</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 978,182</u></u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

	Investment Trust	Agency Funds	Pension Trust Fund	Total
<b>ASSETS</b>				
Cash and investments in County				
Treasury	\$ 73,342,208	\$ 11,260,742	\$ 15,417,664	\$ 100,020,614
Imprest cash	36,499	--	--	36,499
Accounts receivable	82,715	--	31,734,128	31,816,843
Advances to other funds	--	5,448,333	--	5,448,333
Other investments	--	--	265,183,159	265,183,159
Total Current Assets	<u>\$ 73,461,422</u>	<u>\$ 16,709,075</u>	<u>\$ 312,334,951</u>	<u>\$ 402,505,448</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 16,831	\$ --	\$ 195,939	212,770
Accrued payroll and benefits	8,328	--	--	8,328
Deferred revenue	941	--	--	941
Investment purchases	--	--	4,808,910	4,808,910
Agency funds held for others	--	16,709,075	--	16,709,075
Total Liabilities	<u>26,100</u>	<u>16,709,075</u>	<u>5,004,849</u>	<u>21,740,024</u>
<b>NET ASSETS</b>				
Net Assets held in trust for:				
Retirement system	--	--	307,330,102	307,330,102
Investment pool participants	73,435,322	--	--	73,435,322
Total Net Assets	<u>73,435,322</u>	<u>--</u>	<u>307,330,102</u>	<u>380,765,424</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 73,461,422</u>	<u>\$ 16,709,075</u>	<u>\$ 312,334,951</u>	<u>\$ 402,505,448</u>

The accompanying notes are an integral part of these financial statements.

**COUNTY OF MENDOCINO**

Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2006

	Investment Trust	Pension Trust
<b>Additions:</b>		
Contributions:		
Employer contributions	\$ --	\$ 6,463,725
Member contributions	--	5,998,176
Other income	--	266,011
Contributions on pooled investments	63,140,154	--
Interest and investment income (net)	1,122,635	32,078,770
Total Additions	64,262,789	44,806,682
<b>Deductions:</b>		
Benefit payments	--	16,288,362
Refunds of contributions	--	1,067,748
Distributions from investment pool	54,725,238	--
Administrative expense	--	347,765
Total Deductions	54,725,238	17,703,875
<b>Change in net assets</b>	9,537,551	27,102,807
<b>Net assets, beginning</b>	63,897,771	280,227,295
<b>Net assets, ending</b>	\$ 73,435,322	\$ 307,330,102

The accompanying notes are an integral part of these financial statements.

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the County, and other necessary disclosure of pertinent matters relating to the financial position of the County. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

### Note 1: Summary of Significant Accounting Policies

#### A. **The Financial Reporting Entity**

The County of Mendocino (County), the primary government, is a political subdivision of the State of California. It is governed by an elected board of five County supervisors.

The accounting methods and procedures adopted by the County conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Reporting for component units on the County's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Blended component units are an extension of the County and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each component unit has a June 30th year end.

Blended Component Units. The Alexander Estates Lighting District, Covelo Lighting District, Fairview Acres Lighting District, Hopland Lighting District, Laytonville Lighting District, Noyo Lighting District, Oak Knoll Lighting District, Riverwood Terrace Lighting District, Ukiah Village Lighting District, West Talmage Lighting District, Meadowbrook Manor Sanitation District, Mendocino County Air Quality Management District, and Mendocino County Public Facilities Corporation are districts and a corporation governed by the County board of supervisors. The component unit's governing body is substantially the same as the primary government, hence, these units are presented by blending them with the primary government.

Discretely Presented Component Units. There are no component units of the County which meet the criteria for discrete presentation.

#### B. **Basis of Presentation**

##### *Government-Wide Financial Statements*

The government-wide financial statements consist of the statement of net assets and the statement of activities that report information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 1: **Summary of Significant Accounting Policies** (continued)

**B. Basis of Presentation** (continued)

*Government-Wide Financial Statements* (continued)

These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. At June 30, 2006, the County had no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or functions, and therefore, are clearly identifiable to a particular function and allocated indirect expenses. Direct expenses also include each function's allocated share of indirect expenses. Program revenues include 1) fees, fines and 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 all taxes, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

*Fund Financial Statements*

The fund financial statements report detailed information about the County's funds, including fiduciary funds and blended component units. Separate statements are provided for each fund category – *governmental, proprietary and fiduciary* – even though the latter are excluded from the government-wide financial statements. The emphasis of the Governmental and Proprietary Fund financial statements is on major individual funds. Each major fund is presented in a single column. All remaining governmental funds are separately aggregated and reported as nonmajor funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 1: **Summary of Significant Accounting Policies** (continued)

**B. Basis of Presentation** (continued)

*Fund Financial Statements* (continued)

The County reports the following major governmental funds:

- The *General Fund* is the County's primary operating fund. The General Fund is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreational services.
- The *Debt Service Fund* is used to accumulate funds for the payment of debt service on the Certificates of Participation.
- The *Pension Obligation Bonds Fund* is used to accumulate funds for the payment of debt service on the Pension Obligation Bonds. Deposits are made on each pay period from amounts charged to the individual departments, based on retirement participation.
- The *Mental Health Services Fund* is a special revenue fund whose revenues are legally restricted for specified mental health purposes. The financial activities of the Mental Health Department were formerly an integral part of the County General Fund prior to fiscal 2002-2003.

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the County's vehicle replacement and software acquisition services provided to other departments or to other governments and self-insurance programs – unemployment, general liability, worker's compensation and health insurance benefits, on a cost-reimbursement basis.
- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand.
- The *Pension Trust Fund* accounts for the pooled cash held in the County Treasury for the Mendocino County Employees' Retirement Association.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

### Note 1: **Summary of Significant Accounting Policies** (continued)

#### B. **Basis of Presentation** (continued)

##### *Fund Financial Statements* (continued)

- The *Agency Funds* account for assets held by the County as an agent for various local governments.

#### C. **Measurement Focus and Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes are recognized in the fiscal year for which the taxes are levied. Revenues from sales taxes are recognized when the underlying transactions take place. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they become both measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. All other revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. It is the County's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payments are generally received within 90 days. Property taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded as expenditures only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 1: **Summary of Significant Accounting Policies** (continued)

**C. Measurement Focus and Basis of Accounting** (continued)

The County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

**D. Cash and Investments**

Cash includes amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired.

The County follows the practice of pooling cash and investments which represent deposits, time certificates of deposit, and U.S. Government securities. The securities are stated at cost, which approximates market.

**E. Cash and Cash Equivalents**

For purposes of the statements of cash flows, the internal service funds consider all highly liquid investments with a maturity of three months or less when purchased, and their equity in the County Treasurer's Investment Pool, to be cash equivalents.

**F. Receivables**

Receivables consist mostly of amounts due from other agencies. Management believes its receivables are fully collectible and accordingly, no allowance for doubtful accounts is required.

**G. Inventories**

Inventories are valued at average cost (first-in, first-out). Inventories in the Road Fund consist of road supplies, fuel and various consumable items. Inventories in the General Fund consist of office supplies. Inventory recorded by governmental funds are recorded as expenditures at the time the inventory is consumed. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriations.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 1: **Summary of Significant Accounting Policies** (continued)

### H. Restricted Assets

The County has \$10,057,373 restricted cash deposited with fiscal agents to meet Certificates of Participation and Pension Obligation Bond reserve fund requirements.

### I. Property Tax Revenue

Property taxes attach as an enforceable lien at January 1. Taxes are levied on July 1 and payable in two installments, December 10 and April 10. All general property taxes are then allocated by the County Auditor's Office to the various taxing entities per the legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California. County property tax revenues are recognized when levied in accordance with the alternative method of property tax allocation (Teeter Plan).

#### Alternative Method of Distribution of Tax Levies

The County apportions property tax revenue according to the alternative tax treatment (Teeter Plan), whereby all of the current tax levy is distributed to all participating entities. The County then receives delinquent penalties and fees on the entire participating tax roll.

The County maintains 25% of the total delinquent secured taxes for participating entities in the County, as calculated at the end of the fiscal year, in the tax loss reserve fund. The balance in the fund was approximately \$1.3 million at year end.

### J. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The County defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

### Note 1: **Summary of Significant Accounting Policies** (continued)

#### J. **Capital Assets** (continued)

The estimated useful lives are as follows:

Infrastructure (except for the maintained pavement subsystem)	20 to 50 years
Structures and improvements	10 to 40 years
Equipment	3 to 10 years

The County has five networks of infrastructure assets – roads, water/sewer, lighting, drainage, and flood control.

#### K. **Other Assets**

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are also used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets.

Recognition of governmental fund type revenues represented by non-current receivables is deferred until they become current receivables. Non-current portions of long-term loans receivable are offset by fund balance reserve accounts.

Special reporting treatments are also applied to governmental fund inventories to indicate that they do not represent “available spendable resources,” even though they are a component of net current assets. Such amounts are generally offset by fund balance reserve accounts.

#### L. **Interfund Transactions**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 1: **Summary of Significant Accounting Policies** (continued)

L. **Interfund Transactions** (continued)

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

M. **Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: **Restatements of Net Asset and Fund Balances**

Adjustments resulting from errors or a change to comply with provisions of the accounting standards are treated as adjustments to prior periods. Accordingly, the County reports these changes as restatements of beginning net assets:

**Capital Assets**

A prior period adjustment of \$4,955,032 was made to correct prior year ending capital assets and related accumulated depreciation balances. Of this amount, \$1,174,630 was in the internal service funds.

The impact of the prior period adjustments and restatements on the fund balances/net assets as previously reported is presented below:

	<u>Government-Wide Statement of Activities</u>	<u>Proprietary Funds</u>
	Governmental Activities	Internal Service Funds
Net assets/fund balance - June 30, 2005, as previously reported	\$ (55,494,829)	\$ (4,564,586)
Prior period adjustments:		
Adjustment to prior year capital assets and related accumulated depreciation	<u>4,955,032</u>	<u>1,174,630</u>
Total prior period adjustments	<u>4,955,032</u>	<u>1,174,630</u>
Net assets/fund balance - July 1, 2006, as restated	<u><u>\$ (50,539,797)</u></u>	<u><u>\$ (3,389,956)</u></u>

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

### Note 3: **Stewardship, Compliance and Accountability**

#### Deficit Fund Equity

The following funds had a fund balance/net assets deficit as of the fiscal year end:

<u>Fund</u>	<u>Deficit</u>
Mental Health Services	\$ 4,606,407
Accumulated Capital Outlay	38,382
Capital Projects	709
Health Insurance	1,511,055
General Liability Insurance	628,008
Unemployment Insurance	62,553
Worker's Compensation	57,987
Retiree Health Insurance	764,387
Lighting Special District – Alexander Estates	19,545
Lighting Special District – Noyo	4,592
Miscellaneous Grants	395,896

The deficit fund equity in the Mental Health Services fund was caused by several years of significant excess expenditures over revenues. The Board of Supervisors permitted the accumulated deficit to be separated from the General Fund so as to limit the fiscal impact to the Mental Health Fund solely. Under new directorship, the department continues to work closely with county administration and the Auditor-Controller under a committed plan to defease the deficit over a period of five years. Through a combination of improved billing practices, workforce reduction in hours, other cost cutbacks in non-mandated services and receipt of unanticipated revenues, the fund was able to reduce its outstanding deficit at June 30, 2006, to less than \$1.5 million dollars. It should also be noted that the outstanding SB90 state mandated cost claim owing to the County of Mendocino Mental Health fund is approximately \$1.6 million dollars and, if paid in accordance with the passage of Proposition 1A in 2004, will greatly assist in the elimination of the deficit beginning in fiscal 2006-07.

