

**COUNTY OF MENDOCINO**

**AUDIT REPORT**

**JUNE 30, 2009**

**COUNTY OF MENDOCINO  
AUDIT REPORT  
For the Year Ended June 30, 2009**

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## **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, 2009, 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 \$272,643,377 as of June 30, 2009, and total plan net asset additions of \$(36,495,058) 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. Accordingly, we express no such opinion. 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, 2009, 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 February 17, 2010, 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.



Roseville, California  
February 17, 2010

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2009

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, 2009. 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 assets exceeded its liabilities at the close of the most recent fiscal year by \$43,831,699 (net assets). There was a deficit of (\$42,162,056) in unrestricted net assets.
- ❖ The County's total net assets increased by \$77,247,548. A reason for the increase was a property tax increase of 6%, increases in state and federal funding, and reduced expenditures (\$2.5M) in response to the declining economy. Additionally, the County is reporting a net pension asset computed in accordance with GASB 27, Accounting for Pensions by State and Local Government Employees, in 08/09 resulting in an increase of \$68,031,754 to beginning net assets. The net pension asset is the cumulative difference between the annual pension cost and the employer's contributions to the retirement plan, including over contributions resulting from the issuance of pension obligation bonds to fund the plan.
- ❖ At the close of the current fiscal year, the County's combined (all funds) ending fund balance was \$14,140,927. This was an increase of \$4,325,705 in comparison with the prior year. Approximately 25% of this total amount or \$3,470,084 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 (\$1,436,819).
- ❖ Total debt decreased by \$4,163,811 (3%) during the 2008/09 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

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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).

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

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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.

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 60) 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 27-58 of this report.

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**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 59-62 of this report.

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 63-78 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, assets exceeded liabilities by \$43,831,699 at the close of the 2008/09 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*	
	2009	2008
Current and other assets	\$ 113,293,766	\$ 42,920,676
Capital assets	93,074,751	88,845,228
Total Assets	206,368,517	131,765,904
Long-term liabilities	142,024,233	141,794,730
Other liabilities	20,512,585	23,387,023
Total Liabilities	162,536,818	165,181,753
Net Assets:		
Invested in capital assets, net of related debt	64,403,928	61,495,594
Restricted	21,589,827	21,509,708
Unrestricted	(42,162,056)	(116,421,151)
Total Net Assets	\$ 43,831,699	\$ (33,415,849)

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

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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 (\$42,162,056) cannot be used to meet the County's ongoing obligations to citizens and creditors.

**Governmental Activities.** Governmental activities increased the County's net assets by \$8,566,421. Key elements of this increase are increases in property tax revenues, state and federal funding and expenditure reductions. Additionally, the County is reporting a net pension asset computed in accordance with GASB 27, Accounting for Pensions by State and Local Government Employees, in 08/09 resulting in an increase of \$68,031,754 to beginning net assets. The net pension asset is the cumulative difference between the annual pension cost and the employer's contributions to the retirement plan, including over contributions resulting from the issuance of pension obligation bonds to fund the plan.