The Internal Service Funds for insurance (health, general liability, unemployment and workers' compensation) all had a deficit fund equity at fiscal year ending June 30, 2006, as a result of increasing liabilities for unpaid claims as well as the rising costs for insurance in general. Having achieved its goal on a pay-as-you-go basis with each of these accounts, the County intends to continue to aggressively raise the amount of insurance contributions in order to reach actuarial soundness. Evidence of this is the Board of Supervisors' action in fiscal 2005-06 to raise its share of insurance contributions to its self-insured health, unemployment and general liability accounts.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 3: **Stewardship, Compliance and Accountability** (continued)

**Deficit Fund Equity** (continued)

The deficit fund equity in the Lighting Special District funds was due to an excess of expenditures over taxes assessed and received in several of its districts. Specifically, the Alexander Estates Lighting District has an increasing deficit fund balance equity as a result of an expired direct assessment. In the case of the Noyo Lighting District, its deficit fund equity was caused by the sharing of tax assessment revenues with the City of Fort Bragg. Because the lighting districts as a whole are controlled by the Mendocino County Board of Supervisors, it is the intention of county administration to consider grouping all lighting districts into one homogeneous fund.

The deficit fund equity in both the Accumulated Capital Outlay and the Capital Project funds are a result of timing differences in the anticipated receipt of reimbursement for costs not yet received as of June 30, 2006.

The deficit fund equity in the Miscellaneous Grants is caused by the nature of these grants, whereby the County typically expends grant funds, then claims reimbursement. The deficit equity amounts represent grant-authorized expenditures that are yet to be reimbursed by the granting agency.

Note 4: **Cash and Investments**

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds using a formula based on the average daily cash balance of each fund.

The investment pool includes both voluntary and involuntary participation from external entities. The State of California statutes require certain special districts and other governmental entities to maintain their cash surplus with the County Treasurer.

The County investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust. The Board of Supervisors reviews and approves the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual costs and fair value.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 4: **Cash and Investments** (continued)

At June 30, 2006, total County cash and investments were as follows:

*Cash:*

Cash on hand	\$ 1,763,419
Imprest cash	11,991
Certificates of deposit	30,002,955
Overdrafts (deposits less outstanding warrants)	<u>(5,143,153)</u>
Total cash	<u>26,635,212</u>

*Investments:*

In Treasurer's pool	79,261,675
With fiscal agents	<u>10,057,373</u>
Total investments	<u>89,319,048</u>
Total cash and investments	<u><u>\$ 115,954,260</u></u>

Total cash and investments at June 30, 2006, were presented on the County's financial statements as follows:

Primary government	\$ 15,933,646
Pension trust fund	5,791,416
Investment trust fund	73,342,208
Agency funds	<u>20,886,990</u>
Total cash and investments	<u><u>\$ 115,954,260</u></u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 4: **Cash and Investments** (continued)

Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	10%	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Banker's Acceptances	180 days	40%	None
Commerical Paper	270 days	40%	None
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements	92 days	20%	None
Medium Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

At June 30, 2006, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not required for GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, compliance.

At June 30, 2006, the County had the following investments:

	Interest Rates	Maturities	Par	Cost	Fair Value	WAM (Years)
<b>Investments in Investment Pool</b>						
Commercial paper	5.03% - 5.05%	7/7/2006	\$ 15,000,000	\$ 14,907,539	\$ 14,992,800	0.02
Medium-term notes	4.40% - 4.99%	1/12/07 - 7/6/10	26,000,000	26,103,498	26,019,880	1.54
Federal agency obligations	4.98% - 9.00%	3/15/07 - 6/15/17	5,040,504	5,037,454	4,999,784	2.61
Mutual funds	3.78%	On Demand	7,241,610	7,241,610	7,123,618	0.12
Local Agency Investment Fund (LAIF)	4.03%	On Demand	15,000,000	15,000,000	15,000,000	0.00
Repurchase agreements	4.83%	On Demand	891,328	891,328	891,328	0.00
Mendocino County Delinquent Tax and Revenue Anticipation Note	variable	On Demand	10,080,246	10,080,246	10,080,246	0.00
<b>Total investments in investment pool</b>			<u>\$ 79,253,688</u>	<u>\$ 79,261,675</u>	<u>\$ 79,107,656</u>	0.56
<b>Investments Outside Investment Pool</b>						
Cash			\$ 52,906	\$ 52,906	\$ 52,906	0.00
Corporate obligations			5,282,274	5,282,274	5,286,247	0.00
Mutual funds			4,722,193	4,722,193	4,722,191	0.00
<b>Total investments outside investment pool</b>			<u>10,057,373</u>	<u>10,057,373</u>	<u>10,061,344</u>	0.00
<b>Total investments</b>			<u>\$ 89,311,061</u>	<u>\$ 89,319,048</u>	<u>\$ 89,169,000</u>	

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 4: **Cash and Investments** (continued)

**Interest Rate Risk**

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy. The County invested \$26,019,880 in floating rate securities. These are tied to the one or three month London Interbank Offer Rate (LIBOR) index.

**Credit Risk**

State law and the County's Investment Policy limit investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law and the County's Investment Policy also limit investments in corporate bonds to the rating of A by Standard & Poor's and Moody's Investors Service. The County does not have credit limits on government agency securities.

**Concentration of Credit Risk**

County Investment Pool. State law and the County's Investment Policy limit investments to commercial paper to 40% of the County Investment Pool and 10% of the County Investment Pool per issuer. At June 30, 2006, the County had 13.74% of its County Investment Pool in commercial paper. State law and the County's Investment Policy also limits investments in corporate bonds and medium term notes to 30% of the County Investment Pool. At June 30, 2006, the County had 23.85% of its County Investment Pool in corporate bonds and medium term notes. The County did not have 5% or more of its net investment in commercial paper, corporate bonds or medium term notes of a single organization.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2006.

<b>Investments In Investment Pool</b>	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Portfolio</u>
Federal agency obligations	AAA	AAA	Unrated	4.58%
Commercial paper	A	P1	Unrated	13.74%
Local Agency Investment Fund	Unrated	Unrated	Unrated	13.75%
Medium-term notes	AAA	Aa3	AA	23.85%
Mutual fund	Unrated	Unrated	Unrated	6.53%
Certificates of deposit	A1	P1	A1	27.49%
Repurchase agreements	Unrated	Unrated	Unrated	0.82%
Delinquent Tax and Revenue Anticipation Note	Unrated	Unrated	Unrated	9.24%
				<u>100.00%</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 4: **Cash and Investments** (continued)

Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The County's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information previously provided):

<u>Highly Sensitive Investments</u>	<u>Fair Value</u>
Investments in asset backed securities. These securities are based on cash flows for payments on underlying loans. Therefore, they are sensitive to prepayments by borrowers, which may result from a decline in interest rates.	\$ 4,999,784

County Investment pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2006:

**Statement of Net Assets**

Net assets held for pool participants	<u>\$ 115,954,260</u>
Equity of internal pool participants	\$ 42,612,052
Equity of external pool participants	<u>73,342,208</u>
Total net assets	<u>\$ 115,954,260</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 4: **Cash and Investments** (continued)

County Investment pool Condensed Financial Statements (continued)

**Statement of Changes in Net Assets**

Net assets for pool participants at July 1, 2005	\$ 95,835,230
Net change in investments by pool participants	<u>20,119,030</u>
Net assets at June 30, 2006	<u><u>\$ 115,954,260</u></u>

Note 5: **Deferred Revenues**

Governmental funds report deferred revenue in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of June 30, 2006, the various components of unavailable deferred revenue and unearned revenue reported were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental Activities:			
Government-wide Statements:			
Advance from fiscal agent for interest on 2002 bonds	\$ --	\$ 4,183,912	\$ 4,183,912
Various grants and charges	<u>--</u>	<u>1,449,804</u>	<u>1,449,804</u>
	<u><u>\$ --</u></u>	<u><u>\$ 5,633,716</u></u>	<u><u>\$ 5,633,716</u></u>
Fund Statements:			
General Fund:			
Various grants and charges	\$ 1,613,900	\$ 850,681	\$ 2,464,581
Mental Health Services:			
Various grants and charges	3,992,550	--	3,992,550
Other Governmental Funds:			
Various grants and charges	<u>595,706</u>	<u>599,123</u>	<u>1,194,829</u>
	<u><u>\$ 6,202,156</u></u>	<u><u>\$ 1,449,804</u></u>	<u><u>\$ 7,651,960</u></u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 6: **Short-Term Note Payable**

On July 1, 2005, the County issued a \$23,339,292 tax and revenue anticipation note to manage the temporary cash flow deficits that occur when the timing of required expenditures does not coincide with the timing of the collection of taxes and other revenues. The note was issued in anticipation of collection of taxes and other revenues to be received during the fiscal year ended June 30, 2006, and was repaid with taxes and other revenues by June 30, 2006.

Short-term note payable activity for the year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2006</u>
Short-term note payable	\$ <u>          --</u>	\$ <u>23,339,292</u>	\$ <u>23,339,292</u>	\$ <u>          --</u>

Note 7: **Interfund Transactions**

**Interfund Receivables/Payables**

The composition of interfund balances as of June 30, 2006, are as follows:

*Advances from/to other funds:*

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund	General Fund	\$ <u>5,448,333</u>

Prior year secured taxes (delinquent) have been deposited in the General Fund instead of the Tax Resource Fund over the years. The balance of the advances is the estimated amount of taxes owed by the General Fund to the Tax Resource Fund.

*Due from/to other funds:*

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 18,200
	Pension Obligation Bonds	3,091,000
	Mental Health Fund	4,979,500
	Internal Service Funds	325,000
	Other Governmental Funds	405,200
Other Governmental Funds	General Fund	<u>3,676,500</u>
		\$ <u>12,495,400</u>

The above balances reflect temporary cash advances.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 7: **Interfund Transactions** (continued)

**Interfund Receivables/Payables** (continued)

***Transfers:***

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

Transfer From	Transfer To	Amount
General Fund	Debt Service Fund	\$ 2,270,937
	Mental Health Services	908,314
	Internal Service Funds	240,000
	Other Governmental Funds	5,390,784
		8,810,035
Mental Health Services Fund	General Fund	292,087
	Debt Service Fund	52,224
		344,311
Internal Service Funds	General Fund	199,825
	Other Governmental Funds	3,800
		203,625
Other Governmental Funds	General Fund	747,730
	Other Governmental Funds	144,042
		891,772
		\$ 10,249,743

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 8: **Capital Assets**

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &amp;</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2006</u>
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 3,298,969	\$ --	\$ --	\$ --	\$ 3,298,969
Construction in progress	3,164,171	1,973,225	--	101,571	5,238,967
<b>Total capital assets, not being depreciated</b>	<b>6,463,140</b>	<b>1,973,225</b>	<b>--</b>	<b>101,571</b>	<b>8,537,936</b>
Capital assets, being depreciated:					
Infrastructure	41,909,385	--	--	3,491,179	45,400,564
Structures and improvements	64,498,575	1,238,490	--	(455,527)	65,281,538
Equipment	23,595,082	1,794,233	(939,895)	4,647,022	29,096,442
Improvements other than buildings	2,591,598	--	--	--	2,591,598
<b>Total capital assets, being depreciated</b>	<b>132,594,640</b>	<b>3,032,723</b>	<b>(939,895)</b>	<b>7,682,674</b>	<b>142,370,142</b>
Less accumulated depreciation for:					
Infrastructure	(18,756,658)	(1,308,355)	--	--	(20,065,013)
Structures and improvements	(19,909,579)	(1,774,944)	--	144,686	(21,539,837)
Equipment	(16,886,678)	(2,160,633)	939,895	(2,973,899)	(21,081,315)
Improvements other than buildings	(2,451,781)	(10,782)	--	--	(2,462,563)
<b>Total accumulated depreciation</b>	<b>(58,004,696)</b>	<b>(5,254,714)</b>	<b>939,895</b>	<b>(2,829,213)</b>	<b>(65,148,728)</b>
<b>Total capital assets, being depreciated, net</b>	<b>74,589,944</b>	<b>(2,221,991)</b>	<b>--</b>	<b>4,853,461</b>	<b>77,221,414</b>
<b>Government activities capital assets, net</b>	<b>\$ 81,053,084</b>	<b>\$ (248,766)</b>	<b>\$ --</b>	<b>\$ 4,955,032</b>	<b>\$ 85,759,350</b>

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 641,474
Public protection	1,509,133
Public ways	1,808,715
Health and sanitation	708,372
Public assistance	405,640
Education	97,126
Recreation and culture	76,105
Depreciation on capital assets held by the County's internal service funds are charged to various functions based on their usage of the assets	8,149
<b>Total Depreciation Expense - Governmental Functions</b>	<b>\$ 5,254,714</b>

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

### Note 9: Long-Term Liabilities

Long-term liabilities at June 30, 2006, consisted of the following:

<u>Governmental Activities</u> Type of Indebtedness (Purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2006</u>
<b>Loans Payable</b>					
California Energy Commission Loan – 2002	12/22/02-12/22/07	3.00%	\$5,000-\$9,000	\$ 96,884	\$ 25,748
California Energy Commission Loan – 2003	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	<u>250,000</u>	<u>214,955</u>
Total Loans Payable				<u>\$ 346,884</u>	<u>\$ 240,703</u>
<b>Taxable Pension Obligation Bonds</b>					
<b>1996 Series</b> (Issued to meet net pension obligation of the County's retirement plan)	7/01/03-7/01/09	5.54%-6.97%	\$2,225,000-\$4,770,000	\$ 30,720,000	\$ 7,325,000
<b>2002 Series</b> (Issued to partially refund the 1996 Series and to meet the net pension obligation of the County's retirement plan)	7/01/04-7/01/26	2.07%-5.77%	\$885,000-\$7,560,000	<u>91,945,000</u>	<u>90,150,000</u>
Total Taxable Pension Obligation Bonds				<u>\$ 122,665,000</u>	<u>\$ 97,475,000</u>
<b>Certificates of Participation</b>					
<b>1998 Issue</b> (defeased the 1989 refunding Certificates of Participation)					
Serial Current Interest Certificates	8/15/03-8/15/06	4.05%-4.30%	\$275,000-\$490,000	<u>\$ 8,600,000</u>	<u>\$ 490,000</u>
<b>2000 Issue</b> (Refunding of 1998 COPs)					
Serial Current Interest Certificates	6/01/04-6/01/16	4.10%-5.0%	\$75,000-\$535,000	6,120,000	4,790,000
Term Current Interest Certificates	6/1/2030	5.25%	\$570,000-\$1,905,000	<u>16,360,000</u>	<u>16,360,000</u>
2000 Issue				<u>22,480,000</u>	<u>21,150,000</u>
<b>2001 Issue</b> (Refunding of 1993 certificates)					
Serial Current Interest Certificates	6/01/04-6/01/21	3.5%-4.8%	\$240,000-\$460,000	6,455,000	5,195,000
Term Current Interest Certificates	6/01/2024	4.98%	\$480,000-\$525,000	<u>1,510,000</u>	<u>1,510,000</u>
2001 Issue				<u>7,965,000</u>	<u>6,705,000</u>
Total Certificates of Participation				<u>\$ 39,045,000</u>	<u>\$ 28,345,000</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 9: **Long-Term Liabilities** (continued)

**A. Summary of Long-Term Liabilities**

The following is a summary of long-term liabilities transactions for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
<b>Governmental Activities</b>					
Bonds payable	\$ 99,930,000	\$ --	\$ (2,455,000)	\$ 97,475,000	\$ 2,585,000
Loans payable	275,566	--	(34,863)	240,703	36,094
Certificates of participation	29,230,000	--	(885,000)	28,345,000	1,470,000
Capital leases	1,673,131	652,025	(487,300)	1,837,856	495,949
Compensated absences	4,135,722	133,521	--	4,269,243	4,269,243
Liability for unpaid claims	3,376,703	14,367,573	(13,904,113)	3,840,163	3,840,163
	<u>\$ 138,621,122</u>	<u>\$ 15,153,119</u>	<u>\$ (17,766,276)</u>	<u>\$ 136,007,965</u>	<u>\$ 12,696,449</u>
Total Governmental Activities	\$ 138,621,122	\$ 15,153,119	\$ (17,766,276)	\$ 136,007,965	\$ 12,696,449

As of June 30, 2006, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Governmental Activities					
	Bonds Payable		Certificates of Participation		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 2,585,000	\$ 5,339,766	\$ 1,470,000	\$ 1,398,263	\$ 36,094	\$ 8,951
2008	2,730,000	5,189,341	635,000	1,347,308	28,507	7,696
2009	2,885,000	5,025,710	660,000	1,320,428	20,606	6,756
2010	3,055,000	4,848,443	730,000	1,292,102	21,428	5,934
2011	3,240,000	4,675,324	720,000	1,260,234	22,283	5,078
2012-2016	18,830,000	20,669,585	4,150,000	5,764,071	111,785	11,343
2017-2021	24,495,000	14,818,792	5,270,000	4,648,209	--	--
2022-2026	32,095,000	6,984,275	7,655,000	3,087,162	--	--
2027-2031	7,560,000	218,106	7,055,000	949,948	--	--
	<u>\$ 97,475,000</u>	<u>\$ 67,769,342</u>	<u>\$ 28,345,000</u>	<u>\$ 21,067,725</u>	<u>\$ 240,703</u>	<u>\$ 45,758</u>

Certificates of participation, loans, interest payments and pension obligations bonds are serviced by several of the County funds, including the general fund, special revenue funds and internal service funds. Capital lease obligations are paid from the general fund and special revenue funds. Claims and judgments will be paid from the County's risk management internal service funds. A majority of the claims are paid through internal service fund charges to the general fund and special revenue funds. Compensated absences liabilities will be paid by several of the County's funds, including the general fund, special review funds, and other internal service funds.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 9: **Long-Term Liabilities** (continued)

A. **Summary of Long-Term Liabilities** (continued)

**Debt Service Forward Agreement**

In December 2002, the County entered into a debt service forward agreement with the fiscal agent related to the 2002 Bonds. The County received \$4,811,500 in advance for interest to be earned on the required reserves deposited with the fiscal agent over the life of the bonds. The amount, which previously was recognized by the General Fund as other revenue in the fund statements, is currently being recognized as deferred revenue to be amortized over the life of the bonds in the government-wide statement of net assets. At fiscal year end, the amount of unamortized interest was \$4,183,912.

B. **Leases**

**Operating Leases**

The County has signed several operating leases, primarily for office buildings. Terms of the leases are month-to-month or contain early termination clauses. Because of this, the County does not have a definite noncancelable commitment from the various leases.

**Capital Leases**

Equipment and related accumulated amortization under capital leases are as follows:

	<u>Governmental Activities</u>
Equipment	\$ 3,428,698
Less: accumulated amortization	<u>(1,228,627)</u>
Net Value	<u>\$ 2,200,071</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 9: **Long-Term Liabilities** (continued)

B. **Leases** (continued)

**Capital Leases** (continued)

The County has entered into lease agreements for data processing systems, copy machines, and other equipment, with interest rates ranging from 4.0% to 16.7%. The original cost of all leased equipment was \$3,428,698. The minimum future lease commitments on these leases are as follows:

Fiscal Year Ending June 30,	<u>Payments</u>
2007	\$ 571,448
2008	483,074
2009	422,967
2010	304,243
2011	221,617
2012	<u>86,999</u>
Total Minimum Lease Payments	2,090,348
Less Amount Representing Interest	<u>(252,492)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,837,856</u>

C. **Compensated Absences**

Vacation – employees accrue vacation at varying rates depending on the length of an employee’s service. Upon termination unused vacation, up to accrual limits, is paid off in cash. Sick leave – all employees accrue sick leave at the rate of 15 days per year. Sick leave may be accrued without limit. Upon termination, unused sick leave will be applied toward length of service for retirement credit. Holidays must be taken within the calendar year and are not accruable. The County records the gross vacation liability. At fiscal year end, the total liability for compensated absences was \$4,269,243. The entire amount was considered current, based on experience.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 9: **Long-Term Liabilities** (continued)

**D. Prior Year Defeased Obligations**

In prior years, the County defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased debt is not included in these financial statements. The following debt, which is considered defeased, was outstanding at June 30, 2006:

\$8,770,000 Pension Obligation Bonds – Series 1996

Note 10: **Municipal Solid Waste Landfill Closure and Postclosure Care Costs**

State and federal law and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$7,962,650 reported as landfill closure/postclosure liability at June 30, 2006, represents the cumulative amount reported to date based on the use of various percents of the estimated capacity of the landfills. These amounts are based on what it would cost to perform all closure and postclosure care in 2006. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The following information pertains to the various landfills in the County:

<u>Location</u>	<u>Ownership of Landfill</u>	<u>Percent Filled</u>	<u>Expected Closure Date</u>	<u>Estimated Liability at June 30, 2006</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 930,393
South Coast Landfill	Mendocino County	N/A	2034	3,643,074
Laytonville Landfill	Mendocino County	100%	Closed	3,389,183
				<u>\$ 7,962,650</u>

The County is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. The County is in compliance with these requirements, and, at June 30, 2006, investments of \$1,867,202 are held for these purposes. The County intends to obtain either a grant or issue debt to fund the closure costs. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2006

### Note 11: Net Assets/Fund Balances

#### Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

#### Fund Balances

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2006, reservations of fund balance are described below:

The term “reserved” is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The County’s management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The County has “reserved” fund balances as follows:

- *Reserve for Imprest Cash* was created to represent the portion of the fund balance that is not available for expenditure because the County maintains various levels of revolving funds for daily operations.
- *Reserve for Encumbrances* was created to represent encumbrances outstanding at the end of the year based on purchase order and contracts signed by the County but not yet completed as of the close of the final year.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 11: **Net Assets/Fund Balances** (continued)

#### **Fund Balances** (continued)

- *Reserve for Debt Service and Capital Projects* was created to represent cash held with fiscal agent for debt service and capital projects. The portion of fund balance representing the reserve does not represent an available spendable resource.
- *Reserve for Inventory* was created to represent the balance of inventory that is not available for expenditure.

Note 12: **County Employees Retirement Plan (Defined Benefit Pension Plan)**

#### Plan Description

The Mendocino County Retirement Association is a multiple employer defined benefit pension plan serving the employees of the County of Mendocino and two special districts. The Association was established under the County Employees Retirement Act of 1937, as amended. The plan is totally controlled and governed by a nine-member retirement board and is available to essentially all full-time employees of the County and certain special districts. Members of the board are appointed as follows: four members are appointed by the Board of Supervisors, two members are elected by general county employees, one member is elected by safety county employees, one member is elected by county retirees, and one member is the County Treasurer who is an ex-officio board member and administrator of the retirement system.

#### Funding Policy

Employees of the County and the special districts contribute to the plan. County contributions for the plan's year ended June 30, 2006, were \$4,368,120; contributions by the employees of the County and the special districts were \$5,937,820; and contributions by the Courts were \$443,834.