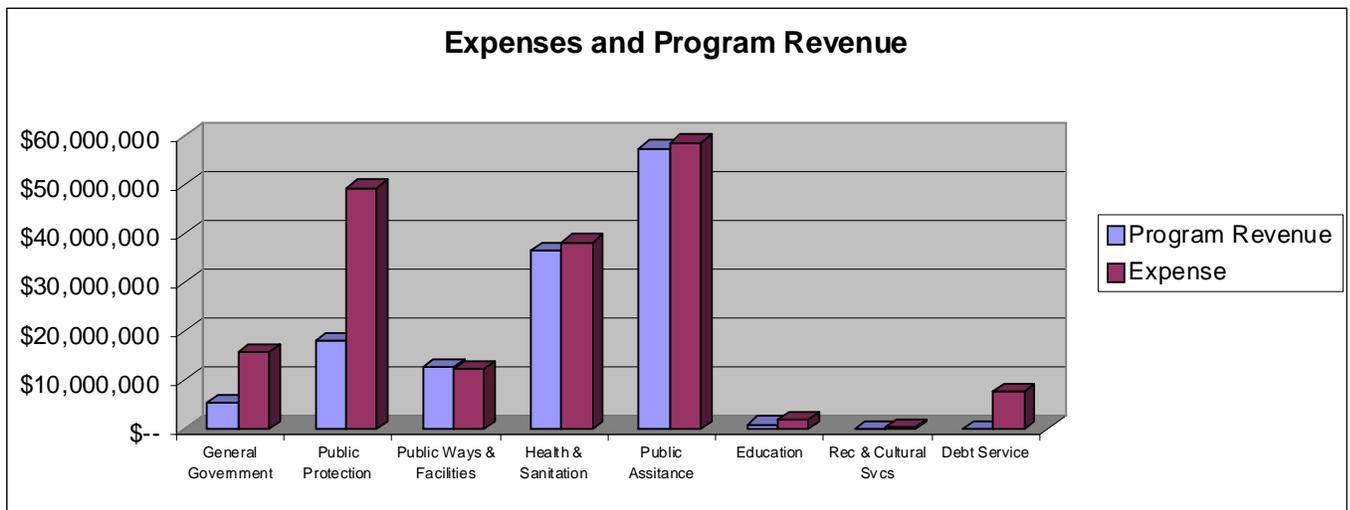
<b>Revenues</b>	2009	2008
<b>Program Revenues:</b>		
Fees, fines and charges for services	\$ 18,987,872	\$ 20,646,391
Operating grants & contributions	107,517,988	101,985,322
Capital grants & contributions	4,235,172	3,340,214
<b>General Revenues:</b>		
Property taxes	43,048,329	40,582,360
Sales & use taxes	10,443,197	11,325,885
Other taxes	4,439,953	4,428,812
Unrestricted interest & investment earnings	1,357,822	2,282,460
Miscellaneous	3,023,761	2,251,907
<b>Total Revenues</b>	193,054,094	186,843,351
<b>Expenses</b>		
<b>Expenses:</b>		
General government	15,776,992	19,622,545
Public protection	49,638,909	48,722,589
Public ways & facilities	12,262,664	11,928,453
Health & sanitation	38,277,325	36,025,298
Public assistance	58,669,290	58,744,383
Education	1,832,541	2,025,207
Recreation and cultural services	436,907	624,908
Interest on long-term debt	7,593,045	8,699,090
<b>Total Expenses</b>	184,487,673	186,392,473
<b>Change in Net Assets</b>	8,566,421	450,878
<b>Beginning Net Assets</b>	(33,415,849)	(33,866,727)
<b>Prior Period Adjustment</b>	68,681,127	--
<b>Ending Net Assets</b>	\$ 43,831,699	\$ (33,415,849)

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Because Internal Service funds predominantly benefit governmental rather than business-type functions they have been included within governmental activities. Prior period adjustment relates to health insurance checking accounts not previously recorded (\$421,609) and fixed assets reconciliation (\$227,764).

- ❖ Property taxes increased by \$2,465,969 (6%) during the year. Most of this increase is attributable to a 6% increase in assessed valuations and increased collections of prior years' taxes.

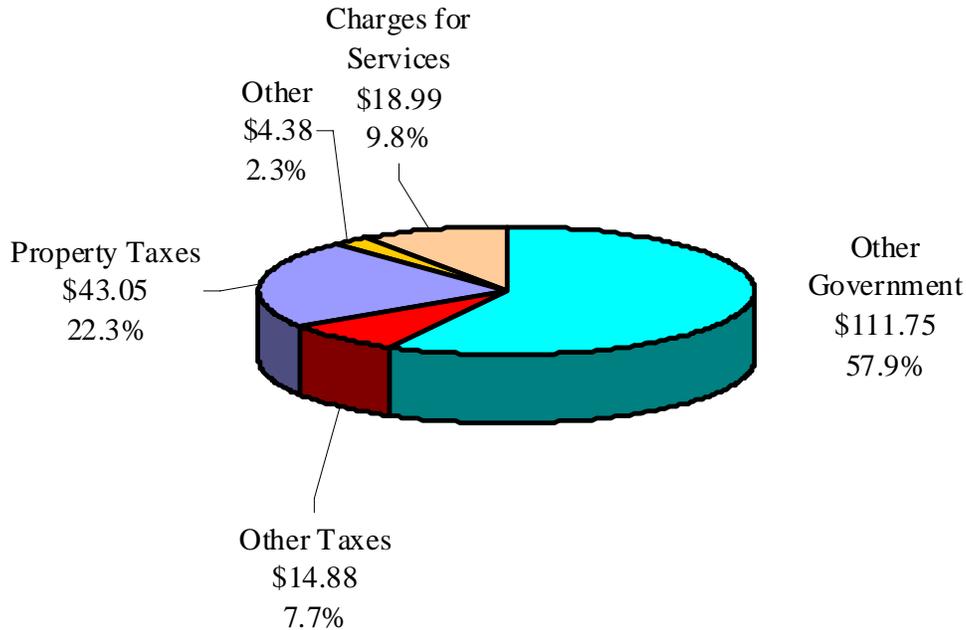
**Expenses and Program Revenues – Governmental Activities**