#### Annual Pension Cost

The Retirement Association uses an entry age normal method with a supplemental present value for its actuarial computations. Significant actuarial assumptions used to determine the standardized measure of the pension benefit obligations are a) a rate of return on current and future investments of 8.0 percent compounded annually, b) projected salary increases of 5.75 percent per year attributable to merit/longevity, and c) additional projected salary increases of 4.75 percent per year attributable to inflation.

The Association was audited by other auditors. The last audit performed was for the year ended June 30, 2006. A complete financial statement of the Association is available at the Auditor-Controller's Office of the County of Mendocino.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 13: **Post-Retirement Benefits**

The County pays in accordance with County ordinance, post-retirement medical benefits for retirees who have at least ten years of County service. If the retiree has less than ten years of service, then the retiree pays a percentage of the medical benefits. The benefits paid by the County are funded on a pay-as-you-go basis. At fiscal year end, there were 851 County retirees, of which, 623 received healthcare benefits totaling \$3,720,135 for the year ended June 30, 2006.

Note 14: **Contingencies**

A. **Litigation**

There are many lawsuits pending in which the County is involved. Some of the lawsuits have been filed solely against the County, while in others, the County is one of a group of defendants. County Counsel had indicated that probable potential claims against the County are \$50,000 to \$100,000, while possible potential claims against the County range in the area of \$1,000,000. The general liability self-insurance program would cover probable claims losses for which adequate reserves have been maintained.

B. **Grants**

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. As of June 30, 2006, significant amounts of grant expenditures have not been audited, but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2006

#### Note 15: **Risk Management**

The County has four risk management funds (Internal Service Funds) to administer the County's insurance programs that are fully self-insured, partially self-insured or fully funded. Fund revenues are primarily premium charges to other departments and funds, and are planned to equal estimated expenses resulting from the self-insurance programs including claims expenses, liability insurance coverage in excess of the self-insured retention amounts, and other operating expenses. Liability for unpaid claims is subject to change due to future reestimations of claims by program administrators, inflation, and changes in laws and regulations. The primary activities of the funds consist of risk management programs related to the following:

##### A. **Unemployment Insurance**

The County is fully self-insured for this program. The estimated claims liability at fiscal year end was \$446,453.

##### B. **General Liability Insurance**

The County maintains a self-insured retention (SIR) of \$200,000 per occurrence for this program. Losses which exceed the SIR are covered by excess insurance obtained through CSAC-Excess Insurance Authority. This program is the only insurance program administered without the benefit of a third party administrator. The administration of this program is a joint effort between the Risk Management Division and the Office of the County Counsel. The liability for unpaid claims was based on actual outstanding claims at June 30, 2006, plus an amount for "incurred but not reported claims." The liability is based on the estimated ultimate cost of settling the claims within the program's self-insured retention. The liability of \$1,068,942 includes incurred but not reported claims.

##### C. **Workers' Compensation**

The County has elected to become fully insured through CSAC-Excess Insurance Authority on July 1, 1997.

##### D. **Health Insurance**

The County is fully self-insured and administers the program. The County has hired Driver Alliant as a health plan consultant/actuary to review the health plan on an annual basis, and determine by how much County and employee share in premiums should be increased. The estimated claims liability at fiscal year end was \$1,662,013.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2006

Note 15: **Risk Management** (continued)

**E. Retiree Health Insurance**

The County is fully self-insured and administers the program. The County has hired Driver Alliant as a health plan consultant/actuary to review the health plan on an annual basis, and determine by how much County and employee share in premiums should be increased. The estimated claims liability at fiscal year end was \$662,755.

Changes in the fund's claims liability amount for the past two years were:

	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Claims liability, July 1, 2004	\$ 533,196	\$ 1,761,309	\$ 1,800,000	\$ --	\$ 4,094,505
Current year claims and changes in estimates	645,464	35,764	7,744,578	2,947,815	11,373,621
Claims payments	<u>(681,220)</u>	<u>(544,834)</u>	<u>(8,159,760)</u>	<u>(2,705,609)</u>	<u>(12,091,423)</u>
Claims liability, June 30, 2005	<u>\$ 497,440</u>	<u>\$ 1,252,239</u>	<u>\$ 1,384,818</u>	<u>\$ 242,206</u>	<u>\$ 3,376,703</u>
Claims liability, July 1, 2005	\$ 497,440	\$ 1,252,239	\$ 1,384,818	\$ 242,206	\$ 3,376,703
Current year claims and changes in estimates	361,201	205,348	8,909,590	4,891,434	14,367,573
Claims payments	<u>(412,188)</u>	<u>(388,645)</u>	<u>(8,632,395)</u>	<u>(4,470,885)</u>	<u>(13,904,113)</u>
Claims liability, June 30, 2006	<u>\$ 446,453</u>	<u>\$ 1,068,942</u>	<u>\$ 1,662,013</u>	<u>\$ 662,755</u>	<u>\$ 3,840,163</u>

Note 16: **Excess Expenditures Over Budget**

The following funds had excess expenditures over budget:

	<u>Budget</u>	<u>Expenditure</u>	<u>Variance</u>
Debt Service	\$ 2,376,097	\$ 2,377,480	\$ 1,383
Pension Obligation Bonds	8,134,710	8,382,496	247,786
Capital Projects	58,704	102,581	43,877
Redevelopment Agency	67,828	86,651	18,823
Accumulated Capital Outlay	879,963	1,047,196	167,233
Library	1,358,981	1,361,615	2,634
Special Aviation	262,820	268,424	5,604
COPS AB1933	269,657	270,784	1,127
Landfill Closure	189,035	224,810	35,775
Software Acquisition	253,590	285,861	32,271
Retiree's Health Insurance	3,441,031	4,810,518	1,369,487

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 17: **Subsequent Events**

On July 5, 2006, the County issued a \$24,207,360 tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable June 25, 2007, and carries a 4.5% interest rate.

Note 18: **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) recently released new accounting and financial reporting standards. GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions (OPEB)*, and GASB Statement No. 47, *Accounting for Termination Benefits*, may have a significant impact on the County's financial reporting process.

GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB Statement No. 45 will be effective for the fiscal year ending June 30, 2008.

GASB Statement No. 47 provides guidance on how employers should account for benefits associated with either voluntary or involuntary terminations. The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB Statement No. 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNTY OF MENDOCINO**

**Required Supplementary Information  
For the Fiscal Year Ended June 30, 2006**

**SCHEDULE OF FUNDING PROGRESS**

The table below shows a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/04	\$ 265,141,000	\$ 239,191,000	\$ 25,950,000	90.2%	\$ 59,075,000	43.9%
6/30/05	289,467,000	253,487,000	35,980,000	87.6%	57,664,000	62.4%
6/30/06	320,123,000	288,461,000	31,662,000	90.1%	57,665,000	54.9%

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 201,455	\$ 201,455	\$ 201,455	\$ --
<b>Resources (inflows):</b>				
Taxes	49,750,141	49,750,141	48,094,238	(1,655,903)
Licenses and permits	2,973,577	2,973,577	2,911,738	(61,839)
Fines, forfeits and penalties	2,101,127	2,101,127	2,048,625	(52,502)
Revenue from use of money and property	1,230,940	1,230,940	1,787,720	556,780
Aid from other governments	67,056,108	67,056,108	64,736,380	(2,319,728)
Charges for services	10,516,277	10,516,277	10,365,279	(150,998)
Miscellaneous revenue	3,037,169	2,933,854	2,421,491	(512,363)
Other financing sources	1,081,177	1,291,963	1,891,667	599,704
Amounts available for appropriation	<u>137,746,516</u>	<u>137,853,987</u>	<u>134,257,138</u>	<u>(3,596,849)</u>
<b>Charges to appropriations (outflows):</b>				
Current:				
General government	15,804,268	17,061,175	15,432,985	1,628,190
Public protection	40,112,330	42,977,377	42,256,045	721,332
Public way and facilities	141,593	141,593	152,063	(10,470)
Health and sanitation	12,856,516	14,193,920	12,713,385	1,480,535
Public assistance	54,852,965	57,557,675	52,979,684	4,577,991
Education	224,131	224,131	215,496	8,635
Recreation and cultural services	275,527	275,527	283,292	(7,765)
Capital outlay	1,097,442	1,327,096	1,516,033	(188,937)
Other financing uses	6,305,059	7,894,607	8,810,035	(915,428)
Total charges to appropriations	<u>131,669,831</u>	<u>141,653,101</u>	<u>134,359,018</u>	<u>7,294,083</u>
Budgetary fund balances, June 30	\$ 6,278,140	\$ (3,597,659)	\$ 99,575	\$ 3,697,234

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement \$ 134,257,138

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for budgetary purposes (1,239,642)

Inceptions of capital leases are inflows of budgetary resources but are not revenues for budgetary purposes (652,025)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 132,365,471

continued

**COUNTY OF MENDOCINO**

**Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2006**

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$ 134,359,018
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for budgetary purposes	(8,810,035)
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	<u>(183,418)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 125,365,565</u></u>

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
Mental Health Services Fund  
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ (3,939,090)	\$ (3,939,090)	\$ (3,939,090)	\$ --
Resources (inflows):				
Revenue from use of money and property	(80,000)	(80,000)	(217,391)	(137,391)
Aid from other governments	14,194,584	14,194,584	12,615,212	(1,579,372)
Charges for services	100,000	100,000	80,773	(19,227)
Miscellaneous revenue	783,100	783,100	689,274	(93,826)
Other financing sources	250,000	250,000	908,314	658,314
Amounts available for appropriation	<u>15,247,684</u>	<u>15,247,684</u>	<u>14,076,182</u>	<u>(1,171,502)</u>
Charges to appropriations (outflows):				
Current:				
Health and sanitation	14,562,246	14,562,246	14,399,188	163,058
Capital outlay	100,000	100,000	--	100,000
Other financing uses	345,000	345,000	344,311	689
Total charges to appropriations	<u>15,007,246</u>	<u>15,007,246</u>	<u>14,743,499</u>	<u>263,747</u>
Budgetary fund balances, June 30	<u>\$ (3,698,652)</u>	<u>\$ (3,698,652)</u>	<u>\$ (4,606,407)</u>	<u>\$ (907,755)</u>
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:				
<u>Sources/inflows of resources</u>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement				\$ 14,076,182
Differences - budget to GAAP:				
Transfers from other funds are inflows of budgetary resources but are not revenues for budgetary purposes				<u>(908,314)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				<u>\$ 13,167,868</u>

continued

**COUNTY OF MENDOCINO**

**Budgetary Comparison Schedule (continued)  
Mental Health Services Fund  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2006**

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$ 14,743,499
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for budgetary purposes	<u>(344,311)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 14,399,188</u>

## COUNTY OF MENDOCINO

### Note to Required Supplementary Information For the Year Ended June 30, 2006

#### **BUDGETARY BASIS OF ACCOUNTING**

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the County prepares and legally adopts a final budget for each fiscal year on or before August 30. Budgeted expenditures are enacted into law through the passage of an Appropriation Ordinance. This ordinance mandates the maximum authorized expenditures for the fiscal year and cannot be exceeded except by subsequent amendments to the budget by the County's Board of Supervisors.

An operating budget is adopted each fiscal year for all governmental funds. Expenditures are controlled at the object level within budget units for the County. The object level within a budget unit is the level at which expenditures may not legally exceed appropriations. Any amendments or transfers of appropriations between object levels within the same budget unit or between departments or funds are authorized by the County Manager's office and must be approved by the Board of Supervisors. Supplementary appropriations normally financed by unanticipated revenues during the year must be approved by the Board of Supervisors. Pursuant to Board Resolution, the County Manager is authorized to approve transfers and revision of appropriations under \$50,000 within a single budget unit as deemed necessary and appropriate. Budgeted amounts in the budgetary financial schedules are reported as originally adopted and is amended during the fiscal year by resolutions approved by the Board of Supervisors.

The County uses an encumbrances system as an extension of normal budgetary accounting for the general, special revenue, and other debt service funds and to assist in controlling expenditures of the capital projects funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Encumbrances are combined with expenditures for budgetary comparison purposes. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward in the ensuing year's budget.

The budget approved by the Board of Supervisors for the General Fund includes budgeted expenditures and reimbursements for amounts disbursed on behalf of other governmental funds. Actual reimbursements for these items have been eliminated in the accompanying budgetary financial schedules. Accordingly, the related budgets for these items have also been eliminated in order to provide a meaningful comparison of actual and budgeted results of operations.

The budgets for the governmental funds may include an object level known as "intrafund transfers" in the charges for appropriations. This object level is an accounting mechanism used by the County to show reimbursements between operations within the same fund (an example would be the General Fund).

The amounts reported in the budgetary basis differ from the basis used to present the basic financial statements in accordance with generally accepted accounting principles (GAAP). Annual budgets are prepared on the modified accrual basis of accounting except that current year encumbrances are budgeted as expenditures.

**SUPPLEMENTAL INFORMATION**

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Redevelopment Agency</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments in County Treasury	\$ 3,612,075	\$ 4,957	\$ 138,592	\$ 3,755,624
Imprest cash	559	--	--	559
Accounts receivable	118,502	60	--	118,562
Due from other governmental agencies	1,476,574	--	--	1,476,574
Due from other funds	3,676,500	--	--	3,676,500
Inventory of supplies, at cost	600,127	--	--	600,127
Total Assets	<u>\$ 9,484,337</u>	<u>\$ 5,017</u>	<u>\$ 138,592</u>	<u>\$ 9,627,946</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 386,235	\$ 5,726	\$ --	\$ 391,961
Accrued salaries and benefits	276,561	--	--	276,561
Due to other funds	405,200	--	--	405,200
Deferred revenue	1,194,829	--	--	1,194,829
Total Liabilities	<u>2,262,825</u>	<u>5,726</u>	<u>--</u>	<u>2,268,551</u>
 Fund Balances:				
Reserved for:				
Encumbrances	87,265	--	--	87,265
Inventory	600,127	--	--	600,127
Imprest cash	559	--	--	559
Unreserved, reported in:				
Special revenue funds	6,533,561	--	--	6,533,561
Capital project funds	--	(709)	--	(709)
Debt service funds	--	--	138,592	138,592
Total Equities	<u>7,221,512</u>	<u>(709)</u>	<u>138,592</u>	<u>7,359,395</u>
 Total Liabilities and Fund Balances	 <u>\$ 9,484,337</u>	 <u>\$ 5,017</u>	 <u>\$ 138,592</u>	 <u>\$ 9,627,946</u>

## COUNTY OF MENDOCINO

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2006

	Special Revenue	Capital Projects	Redevelopment Agency	Total
<b>Revenues:</b>				
Taxes	\$ 341,008	\$ --	\$ 470,321	\$ 811,329
Licenses, permits and franchises	283,085	--	--	283,085
Aid from other governmental agencies	17,453,798	--	--	17,453,798
Revenue from use of money and property	251,202	(65)	(1,736)	249,401
Fines, forfeitures and penalties	152,676	35,000	--	187,676
Charges for services	1,394,493	--	--	1,394,493
Other revenue	211,605	900	--	212,505
Total Revenues	20,087,867	35,835	468,585	20,592,287
<b>Expenditures:</b>				
Current:				
General government	180,843	--	86,651	267,494
Public protection	3,164,504	--	--	3,164,504
Public ways and facilities	8,971,833	--	--	8,971,833
Health and sanitation	4,296,737	--	--	4,296,737
Public assistance	2,513,217	--	--	2,513,217
Education	1,361,615	--	--	1,361,615
Recreation and culture services	251,133	--	--	251,133
Capital outlay	3,675,909	102,581	--	3,778,490
Total Expenditures	24,415,791	102,581	86,651	24,605,023
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,327,924)	(66,746)	381,934	(4,012,736)
<b>Other Financing Sources (Uses):</b>				
Transfers In	5,442,272	96,354	--	5,538,626
Transfers Out	(889,272)	--	(2,500)	(891,772)
Total Other Financing Sources (Uses)	4,553,000	96,354	(2,500)	4,646,854
<b>Net Change in Fund Balances</b>	225,076	29,608	379,434	634,118
Fund Balances, Beginning of year	6,996,436	(30,317)	(240,842)	6,725,277
Fund Balances, Ending	\$ 7,221,512	\$ (709)	\$ 138,592	\$ 7,359,395

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2006

	Road	Accumulated Capital Outlay	Library	Fish and Game	Special Aviation
<u>Assets</u>					
Cash and investments in County Treasury	\$ 490,984	\$ 37,832	\$ 163,586	\$ 119,611	\$ 1,139
Imprest cash	50	--	259	--	--
Accounts receivable	1,053	--	11,250	--	--
Due from other governmental agencies	1,224,842	46,044	--	--	157,111
Due from other funds	--	--	--	--	--
Inventory of supplies, at cost	600,127	--	--	--	--
Total Assets	\$ 2,317,056	\$ 83,876	\$ 175,095	\$ 119,611	\$ 158,250
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 189,832	\$ 76,214	\$ 10,949	\$ 26,025	\$ 12,599
Accrued salaries and benefits	170,759	--	36,132	--	--
Due to other funds	--	--	--	--	--
Deferred revenue	428,064	46,044	--	--	121,598
Total Liabilities	788,655	122,258	47,081	26,025	134,197
Fund Balances:					
Reserved for:					
Encumbrances	48,771	3,480	--	--	31,500
Inventory	600,127	--	--	--	--
Imprest cash	50	--	259	--	--
Unreserved:					
Undesignated	879,453	(41,862)	127,755	93,586	(7,447)
Total Fund Balances	1,528,401	(38,382)	128,014	93,586	24,053
Total Liabilities and Fund Balances	\$ 2,317,056	\$ 83,876	\$ 175,095	\$ 119,611	\$ 158,250

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Special Revenue Funds  
 June 30, 2006

	<u>Supplemental Law Enforcement</u>	<u>COPS AB 1913</u>	<u>Sheriff Special Projects</u>	<u>Mobile Spay/ Neuter</u>	<u>Museum Bookstore/ Projects</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 123,637	\$ 70,189	\$ 864	\$ 481	\$ 813
Imprest cash	--	--	--	--	--
Accounts receivable	--	--	--	40	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	--	--	121,000	29,000	106,500
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 123,637</u>	<u>\$ 70,189</u>	<u>\$ 121,864</u>	<u>\$ 29,521</u>	<u>\$ 107,313</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 3,289	\$ 6,244	\$ 544	\$ 350	\$ 1,792
Accrued salaries and benefits	3,937	793	--	--	--
Due to other funds	--	--	--	--	--
Deferred revenue	--	--	--	--	--
Total Liabilities	<u>7,226</u>	<u>7,037</u>	<u>544</u>	<u>350</u>	<u>1,792</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved:					
Undesignated	<u>116,411</u>	<u>63,152</u>	<u>121,320</u>	<u>29,171</u>	<u>105,521</u>
Total Fund Balances	<u>116,411</u>	<u>63,152</u>	<u>121,320</u>	<u>29,171</u>	<u>105,521</u>
Total Liabilities and Fund Balances	<u>\$ 123,637</u>	<u>\$ 70,189</u>	<u>\$ 121,864</u>	<u>\$ 29,521</u>	<u>\$ 107,313</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Special Revenue Funds  
 June 30, 2006

	<u>Recorder Modernization</u>	<u>Micrographics</u>	<u>Assessor</u>	<u>General Plan Update</u>	<u>Realignment</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 3,872	\$ 233	\$ 924	\$ 77,312	\$ 599,123
Imprest cash	--	--	--	--	--
Accounts receivable	777	164	3	6,597	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	285,000	2,500	282,500	1,000,000	--
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 289,649</u>	<u>\$ 2,897</u>	<u>\$ 283,427</u>	<u>\$ 1,083,909</u>	<u>\$ 599,123</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 537	\$ 870	\$ 3,366	\$ 110	\$ --
Accrued salaries and benefits	--	2,027	--	--	--
Due to other funds	--	--	--	--	--
Deferred revenue	--	--	--	--	599,123
Total Liabilities	<u>537</u>	<u>2,897</u>	<u>3,366</u>	<u>110</u>	<u>599,123</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved:					
Undesignated	289,112	--	280,061	1,083,799	--
Total Fund Balances	<u>289,112</u>	<u>--</u>	<u>280,061</u>	<u>1,083,799</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 289,649</u>	<u>\$ 2,897</u>	<u>\$ 283,427</u>	<u>\$ 1,083,909</u>	<u>\$ 599,123</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Special Revenue Funds  
 June 30, 2006

	<u>Redwood Valley Park Endowment</u>	<u>Walker Endowment</u>	<u>Fort Bragg Library Endowment</u>	<u>Museum Endowment</u>
<u>Assets</u>				
Cash and investments in County Treasury	\$ 43,092	\$ 3,693	\$ 28,165	\$ 840,023
Imprest cash	--	--	--	--
Accounts receivable	--	--	--	--
Due from other governmental agencies	--	--	--	--
Due from other funds	--	--	--	--
Inventory of supplies, at cost	--	--	--	--
Total Assets	<u>\$ 43,092</u>	<u>\$ 3,693</u>	<u>\$ 28,165</u>	<u>\$ 840,023</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ --
Accrued salaries and benefits	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Reserved for:				
Encumbrances	--	--	--	--
Inventory	--	--	--	--
Imprest cash	--	--	--	--
Unreserved:				
Undesignated	<u>43,092</u>	<u>3,693</u>	<u>28,165</u>	<u>840,023</u>
Total Fund Balances	<u>43,092</u>	<u>3,693</u>	<u>28,165</u>	<u>840,023</u>
Total Liabilities and Fund Balances	<u>\$ 43,092</u>	<u>\$ 3,693</u>	<u>\$ 28,165</u>	<u>\$ 840,023</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Special Revenue Funds  
 June 30, 2006

	<u>Ukiah Library Endowment</u>	<u>Low Gap Park Endowment</u>	<u>Bookmobile Endowment</u>	<u>Willits Library Endowment</u>	<u>Mobile Spay/Neuter Endowment</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 142,829	\$ 21,721	\$ 6,502	\$ 5,480	\$ 12,928
Imprest cash	--	--	--	--	--
Accounts receivable	--	--	--	--	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	--	--	--	--	--
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 142,829</u>	<u>\$ 21,721</u>	<u>\$ 6,502</u>	<u>\$ 5,480</u>	<u>\$ 12,928</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ --	\$ --
Accrued salaries and benefits	--	--	--	--	--
Due to other funds	--	--	--	--	--
Deferred revenue	--	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved:					
Undesignated	<u>142,829</u>	<u>21,721</u>	<u>6,502</u>	<u>5,480</u>	<u>12,928</u>
Total Fund Balances	<u>142,829</u>	<u>21,721</u>	<u>6,502</u>	<u>5,480</u>	<u>12,928</u>
Total Liabilities and Fund Balances	<u>\$ 142,829</u>	<u>\$ 21,721</u>	<u>\$ 6,502</u>	<u>\$ 5,480</u>	<u>\$ 12,928</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Special Revenue Funds  
 June 30, 2006