<b>Governmental Funds</b>	<b>Program Revenue</b>	<b>Expense</b>
General Government	\$ 5,427,795	\$ 15,776,992
Public Protection	17,909,086	49,638,909
Public Ways & Facilities	12,521,422	12,262,664
Health & Sanitation	36,389,968	38,277,325
Public Assistance	57,465,517	58,669,290
Education	952,227	1,832,541
Rec & Cultural Svcs	75,017	436,907
Debt Service	--	7,593,045

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



The largest portion of revenue received by the County comes from Federal and State sources (approximately 58%). The second largest source comes from property taxes (22%). 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 32% 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.

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**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.

As of the end of the current fiscal year, the County of Mendocino's governmental funds reported combined ending fund balances of \$14,140,927, an increase of \$4,325,705 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 (\$1,696,550); 2) to pay debt service (\$7,091,246); 3) for a variety of other restricted purposes (\$1,883,047).

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 (\$1,436,819), while total fund balance reached \$(1,085,680). The fund balance of the County of Mendocino's general fund decreased by (\$988,334) during the 2008/09 Fiscal Year. Although the deficit fund balance is reported at more than \$1 million, receivables recorded as deferred revenues more than offset that amount.

The debt service fund had a total fund balance of \$1,898,101, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$79,742. Interest expenditures increased during the current period by \$34,622.

The pension obligation fund had a total fund balance of \$5,193,145, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year was \$1,285,410.

The mental health services fund had a total fund balance of (\$6,566,122). The net increase in fund balance during the current year was \$2,985,316. Although the deficit fund balance is reported at more than \$6 million, receivables recorded as deferred revenue make up the majority of that amount.

**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 (\$5,719,242).

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

- ❖ Increased Sheriff's budgeted expenditures and corresponding revenues by \$116,839 for fixed asset purchases from Asset Forfeiture funds.

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- ❖ Increased Emergency Medical Services program's budgeted expenditures and corresponding revenues by \$50,000 for local fire districts support.
- ❖ Increased District Attorney's budgeted expenditures and corresponding revenues by \$30,000 for fixed asset purchases reimbursed from Asset Forfeiture funds.
- ❖ Moved unanticipated revenue of \$887,455 from insurance reimbursements to reserves, contingencies and Water Agency.

**Capital Asset and Debt Administration**

**Capital assets.** The County of Mendocino's investment in capital assets for its governmental activities as of June 30, 2009, amounts to \$93,074,751 (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 5%. Additional details of capital assets are in Note 7 on Page 45.

**County of Mendocino's Capital Assets**

	2009	2008
Land	\$ 2,822,620	\$ 2,820,120
Building and system	41,798,007	41,859,800
Improvements other than buildings	2,853,005	440,935
Machinery and equipment	7,101,354	6,996,339
Infrastructure	32,669,628	30,234,743
Construction in progress	5,830,137	6,493,291
Total	\$ 93,074,751	\$ 88,845,228

**Long-term debt.** At the end of the current fiscal year, the County of Mendocino has total debt outstanding of \$117,945,823.

**County of Mendocino's Outstanding Debt**

	2009	2008
General obligation bonds	\$ 89,275,000	\$ 92,160,000
Certificates of Participation	25,580,000	26,240,000
Capital leases & loans	3,090,823	3,709,634
Total	\$ 117,945,823	\$ 122,109,634

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The County of Mendocino's total debt decreased by \$4,163,811 (3%) 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% of its total assessed valuation. The current debt limitation for the County of Mendocino is \$937,825,415, which is significantly in excess of the County of Mendocino's outstanding general obligation debt.

Additional information on the County of Mendocino's long-term debt can be found in note 7 on pages 47-50 of this report.

**Economic Factors that Impacted Budget.** All of the factors listed below were considered in preparing the County of Mendocino's budget for the 2008/09 fiscal year.

- ❖ Continued decline of national, state & local economies.
- ❖ Increased expenses to employee benefits due to escalating health and workers compensation insurance costs.
- ❖ Increased employee salaries as a step toward making salaries competitive in local market.

**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, 2009

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Pooled cash and investments in county treasury	\$ 7,706,079
Restricted Assets:	
Cash with fiscal agent	9,039,273
Other cash	434,010
Accounts receivable	1,728,174
Property taxes receivable	2,444,338
Interest receivable	1,072
Due from other governments	21,391,649
Inventory	823,384
Net pension asset	67,449,185
Deferred charges	2,276,602
Total Current Assets	<u>113,293,766</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	8,652,757
Depreciable, net	84,421,994
Total Noncurrent Assets	<u>93,074,751</u>
Total Assets	<u>\$ 206,368,517</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	3,109,630
Accrued salaries and benefits	4,848,313
Due to other governmental agencies	2,925,187
Interest payable	3,745,632
Unearned revenues	5,883,823
Loans payable	513,523
Bonds payable	3,055,000
Certificate of participation	730,000
Liability for unpaid claims	4,049,390
Compensated absences	5,399,936
Capital lease obligation	282,651
Total Current Liabilities	<u>34,543,085</u>
Noncurrent Liabilities:	
Long-term liabilities, due beyond one year	121,767,733
Other postemployment benefits (OPEB) liability	6,226,000
Total Noncurrent Liabilities	<u>127,993,733</u>
Total Liabilities	<u>162,536,818</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	64,403,928
Restricted for:	
Legally segregated taxes, grants and fees	12,087,886
Debt service and capital projects	9,501,941
Unrestricted	(42,162,056)
Total Net Assets	<u>43,831,699</u>
Total Liabilities and Net Assets	<u>\$ 206,368,517</u>

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

# COUNTY OF MENDOCINO

## Statement of Activities For the Year Ended June 30, 2009

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	\$ 15,776,992	\$ 3,377,435	\$ 2,050,360	\$ --	\$ (10,349,197)
Public protection	49,638,909	9,805,549	8,103,537	--	(31,729,823)
Public ways and facilities	12,262,664	334,425	8,557,407	3,629,590	258,758
Health and sanitation	38,277,325	5,037,464	31,352,504	--	(1,887,357)
Public assistance	58,669,290	383,248	57,082,269	--	(1,203,773)
Education	1,832,541	49,751	296,894	605,582	(880,314)
Recreation and cultural services	436,907	--	75,017	--	(361,890)
Debt Service:					
Interest	7,593,045	--	--	--	(7,593,045)
Total Governmental Activities	\$ 184,487,673	\$ 18,987,872	\$107,517,988	\$ 4,235,172	(53,746,641)
General Revenues:					
Taxes:					
Property taxes					43,048,329
Sales and use taxes					10,443,197
Transient occupancy taxes					3,732,786
Other					707,167
Unrestricted interest and investment earnings					1,357,822
Miscellaneous					3,023,761
Total General Revenues					62,313,062
Change in Net Assets					8,566,421
Net assets - July 1, as restated					35,265,278
Net assets - June 30					\$ 43,831,699

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, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>
<b>ASSETS</b>			
Pooled cash and investments in county treasury	\$ 690,522	\$ 194	\$ 575
Restricted Assets:			
Cash with fiscal agent	--	1,973,819	5,538,575
Imprest cash	11,621	--	--
Accounts receivable	875,739	--	--
Property taxes receivable	2,444,338	--	--
Interest receivable	1,072	--	--
Due from other governments	7,504,836	--	--
Due from other funds	12,188,000	129,000	537,000
Inventory	213,177	--	--
Total Assets	<u>\$ 23,929,305</u>	<u>\$ 2,103,013</u>	<u>\$ 6,076,150</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,506,211	\$ --	\$ --
Accrued salaries and benefits	4,111,315	--	--
Due to other funds	12,178,000	--	--
Matured principal and interest payable	--	204,912	883,005
Deferred revenue	3,802,538	--	--
Unearned revenue	491,734	--	--
Advances from other funds	2,925,187	--	--
Total Liabilities	<u>25,014,985</u>	<u>204,912</u>	<u>883,005</u>
<b>FUND BALANCES</b>			
Reserved:			
Encumbrances	126,341	--	--
Inventory	213,177	--	--
Imprest cash	11,621	--	--
Debt service	--	1,898,101	5,193,145
Endowments	--	--	--
Unreserved, reported in:			
General fund	(1,436,819)	--	--
Special revenue funds	--	--	--
Capital project funds	--	--	--
Debt service funds	--	--	--
Total Fund Balances	<u>(1,085,680)</u>	<u>1,898,101</u>	<u>5,193,145</u>
Total Liabilities and Fund Balances	<u>\$ 23,929,305</u>	<u>\$ 2,103,013</u>	<u>\$ 6,076,150</u>