	<u>Miscellaneous Grants</u>	<u>Landfill Closure</u>	<u>Special Districts Lighting</u>	<u>Special Districts Other</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 26,548	\$ 17,202	\$ 157,426	\$ 615,866	\$ 3,612,075
Imprest cash	50	--	--	200	559
Accounts receivable	--	98,618	--	--	118,502
Due from other governmental agencies	--	--	--	48,577	1,476,574
Due from other funds	--	1,850,000	--	--	3,676,500
Inventory of supplies, at cost	--	--	--	--	600,127
Total Assets	<u>\$ 26,598</u>	<u>\$ 1,965,820</u>	<u>\$ 157,426</u>	<u>\$ 664,643</u>	<u>\$ 9,484,337</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 10,427	\$ 15,310	\$ --	\$ 27,777	\$ 386,235
Accrued salaries and benefits	31,067	--	--	31,846	276,561
Due to other funds	381,000	--	24,200	--	405,200
Deferred revenue	--	--	--	--	1,194,829
Total Liabilities	<u>422,494</u>	<u>15,310</u>	<u>24,200</u>	<u>59,623</u>	<u>2,262,825</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	3,000	--	514	87,265
Inventory	--	--	--	--	600,127
Imprest cash	50	--	--	200	559
Unreserved:					
Undesignated	<u>(395,946)</u>	<u>1,947,510</u>	<u>133,226</u>	<u>604,306</u>	<u>6,533,561</u>
Total Fund Balances	<u>(395,896)</u>	<u>1,950,510</u>	<u>133,226</u>	<u>605,020</u>	<u>7,221,512</u>
Total Liabilities and Fund Balances	<u>\$ 26,598</u>	<u>\$ 1,965,820</u>	<u>\$ 157,426</u>	<u>\$ 664,643</u>	<u>\$ 9,484,337</u>

## COUNTY OF MENDOCINO

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Special Revenue Funds For the Year Ended June 30, 2006

	Road	Accumulated Capital Outlay	Library	Fish and Game	Special Aviation
<b>Revenues:</b>					
Taxes	\$ 185,744	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	75,138	--	--	--	--
Aid from other governmental agencies	7,873,463	153,887	332,910	--	56,382
Revenue from use of money and property	555	1,627	14,626	3,815	--
Fines, forfeitures and penalties	72,140	--	--	28,685	--
Charges for services	76,281	--	51,261	--	--
Other revenue	53,111	--	45,697	--	145
<b>Total Revenues</b>	<b>8,336,432</b>	<b>155,514</b>	<b>444,494</b>	<b>32,500</b>	<b>56,527</b>
<b>Expenditures:</b>					
Current:					
General government	--	--	--	--	--
Public protection	--	--	--	36,032	--
Public ways and facilities	8,761,508	--	--	--	173,924
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	1,361,615	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	2,265,202	1,047,196	--	--	94,500
<b>Total Expenditures</b>	<b>11,026,710</b>	<b>1,047,196</b>	<b>1,361,615</b>	<b>36,032</b>	<b>268,424</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,690,278)	(891,682)	(917,121)	(3,532)	(211,897)
<b>Other Financing Sources (Uses):</b>					
Transfers In	3,057,948	1,012,763	932,281	--	37,738
Transfers Out	--	--	--	--	(19,000)
<b>Total Other Financing Sources (Uses)</b>	<b>3,057,948</b>	<b>1,012,763</b>	<b>932,281</b>	<b>--</b>	<b>18,738</b>
<b>Net Change in Fund Balances</b>	<b>367,670</b>	<b>121,081</b>	<b>15,160</b>	<b>(3,532)</b>	<b>(193,159)</b>
Fund Balances, Beginning of year	1,160,731	(159,463)	112,854	97,118	217,212
Fund Balances, Ending	<u>\$ 1,528,401</u>	<u>\$ (38,382)</u>	<u>\$ 128,014</u>	<u>\$ 93,586</u>	<u>\$ 24,053</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)  
 Nonmajor Special Revenue Funds  
 For the Year Ended June 30, 2006

	Supplemental Law Enforcement	COPS AB 1913	Sheriff Special Projects	Mobile Spay/ Neuter	Museum Bookstore/ Projects
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Aid from other governmental agencies	125,176	63,123	500,000	--	--
Revenue from use of money and property	5,904	5,664	16,952	1,204	6,588
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	--	--	--	--	--
Other revenue	--	--	1,200	18,555	20,572
<b>Total Revenues</b>	<u>131,080</u>	<u>68,787</u>	<u>518,152</u>	<u>19,759</u>	<u>27,160</u>
<b>Expenditures:</b>					
Current:					
General government	--	--	--	--	--
Public protection	106,098	270,784	7,175	12,704	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	27,069
Capital outlay	44,073	--	544	--	--
<b>Total Expenditures</b>	<u>150,171</u>	<u>270,784</u>	<u>7,719</u>	<u>12,704</u>	<u>27,069</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(19,091)</u>	<u>(201,997)</u>	<u>510,433</u>	<u>7,055</u>	<u>91</u>
<b>Other Financing Sources (Uses):</b>					
Transfers In	--	--	--	--	--
Transfers Out	(650)	--	(500,000)	(10,000)	(6,300)
<b>Total Other Financing Sources (Uses)</b>	<u>(650)</u>	<u>--</u>	<u>(500,000)</u>	<u>(10,000)</u>	<u>(6,300)</u>
<b>Net Change in Fund Balances</b>	<u>(19,741)</u>	<u>(201,997)</u>	<u>10,433</u>	<u>(2,945)</u>	<u>(6,209)</u>
Fund Balances, Beginning of year	<u>136,152</u>	<u>265,149</u>	<u>110,887</u>	<u>32,116</u>	<u>111,730</u>
Fund Balances, Ending	<u>\$ 116,411</u>	<u>\$ 63,152</u>	<u>\$ 121,320</u>	<u>\$ 29,171</u>	<u>\$ 105,521</u>

continued

## COUNTY OF MENDOCINO

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Nonmajor Special Revenue Funds For the Year Ended June 30, 2006

	Recorder Modernization	Micrographics	Assessor	General Plan Update	Realignment
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ --	\$ 12,507	\$ --
Licenses, permits and franchises	--	--	--	--	--
Aid from other governmental agencies	--	--	160,435	15,084	--
Revenue from use of money and property	10,272	(534)	12,788	35,136	--
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	142,353	28,760	--	475,859	--
Other revenue	--	8,447	11,292	--	--
<b>Total Revenues</b>	<b>152,625</b>	<b>36,673</b>	<b>184,515</b>	<b>538,586</b>	<b>--</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	91,761	76,467	12,615	--	--
Public protection	--	--	--	443,498	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	--	--	7,508	--	--
<b>Total Expenditures</b>	<b>91,761</b>	<b>76,467</b>	<b>20,123</b>	<b>443,498</b>	<b>--</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>60,864</b>	<b>(39,794)</b>	<b>164,392</b>	<b>95,088</b>	<b>--</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In	--	39,794	--	76,748	--
Transfers Out	(54,794)	--	(103,280)	(106,000)	--
<b>Total Other Financing Sources (Uses)</b>	<b>(54,794)</b>	<b>39,794</b>	<b>(103,280)</b>	<b>(29,252)</b>	<b>--</b>
<b>Net Change in Fund Balances</b>	<b>6,070</b>	<b>--</b>	<b>61,112</b>	<b>65,836</b>	<b>--</b>
Fund Balances, Beginning of year	283,042	--	218,949	1,017,963	--
Fund Balances, Ending	<b>\$ 289,112</b>	<b>\$ --</b>	<b>\$ 280,061</b>	<b>\$ 1,083,799</b>	<b>\$ --</b>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)  
 Nonmajor Special Revenue Funds  
 For the Year Ended June 30, 2006

	Redwood Valley Park Endowment	Walker Endowment	Fort Bragg Library Endowment	Museum Endowment
<b>Revenues:</b>				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	--	--	--	--
Revenue from use of money and property	2,197	123	937	46,629
Fines, forfeitures and penalties	--	--	--	--
Charges for services	--	--	--	--
Other revenue	--	--	--	--
<b>Total Revenues</b>	<u>2,197</u>	<u>123</u>	<u>937</u>	<u>46,629</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	--	--	--	--
Public protection	--	--	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Recreation and culture services	23,000	--	--	--
Capital outlay	--	--	--	--
<b>Total Expenditures</b>	<u>23,000</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(20,803)</u>	<u>123</u>	<u>937</u>	<u>46,629</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	--	--	--	--
Transfers Out	--	--	--	--
<b>Total Other Financing Sources (Uses)</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Change in Fund Balances</b>	<u>(20,803)</u>	<u>123</u>	<u>937</u>	<u>46,629</u>
Fund Balances, Beginning of year	<u>63,895</u>	<u>3,570</u>	<u>27,228</u>	<u>793,394</u>
Fund Balances, Ending	<u>\$ 43,092</u>	<u>\$ 3,693</u>	<u>\$ 28,165</u>	<u>\$ 840,023</u>

continued

## COUNTY OF MENDOCINO

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Nonmajor Special Revenue Funds For the Year Ended June 30, 2006

	Ukiah Library Endowment	Low Gap Park Endowment	Bookmobile Endowment	Willits Library Endowment	Mobile Spay/Neuter Endowment
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Aid from other governmental agencies	--	--	--	--	--
Revenue from use of money and property	4,194	856	216	182	430
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	--	--	--	--	--
Other revenue	--	--	--	--	--
<b>Total Revenues</b>	<b>4,194</b>	<b>856</b>	<b>216</b>	<b>182</b>	<b>430</b>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	--	--	--	--	--
Public protection	--	--	--	--	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	4,000	--	--	--
Capital outlay	--	--	--	--	--
<b>Total Expenditures</b>	<b>--</b>	<b>4,000</b>	<b>--</b>	<b>--</b>	<b>--</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>4,194</b>	<b>(3,144)</b>	<b>216</b>	<b>182</b>	<b>430</b>
<b>Other Financing Sources (Uses):</b>					
Transfers In	--	--	--	--	--
Transfers Out	--	--	--	--	--
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Net Change in Fund Balances</b>	<b>4,194</b>	<b>(3,144)</b>	<b>216</b>	<b>182</b>	<b>430</b>
Fund Balances, Beginning of year	138,635	24,865	6,286	5,298	12,498
Fund Balances, Ending	<u>\$ 142,829</u>	<u>\$ 21,721</u>	<u>\$ 6,502</u>	<u>\$ 5,480</u>	<u>\$ 12,928</u>

continued

## COUNTY OF MENDOCINO

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Nonmajor Special Revenue Funds For the Year Ended June 30, 2006

	Miscellaneous Grants	Landfill Closure	Special Districts Lighting	Special Districts Other	Total
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ 48,103	\$ 94,654	\$ 341,008
Licenses, permits and franchises	--	--	--	207,947	283,085
Aid from other governmental agencies	7,732,350	--	751	440,237	17,453,798
Revenue from use of money and property	--	56,187	--	24,654	251,202
Fines, forfeitures and penalties	27,544	--	--	24,307	152,676
Charges for services	--	556,307	--	63,672	1,394,493
Other revenue	44,827	--	311	7,448	211,605
<b>Total Revenues</b>	<u>7,804,721</u>	<u>612,494</u>	<u>49,165</u>	<u>862,919</u>	<u>20,087,867</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	--	--	--	--	180,843
Public protection	1,870,181	--	--	418,032	3,164,504
Public ways and facilities	--	--	36,401	--	8,971,833
Health and sanitation	3,413,008	224,810	--	658,919	4,296,737
Public assistance	2,513,217	--	--	--	2,513,217
Education	--	--	--	--	1,361,615
Recreation and culture services	197,064	--	--	--	251,133
Capital outlay	195,364	--	--	21,522	3,675,909
<b>Total Expenditures</b>	<u>8,188,834</u>	<u>224,810</u>	<u>36,401</u>	<u>1,098,473</u>	<u>24,415,791</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(384,113)</u>	<u>387,684</u>	<u>12,764</u>	<u>(235,554)</u>	<u>(4,327,924)</u>
<b>Other Financing Sources (Uses):</b>					
Transfers In	--	--	--	285,000	5,442,272
Transfers Out	(12,500)	--	--	(76,748)	(889,272)
<b>Total Other Financing Sources (Uses)</b>	<u>(12,500)</u>	<u>--</u>	<u>--</u>	<u>208,252</u>	<u>4,553,000</u>
<b>Net Change in Fund Balances</b>	<u>(396,613)</u>	<u>387,684</u>	<u>12,764</u>	<u>(27,302)</u>	<u>225,076</u>
Fund Balances, Beginning of year	<u>717</u>	<u>1,562,826</u>	<u>120,462</u>	<u>632,322</u>	<u>6,996,436</u>
Fund Balances, Ending	<u>\$ (395,896)</u>	<u>\$ 1,950,510</u>	<u>\$ 133,226</u>	<u>\$ 605,020</u>	<u>\$ 7,221,512</u>