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

**COUNTY OF MENDOCINO**

Balance Sheet (continued)  
Governmental Funds  
June 30, 2009

	Mental Health Services	Other Governmental Funds	Total
<b>ASSETS</b>			
Pooled cash and investments in county treasury	\$ 688	\$ 7,011,359	\$ 7,703,338
Restricted Assets:			
Cash with fiscal agent	--	1,526,879	9,039,273
Imprest cash	100	680	12,401
Accounts receivable	555,022	212,267	1,643,028
Property taxes receivable	--	--	2,444,338
Interest receivable	--	--	1,072
Due from other governments	12,776,600	1,110,213	21,391,649
Due from other funds	--	7,377,000	20,231,000
Inventory	--	610,207	823,384
Total Assets	<u>\$ 13,332,410</u>	<u>\$ 17,848,605</u>	<u>\$ 63,289,483</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,009,740	\$ 536,839	\$ 3,052,790
Accrued salaries and benefits	242,073	475,066	4,828,454
Due to other funds	11,910,000	278,000	24,366,000
Matured principal and interest payable	--	--	1,087,917
Deferred revenue	6,736,719	21,452	10,560,709
Unearned revenue	--	1,835,765	2,327,499
Advances from other funds	--	--	2,925,187
Total Liabilities	<u>19,898,532</u>	<u>3,147,122</u>	<u>49,148,556</u>
<b>FUND BALANCES</b>			
Reserved:			
Encumbrances	--	1,570,209	1,696,550
Inventory	--	610,207	823,384
Imprest cash	100	680	12,401
Debt service	--	--	7,091,246
Endowments	--	1,047,262	1,047,262
Unreserved, reported in:			
General fund	--	--	(1,436,819)
Special revenue funds	(6,566,222)	10,579,486	4,013,264
Capital project funds	--	(5,104)	(5,104)
Debt service funds	--	898,743	898,743
Total Fund Balances	<u>(6,566,122)</u>	<u>14,701,483</u>	<u>14,140,927</u>
Total Liabilities and Fund Balances	<u>\$ 13,332,410</u>	<u>\$ 17,848,605</u>	<u>\$ 63,289,483</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, 2009

Fund Balance - total governmental funds (page 16)	\$ 14,140,927
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.	2,276,602
The pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefor not reported in the funds.	67,449,185
Deferred revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	10,560,709
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	93,014,048
Advance of interest earnings from the trustee was previously recognized as revenue in the governmental funds and is currently being recognized over the life of the bonds in the government-wide statements.	(3,556,324)
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:	(5,658,539)
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, 2009, are:	
Loans payable	(2,544,551)
Bonds payable	(89,275,000)
Certificates of participation	(25,580,000)
Capital leases	(546,272)
Accrued interest on long-term debt	(2,657,715)
Compensated absences	(5,388,287)
Landfill closure/post closure care costs	(8,403,084)
Net assets of governmental activities (page 13)	<u>\$ 43,831,699</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, 2009

	General	Debt Service	Pension Obligation Bonds
<b>Revenues:</b>			
Taxes	\$ 57,087,491	\$ --	\$ --
Licenses, permits and franchises	2,559,465	--	--
Intergovernmental	69,333,316	--	--
Revenue from use of money and property	1,175,055	18,888	(105,586)
Fines, forfeitures and penalties	2,208,217	108,798	--
Charges for services	11,125,494	--	--
Other revenue	2,304,845	85,778	26,889
Total Revenues	145,793,883	213,464	(78,697)
<b>Expenditures:</b>			
Current:			
General government	14,156,738	8,258	8,871
Public protection	44,152,037	--	--
Public ways and facilities	1,848,400	--	--
Health and sanitation	12,407,247	--	--
Public assistance	55,187,600	--	--
Education	256,965	--	--
Recreation and culture services	317,079	--	--
Debt service - principal	--	891,551	2,885,000
Debt service - interest	1,220,897	1,411,033	5,025,710
Capital outlay	439,244	--	--
Total Expenditures	129,986,207	2,310,842	7,919,581
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,807,676	(2,097,378)	(7,998,278)
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,181,125	2,177,120	9,283,688
Transfers out	(17,977,135)	--	--
Total Other Financing Sources (Uses)	(16,796,010)	2,177,120	9,283,688
<b>Net change in fund balances</b>	(988,334)	79,742	1,285,410
Fund balances - beginning	(97,346)	1,818,359	3,907,735
Fund balances - ending	\$ (1,085,680)	\$ 1,898,101	\$ 5,193,145

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

## COUNTY OF MENDOCINO

### Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Governmental Funds For the Year Ended June 30, 2009

	Mental Health Services	Other Governmental Funds	Totals
<b>Revenues:</b>			
Taxes	\$ --	\$ 843,988	\$ 57,931,479
Licenses, permits and franchises	--	262,934	2,822,399
Intergovernmental	20,901,389	20,958,815	111,193,520
Revenue from use of money and property	(243,583)	268,088	1,112,862
Fines, forfeitures and penalties	--	198,665	2,515,680
Charges for services	1,737,603	1,357,660	14,220,757
Other revenue	--	571,575	2,989,087
<b>Total Revenues</b>	<u>22,395,409</u>	<u>24,461,725</u>	<u>192,785,784</u>
<b>Expenditures:</b>			
Current:			
General government	--	673,855	14,847,722
Public protection	--	3,065,442	47,217,479
Public ways and facilities	--	9,423,323	11,271,723
Health and sanitation	19,819,020	4,550,629	36,776,896
Public assistance	--	2,343,099	57,530,699
Education	--	1,498,313	1,755,278
Recreation and culture services	--	112,182	429,261
Debt service - principal	--	--	3,776,551
Debt service - interest	--	--	7,657,640
Capital outlay	--	6,782,581	7,221,825
<b>Total Expenditures</b>	<u>19,819,020</u>	<u>28,449,424</u>	<u>188,485,074</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,576,389</u>	<u>(3,987,699)</u>	<u>4,300,710</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	1,340,937	6,677,870	20,660,740
Transfers out	(932,010)	(1,726,600)	(20,635,745)
<b>Total Other Financing Sources (Uses)</b>	<u>408,927</u>	<u>4,951,270</u>	<u>24,995</u>
<b>Net change in fund balances</b>	2,985,316	963,571	4,325,705
Fund balances - beginning	<u>(9,551,438)</u>	<u>13,737,912</u>	<u>9,815,222</u>
Fund balances - ending	<u>\$ (6,566,122)</u>	<u>\$ 14,701,483</u>	<u>\$ 14,140,927</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, 2009

Net change to fund balance - total governmental funds (page 19)		\$ 4,325,705
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<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	\$ 9,201,398	
Less current year depreciation	<u>(5,172,400)</u>	4,028,998
<p>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.</p>		
		(407,700)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
<p>Principal and refunded debt repayments:</p>		
Capital leases	387,260	
Loans payable	231,551	
Bonds payable and certificates of participation	<u>3,545,000</u>	4,163,811
<p>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.</p>		
Change in accrued interest on long-term debt	90,716	
Amortization of bond issuance costs	(26,121)	
Change in net pension asset	(582,569)	
Change in compensated absences	(649,235)	
Change in liability for closure/post closure care	<u>(748,886)</u>	(1,916,095)
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain activities of the internal service funds is reported with governmental activities.</p>		
		<u>(1,628,298)</u>
Change in net assets of governmental activities (page 14)		<u><u>\$ 8,566,421</u></u>

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

COUNTY OF MENDOCINO

Statement of Fund Net Assets  
Proprietary Funds  
June 30, 2009

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>ASSETS</b>	
Current Assets:	
Pooled cash and investments in county treasury	\$ 2,741
Other cash	421,609
Accounts receivable	85,146
Due from other funds	4,135,000
Total Current Assets	<u>4,644,496</u>
Noncurrent Assets:	
Depreciable capital assets, net	<u>60,703</u>
Total Noncurrent Assets	<u>60,703</u>
<b>Total Assets</b>	<u><u>\$ 4,705,199</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 56,840
Accrued salaries and benefits	19,859
Compensated absences payable	11,649
Liability for unpaid claims	4,049,390
Total Current Liabilities	<u>4,137,738</u>
Noncurrent Liabilities:	
Other postemployment benefits (OPEB) liability	<u>6,226,000</u>
Total Noncurrent Liabilities	<u>6,226,000</u>
<b>Total Liabilities</b>	<u><u>\$ 10,363,738</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	60,703
Unrestricted	<u>(5,719,242)</u>
Total Net Assets	<u>(5,658,539)</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 4,705,199</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, 2009