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors  
 June 30, 2006

	Alexander Estates	Covelo	Fairview Acres	Hopland
<u>Assets</u>				
Cash and investments in County treasury	\$ 55	\$ 8,418	\$ 5,721	\$ 49,238
Total Assets	\$ 55	\$ 8,418	\$ 5,721	\$ 49,238
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	\$ 19,600	\$ --	\$ --	\$ --
Total Liabilities	19,600	--	--	--
Fund Balances:				
Unreserved:				
Undesignated	(19,545)	8,418	5,721	49,238
Total Fund Balances	(19,545)	8,418	5,721	49,238
Total Liabilities and Fund Balances	\$ 55	\$ 8,418	\$ 5,721	\$ 49,238

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors  
 June 30, 2006

	Laytonville	Noyo	Oak Knoll	Riverwood Terrace
<u>Assets</u>				
Cash and investments in County treasury	\$ 7,730	\$ 8	\$ 39,496	\$ 10,628
Total Assets	\$ 7,730	\$ 8	\$ 39,496	\$ 10,628
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	\$ --	\$ 4,600	\$ --	\$ --
Total Liabilities	--	4,600	--	--
Fund Balances:				
Unreserved:				
Undesignated	7,730	(4,592)	39,496	10,628
Total Fund Balances	7,730	(4,592)	39,496	10,628
 Total Liabilities and Fund Balances	 \$ 7,730	 \$ 8	 \$ 39,496	 \$ 10,628

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors  
 June 30, 2006

	<u>Ukiah Village</u>	<u>West Talmage</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments in County treasury	\$ 21,492	\$ 14,640	\$ 157,426
Total Assets	<u>\$ 21,492</u>	<u>\$ 14,640</u>	<u>\$ 157,426</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds	\$ --	\$ --	\$ 24,200
Total Liabilities	<u>--</u>	<u>--</u>	<u>24,200</u>
Fund Balances:			
Unreserved:			
Undesignated	21,492	14,640	133,226
Total Fund Balances	<u>21,492</u>	<u>14,640</u>	<u>133,226</u>
Total Liabilities and Fund Balances	<u>\$ 21,492</u>	<u>\$ 14,640</u>	<u>\$ 157,426</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Lighting Special Districts Governed by the Board of Supervisors  
For the Year Ended June 30, 2006

	<u>Alexander</u> <u>Estates</u>	<u>Covelo</u>	<u>Fairview</u> <u>Acres</u>	<u>Hopland</u>
<b>Revenues:</b>				
Taxes	\$ 6,512	\$ 5,688	\$ 1,435	\$ 11,861
Aid from other governmental agencies	100	82	21	176
Other revenue	34	--	--	--
Total Revenues	<u>6,646</u>	<u>5,770</u>	<u>1,456</u>	<u>12,037</u>
<b>Expenditures:</b>				
Current:				
Public ways and facilities	<u>8,470</u>	<u>5,237</u>	<u>924</u>	<u>5,000</u>
Total Expenditures	<u>8,470</u>	<u>5,237</u>	<u>924</u>	<u>5,000</u>
<b>Net change in fund balances</b>	(1,824)	533	532	7,037
Fund Balances, Beginning	<u>(17,721)</u>	<u>7,885</u>	<u>5,189</u>	<u>42,201</u>
Fund Balances, Ending	<u><u>\$ (19,545)</u></u>	<u><u>\$ 8,418</u></u>	<u><u>\$ 5,721</u></u>	<u><u>\$ 49,238</u></u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances (continued)  
Nonmajor Lighting Special Districts Governed by the Board of Supervisors  
For the Year Ended June 30, 2006

	<u>Laytonville</u>	<u>Noyo</u>	<u>Oak Knoll</u>	<u>Riverwood Terrance</u>
<b>Revenues:</b>				
Taxes	\$ 3,134	\$ 1,400	\$ 7,239	\$ 2,009
Aid from other governmental agencies	45	38	108	30
Other revenue	--	--	10	--
Total Revenues	<u>3,179</u>	<u>1,438</u>	<u>7,357</u>	<u>2,039</u>
<b>Expenditures:</b>				
Current:				
Public ways and facilities	<u>2,544</u>	<u>3,557</u>	<u>3,865</u>	<u>694</u>
Total Expenditures	<u>2,544</u>	<u>3,557</u>	<u>3,865</u>	<u>694</u>
<b>Net change in fund balances</b>	635	(2,119)	3,492	1,345
Fund Balances, Beginning	<u>7,095</u>	<u>(2,473)</u>	<u>36,004</u>	<u>9,283</u>
Fund Balances, Ending	<u>\$ 7,730</u>	<u>\$ (4,592)</u>	<u>\$ 39,496</u>	<u>\$ 10,628</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances (continued)  
Nonmajor Lighting Special Districts Governed by the Board of Supervisors  
For the Year Ended June 30, 2006

	<u>Ukiah</u> <u>Village</u>	<u>West</u> <u>Talmage</u>	<u>Total</u>
<b>Revenues:</b>			
Taxes	\$ 5,424	\$ 3,401	\$ 48,103
Aid from other governmental agencies	101	50	751
Other revenue	267	--	311
Total Revenues	<u>5,792</u>	<u>3,451</u>	<u>49,165</u>
<b>Expenditures:</b>			
Current:			
Public ways and facilities	4,344	1,766	36,401
Total Expenditures	<u>4,344</u>	<u>1,766</u>	<u>36,401</u>
<b>Net change in fund balances</b>	1,448	1,685	12,764
Fund Balances, Beginning	<u>20,044</u>	<u>12,955</u>	<u>120,462</u>
Fund Balances, Ending	<u>\$ 21,492</u>	<u>\$ 14,640</u>	<u>\$ 133,226</u>

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
 Nonmajor Other Special Districts Governed by the Board of Supervisors  
 June 30, 2006

	Meadowbrook Manor Sanitation	Mendocino County Water Agency
<u>Assets</u>		
Cash and investments in County Treasury	\$ 13,081	\$ 228,899
Imprest cash	--	--
Due from other governments	--	--
Total Assets	<u>\$ 13,081</u>	<u>\$ 228,899</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ --	\$ 27,777
Accrued salaries and benefits	--	11,385
Total Liabilities	<u>--</u>	<u>39,162</u>
Fund Balances:		
Reserved:		
Encumbrances	--	514
Imprest cash	--	--
Unreserved:		
Undesignated	13,081	189,223
Total Fund Balances	<u>13,081</u>	<u>189,737</u>
Total Liabilities and Fund Balances	<u>\$ 13,081</u>	<u>\$ 228,899</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Other Special Districts Governed by the Board of Supervisors  
 June 30, 2006

	<u>Air Quality Management</u>	<u>Total</u>
<u>Assets</u>		
Cash and investments in County Treasury	\$ 373,886	\$ 615,866
Imprest cash	200	200
Due from other governments	48,577	48,577
Total Assets	<u>\$ 422,663</u>	<u>\$ 664,643</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ --	\$ 27,777
Accrued salaries and benefits	20,461	31,846
Total Liabilities	<u>20,461</u>	<u>59,623</u>
Fund Balances:		
Reserved:		
Encumbrances	--	514
Imprest cash	200	200
Unreserved:		
Undesignated	402,002	604,306
Total Fund Balances	<u>402,202</u>	<u>605,020</u>
Total Liabilities and Fund Balances	<u>\$ 422,663</u>	<u>\$ 664,643</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances  
Nonmajor Other Special Districts Governed by the Board of Supervisors  
For the Year Ended June 30, 2006

	Meadowbrook Manor Sanitation	Mendocino County Water Agency
<b>Revenues:</b>		
Taxes	\$ 1,418	\$ 93,236
Licenses, permits and franchises	--	--
Aid from other governmental agencies	21	1,399
Revenue from use of money and property	--	9,270
Fines, forfeitures and penalties	--	--
Charges for services	--	44,972
Other revenue	--	213
Total Revenues	<u>1,439</u>	<u>149,090</u>
<b>Expenditures:</b>		
Current:		
Public protection	--	418,032
Health and sanitation	500	--
Capital outlay	--	3,388
Total Expenditures	<u>500</u>	<u>421,420</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>939</u>	<u>(272,330)</u>
<b>Other Financing Sources (Uses):</b>		
Transfers in	--	285,000
Transfers out	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>285,000</u>
<b>Net change in fund balances</b>	939	12,670
Fund Balances, Beginning	<u>12,142</u>	<u>177,067</u>
Fund Balances, Ending	<u>\$ 13,081</u>	<u>\$ 189,737</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures,  
and Changes in Fund Balances (continued)  
Nonmajor Other Special Districts Governed by the Board of Supervisors  
For the Year Ended June 30, 2006

	Air Quality Management	Total
	<u>                    </u>	<u>                    </u>
<b>Revenues:</b>		
Taxes	\$ --	\$ 94,654
Licenses, permits and franchises	207,947	207,947
Aid from other governmental agencies	438,817	440,237
Revenue from use of money and property	15,384	24,654
Fines, forfeitures and penalties	24,307	24,307
Charges for services	18,700	63,672
Other revenue	7,235	7,448
Total Revenues	<u>712,390</u>	<u>862,919</u>
<b>Expenditures:</b>		
Current:		
Public protection	--	418,032
Health and sanitation	658,419	658,919
Capital outlay	18,134	21,522
Total Expenditures	<u>676,553</u>	<u>1,098,473</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>35,837</u>	<u>(235,554)</u>
<b>Other Financing Sources (Uses):</b>		
Transfers in	--	285,000
Transfers out	(76,748)	(76,748)
Total Other Financing Sources (Uses)	<u>(76,748)</u>	<u>208,252</u>
<b>Net change in fund balances</b>	(40,911)	(27,302)
Fund Balances, Beginning	<u>443,113</u>	<u>632,322</u>
Fund Balances, Ending	<u>\$ 402,202</u>	<u>\$ 605,020</u>

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets  
Internal Service Funds  
June 30, 2006

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<b><u>Assets</u></b>				
Current Assets:				
Cash	\$ 463,688	\$ 402,345	\$ 383,900	\$ 484,984
Accounts receivable	--	--	--	8,606
Total current assets	<u>463,688</u>	<u>402,345</u>	<u>383,900</u>	<u>493,590</u>
Noncurrent assets:				
Depreciable:				
Equipment	41,700	3,784,411	--	11,240
Less accumulated depreciation	(30,854)	(2,598,881)	--	(10,421)
Total noncurrent assets	<u>10,846</u>	<u>1,185,530</u>	<u>--</u>	<u>819</u>
 Total Assets	 <u>\$ 474,534</u>	 <u>\$ 1,587,875</u>	 <u>\$ 383,900</u>	 <u>\$ 494,409</u>
 <b><u>Liabilities</u></b>				
Accounts payable	\$ 291,067	\$ 30,533	\$ --	\$ 49,929
Accrued salaries and benefits	--	--	--	3,546
Compensated absences payable	--	--	--	--
Due to other funds	--	--	--	--
Liability for unpaid claims	--	--	446,453	1,068,942
 Total Liabilities	 <u>291,067</u>	 <u>30,533</u>	 <u>446,453</u>	 <u>1,122,417</u>
 <b><u>Net Assets</u></b>				
Invested in capital assets, net of related debt	10,846	1,185,530	--	819
Unrestricted	172,621	371,812	(62,553)	(628,827)
Total Net Assets	<u>183,467</u>	<u>1,557,342</u>	<u>(62,553)</u>	<u>(628,008)</u>
 Total Liabilities and Net Assets	 <u>\$ 474,534</u>	 <u>\$ 1,587,875</u>	 <u>\$ 383,900</u>	 <u>\$ 494,409</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets (continued)  
Internal Service Funds  
June 30, 2006

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b><u>Assets</u></b>				
Current Assets:				
Cash	\$ 76	\$ 294	\$ 405	\$ 1,735,692
Accounts receivable	--	413,790	--	422,396
Total current assets	<u>76</u>	<u>414,084</u>	<u>405</u>	<u>2,158,088</u>
Noncurrent assets:				
Depreciable:				
Equipment	12,246	2,258	--	3,851,855
Less accumulated depreciation	(10,064)	(2,258)	--	(2,652,478)
Total noncurrent assets	<u>2,182</u>	<u>--</u>	<u>--</u>	<u>1,199,377</u>
 Total Assets	 <u>\$ 2,258</u>	 <u>\$ 414,084</u>	 <u>\$ 405</u>	 <u>\$ 3,357,465</u>
 <b><u>Liabilities</u></b>				
Accounts payable	\$ --	\$ 36,553	\$ 48,890	\$ 456,972
Accrued salaries and benefits	3,149	3,633	1,905	12,233
Compensated absences payable	3,596	1,440	1,242	6,278
Due to other funds	53,500	221,500	50,000	325,000
Liability for unpaid claims	--	1,662,013	662,755	3,840,163
 Total Liabilities	 <u>60,245</u>	 <u>1,925,139</u>	 <u>764,792</u>	 <u>4,640,646</u>
 <b><u>Net Assets</u></b>				
Invested in capital assets, net of related debt	2,182	--	--	1,199,377
Unrestricted	(60,169)	(1,511,055)	(764,387)	(2,482,558)
Total Net Assets	<u>(57,987)</u>	<u>(1,511,055)</u>	<u>(764,387)</u>	<u>(1,283,181)</u>
 Total Liabilities and Net Assets	 <u>\$ 2,258</u>	 <u>\$ 414,084</u>	 <u>\$ 405</u>	 <u>\$ 3,357,465</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Internal Service Funds  
For the Year Ended June 30, 2006

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemploymen Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	\$ --	\$ 447,240	\$ 412,188	\$ 1,826,441
Other	--	34,509	--	5,000
<b>Total Operating Revenues</b>	<u>--</u>	<u>481,749</u>	<u>412,188</u>	<u>1,831,441</u>
Operating Expenses:				
Salaries and benefits	--	--	--	99,136
Services and supplies	280,238	324,883	1,110	233,999
Insurance	--	--	126,944	589,974
Depreciation	5,623	80	--	1,185
Claims and judgments	--	--	--	154,646
<b>Total Operating Expenses</b>	<u>285,861</u>	<u>324,963</u>	<u>128,054</u>	<u>1,078,940</u>
<b>Operating Income (Loss)</b>	<u>(285,861)</u>	<u>156,786</u>	<u>284,134</u>	<u>752,501</u>
Non-Operating Revenues (Expenses)				
Interest revenue (expense)	<u>13,305</u>	<u>5,788</u>	<u>12,610</u>	<u>20,221</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>13,305</u>	<u>5,788</u>	<u>12,610</u>	<u>20,221</u>
<b>Income (Loss) Before Transfers</b>	<u>(272,556)</u>	<u>162,574</u>	<u>296,744</u>	<u>772,722</u>
Transfers in	240,000	--	--	--
Transfers out	--	--	--	--
<b>Change in net assets</b>	<u>(32,556)</u>	<u>162,574</u>	<u>296,744</u>	<u>772,722</u>
Net Assets - Beginning	227,003	209,158	(359,297)	(1,400,730)
Prior period adjustment	(10,980)	1,185,610	--	--
Net assets- beginning as restated	<u>216,023</u>	<u>1,394,768</u>	<u>(359,297)</u>	<u>(1,400,730)</u>
<b>Net Assets - Ending</b>	<u>\$ 183,467</u>	<u>\$ 1,557,342</u>	<u>\$ (62,553)</u>	<u>\$ (628,008)</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets (continued)  
Internal Service Funds  
For the Year Ended June 30, 2006

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Operating Revenues:				
Charges and fees	\$ 4,537,239	\$ 10,228,324	\$ 4,453,027	\$ 21,904,459
Other	--	--	--	39,509
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Revenues	4,537,239	10,228,324	4,453,027	21,943,968
	<hr/>	<hr/>	<hr/>	<hr/>
Operating Expenses:				
Salaries and benefits	93,486	84,561	40,932	318,115
Services and supplies	6,247	8,632,395	4,470,885	13,949,757
Insurance	3,966,115	472,723	298,701	5,454,457
Depreciation	1,074	187	--	8,149
Claims and judgments	--	--	--	154,646
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	4,066,922	9,189,866	4,810,518	19,885,124
	<hr/>	<hr/>	<hr/>	<hr/>
Operating Income (Loss)	470,317	1,038,458	(357,491)	2,058,844
	<hr/>	<hr/>	<hr/>	<hr/>
Non-Operating Revenues (Expenses)				
Interest revenue (expense)	(22,036)	(10,883)	(7,449)	11,556
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	(22,036)	(10,883)	(7,449)	11,556
	<hr/>	<hr/>	<hr/>	<hr/>
Income (Loss) Before Transfers	448,281	1,027,575	(364,940)	2,070,400
	<hr/>	<hr/>	<hr/>	<hr/>
Transfers in	--	--	--	240,000
Transfers out	(42,800)	(159,325)	(1,500)	(203,625)
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	405,481	868,250	(366,440)	2,106,775
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets - Beginning	(463,468)	(2,379,305)	(397,947)	(4,564,586)
Prior period adjustment	--	--	--	1,174,630
Net assets- beginning as restated	(463,468)	(2,379,305)	(397,947)	(3,389,956)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets - Ending	<u>\$ (57,987)</u>	<u>\$ (1,511,055)</u>	<u>\$ (764,387)</u>	<u>\$ (1,283,181)</u>

**COUNTY OF MENDOCINO**

Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2006

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from interfund services provided	\$ --	\$ 481,749	\$ 412,188	\$ 1,822,835
Cash paid to suppliers for goods and services	(16,997)	(428,989)	(179,041)	(1,243,850)
Cash paid to employees for services	--	--	--	(114,222)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided (Used) by Operating Activities	<u>(16,997)</u>	<u>52,760</u>	<u>233,147</u>	<u>464,763</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	240,000	--	--	--
Transfers out	--	--	--	--
Interest payments	--	--	--	--
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>240,000</u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of capital assets	(10,941)	--	--	--
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(10,941)</u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	13,305	5,788	12,610	20,221
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided (Used) by Investing Activities	<u>13,305</u>	<u>5,788</u>	<u>12,610</u>	<u>20,221</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	225,367	58,548	245,757	484,984
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>238,321</u>	<u>343,797</u>	<u>138,143</u>	<u>          </u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 463,688</u></u>	<u><u>\$ 402,345</u></u>	<u><u>\$ 383,900</u></u>	<u><u>\$ 484,984</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (285,861)	\$ 156,786	\$ 284,134	\$ 752,501
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	5,623	80	--	1,185
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	(8,606)
Increase (decrease) in:				
Accounts payable	263,241	(104,106)	--	(5,050)
Due to other funds	--	--	--	(76,884)
Accrued salaries	--	--	--	(476)
Compensated absences	--	--	--	(14,610)
Liability for self-insurance	--	--	(50,987)	(183,297)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (16,997)</u></u>	<u><u>\$ 52,760</u></u>	<u><u>\$ 233,147</u></u>	<u><u>\$ 464,763</u></u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Cash Flows (continued)  
Internal Service Funds  
For the Year Ended June 30, 2006

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from interfund services provided	\$ 4,537,239	\$ 10,163,556	\$ 4,453,027	\$ 21,870,594
Cash paid to suppliers for goods and services	(4,377,138)	(9,911,659)	(4,406,147)	(20,563,821)
Cash paid to employees for services	<u>(95,189)</u>	<u>(81,395)</u>	<u>(37,785)</u>	<u>(328,591)</u>
Net Cash Provided (Used) by Operating Activities	<u>64,912</u>	<u>170,502</u>	<u>9,095</u>	<u>978,182</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	--	--	--	240,000
Transfers out	(42,800)	(159,325)	(1,500)	(203,625)
Interest payments	<u>(22,036)</u>	<u>(10,883)</u>	<u>(7,449)</u>	<u>(40,368)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(64,836)</u>	<u>(170,208)</u>	<u>(8,949)</u>	<u>(3,993)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of capital assets	--	--	--	(10,941)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(10,941)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	--	--	--	51,924
Net Cash Provided (Used) by Investing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>51,924</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	76	294	146	1,015,172
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>--</u>	<u>--</u>	<u>259</u>	<u>720,520</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 76</u>	<u>\$ 294</u>	<u>\$ 405</u>	<u>\$ 1,735,692</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ 470,317	\$ 1,038,458	\$ (357,491)	\$ 2,058,844
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,074	187	--	8,149
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	(64,768)	--	(73,374)
Increase (decrease) in:				
Accounts payable	--	(704,356)	48,890	(501,381)
Due to other funds	(404,776)	(379,380)	(106,000)	(967,040)
Accrued salaries	(3,562)	1,726	1,905	(407)
Compensated absences	1,859	1,440	1,242	(10,069)
Liability for self-insurance	--	<u>277,195</u>	<u>420,549</u>	<u>463,460</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 64,912</u>	<u>\$ 170,502</u>	<u>\$ 9,095</u>	<u>\$ 978,182</u>

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
Investment Trust Funds  
June 30, 2006

	<u>Special Districts Local Boards</u>	<u>School Districts</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments in County Treasury	\$ 7,552,202	\$ 65,790,006	\$ 73,342,208
Imprest cash	36,499	--	36,499
Accounts receivable	82,715	--	82,715
Total Assets	<u>\$ 7,671,416</u>	<u>\$ 65,790,006</u>	<u>\$ 73,461,422</u>
 <u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ 16,831	\$ --	\$ 16,831
Accrued payroll and benefits	8,328	--	8,328
Deferred revenue	941	--	941
Total Liabilities	<u>26,100</u>	<u>--</u>	<u>26,100</u>
 Fund Balance:			
Reserved for pool participants	<u>7,645,316</u>	<u>65,790,006</u>	<u>73,435,322</u>
Total Fund Balance	<u>7,645,316</u>	<u>65,790,006</u>	<u>73,435,322</u>
 Total Liabilities and Fund Balance	 <u>\$ 7,671,416</u>	 <u>\$ 65,790,006</u>	 <u>\$ 73,461,422</u>