	<u>Governmental                      Activities</u> <u>Internal                      Service Funds</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 24,565,374
Other revenue	20,467
Total Operating Revenues	<u>24,585,841</u>
<b>Operating Expenses:</b>	
Salaries and employee benefits	3,220,325
Services and supplies	16,539,496
Insurance	5,617,001
Depreciation	27,239
Claims and judgments	390,542
Total Operating Expenses	<u>25,794,603</u>
<b>Operating Loss</b>	(1,208,762)
<b>Non-Operating Revenues:</b>	
Interest income	35,764
Gain on disposal of capital assets	34,674
Total non-operating revenues	<u>70,438</u>
<b>Income (Loss) Before Transfers</b>	(1,138,324)
Transfers in	150,000
Transfers out	<u>(639,974)</u>
<b>Change in Net Assets</b>	(1,628,298)
Net Assets - Beginning of Year	(4,451,850)
Prior period adjustment	<u>421,609</u>
<b>Net Assets - End of Year</b>	<u><u>\$ (5,658,539)</u></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, 2009

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from interfund services provided	\$ 24,620,578
Cash paid to suppliers for goods and services	(22,174,532)
Cash paid to employees for services	<u>(579,298)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,866,748</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers in	150,000
Transfers out	(639,974)
Due from other funds	(1,453,000)
Due to other funds	<u>(337,619)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,280,593)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from sales of capital assets	<u>34,674</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>34,674</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>35,764</u>
Net Cash Provided by Investing Activities	<u>35,764</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(343,407)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>346,148</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,741</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, 2009

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ (1,208,762)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	27,239
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	34,737
Increase (decrease) in:	
Accounts payable	22,507
Accrued salaries	(4,166)
Compensated absences	3,010
OPEB liability	2,804,000
Liability for self-insurance	<u>188,183</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 1,866,748</u></u>
<b>Non cash investing, capital, and financing activities:</b>	
Transfer of capital assets to governmental funds	<u><u>\$ 464,979</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, 2009

	<u>Investment Trust</u>	<u>Agency Funds</u>	<u>Pension Trust Fund</u>
<b>ASSETS</b>			
Cash and investments in County			
Treasury	\$ 136,926,979	\$ 10,365,117	\$ 16,021,408
Accounts receivable	--	--	1,843,351
Taxes receivable	--	9,757,887	--
Advances to other funds	--	2,925,187	--
Other investments	--	--	254,778,618
Total Assets	<u>\$ 136,926,979</u>	<u>23,048,191</u>	<u>272,643,377</u>
<b>LIABILITIES</b>			
Accrued expenses	\$ --	\$ --	\$ 602,467
Agency funds held for others	--	23,048,191	--
Total Liabilities	<u>--</u>	<u>23,048,191</u>	<u>602,467</u>
<b>NET ASSETS</b>			
Net Assets held in trust for:			
Retirement system	--	--	272,040,910
Investment pool participants	136,926,979	--	--
Total Net Assets	<u>136,926,979</u>	<u>--</u>	<u>272,040,910</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 136,926,979</u>	<u>\$ 23,048,191</u>	<u>\$ 272,643,377</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, 2009

	<u>Investment Trust</u>	<u>Pension Trust</u>
<b>Additions:</b>		
Contributions:		
Employer contributions	\$ --	\$ 8,561,368
Member contributions	--	6,836,202
Other income	--	321,910
Contributions on pooled investments	344,394,878	
Interest and investment income - net	<u>2,588,546</u>	<u>(52,214,538)</u>
Total Additions	<u>346,983,424</u>	<u>(36,495,058)</u>
 <b>Deductions:</b>		
Benefit payments	--	21,480,467
Refunds of contributions	--	734,403
Distributions from investment pool	352,648,430	
Administrative expense	--	601,879
Total Deductions	<u>352,648,430</u>	<u>22,816,749</u>
 <b>Change in net assets</b>	 (5,665,006)	 (59,311,807)
 <b>Net assets, beginning</b>	 <u>142,591,985</u>	 <u>331,352,717</u>
 <b>Net assets, ending</b>	 <u>\$ 136,926,979</u>	 <u>\$ 272,040,910</u>

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, 2009

### 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, 2009

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, 2009, 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, unrestricted resources are used only after the restricted 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, 2009

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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2009

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

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

*Fund Financial Statements* (continued)

- The *Pension Trust Fund* accounts for the pooled cash held in the County Treasury for the Mendocino County Employees' Retirement Association.
- 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, 2009

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. 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, 2009

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

### H. Restricted Assets

The County has \$9,039,273 restricted cash deposited with fiscal agents to meet Certificates of Participation, Pension Obligation Bond and other long-term debt 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 \$2,000 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, 2009

### 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. **Deferred Revenue and Unearned Revenue**

Governmental funds report deferred revenue in connection with receivables not considered available to liquidate liabilities of the current period. Governmental and enterprise funds report unearned revenue in connection with resources that have been received, but not yet earned.

#### 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.

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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2009

### Note 2: **Restatements of Net Assets 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 or fund balance.

A prior period adjustment of \$68,031,754 was made to the governmental activities beginning net assets to properly account for the inclusion of the County's net pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*. The pension asset is a result of contributions to the retirement plan in excess of the annual required contributions, including over contributions resulting from the issuance of the pension obligation bonds.

Prior period adjustments were also made to account for health insurance bank accounts (\$421,609) and capital assets (\$227,764) not previously reported.

### 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>
General Fund	\$ 1,085,680
Special Revenue Funds:	
Mental Health Services	6,566,122
Lighting Special District – Alexander Estates	20,929
Lighting Special District – Noyo	10,223
Supplemental Law Enforcement	19,489
Internal Service Funds:	
Health Insurance	875,990
Retiree Health Insurance	6,101,177

Although the General Fund is reporting a deficit at more than \$1 million, receivables recorded as deferred revenue because they do not meet the availability criteria are in excess of \$2.9 million.

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. Although the deficit is reported at more than \$6 million, receivables recorded as deferred revenue comprise in excess of that amount.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2009

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

**Deficit Fund Equity** (continued)

The Internal Service Funds for insurance (health, general liability, and retiree health) all had a deficit fund equity at fiscal year ending June 30, 2009, 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.

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 the Supplemental Law Enforcement fund 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.

Cash and investments held by fiscal agents outside of the County's investment pool are restricted as to its use. It consists of funds designated by debt agreements as reserve funds.

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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2009

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

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.

At June 30, 2009, total County cash and investments were as follows:

*Cash:*

Cash on hand	\$ 1,402,571
Imprest cash	12,401
Certificates of deposit	10,991,410
Overdrafts (deposits less outstanding warrants)	(1,558,164)
Cash in trust, Pension Trust Fund	1,814,626
Total cash	<u>12,662,844</u>

*Investments:*

In Treasurer's pool	158,790,749
With fiscal agents	9,039,273
Total investments	<u>167,830,022</u>
Total cash and investments	<u>\$ 180,492,866</u>

Total cash and investments at June 30, 2009, were presented on the County's financial statements as follows:

Primary government	\$ 17,179,362
Investment trust fund	136,926,979
Pension trust fund	16,021,408
Agency funds	10,365,117
Total cash and investments	<u>\$ 180,492,866</u>

### Deposits – Custodial Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code requires that a financial institution secure the County's cash deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of pledged securities in the collateral pool must equal at least 110% of the County's cash deposits. California law also allows institutions to secure County deposits by pledging first rust deed mortgage notes having a value of 150% of the County's total cash deposits.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2009

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

Deposits – Custodial Risk (continued)

At June 30, 2009, the carrying value of the County’s deposits was \$(1,558,131) and the bank balance was \$5,248,791. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the bank balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

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. The County annually adopts a “Statement of Investment Policy.” The policy is based on criteria established by government code and adds further restrictions as to the types of investments allowed, concentration limits and maximum terms.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Federal Agency Obligations	5 years	None	None
U.S. Treasury Bills	5 years	None	None
State of California obligations	5 years	None	None
Local Agency bonds and obligations	5 years	None	None
Banker’s Acceptances	180 days	40%	30%
Commercial Paper - Other Agencies	270 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse repurchase agreements	92 days	20%	None
Medium-Term Corporate Notes	5 years	30%	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund	N/A	None	None
California Asset Management Program	N/A	None	None

At June 30, 2009, the County was in compliance with its own more restrictive policy and, therefore, was also in compliance with the applicable government code sections.

At June 30, 2009, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not made (fair value was 99.14% of carrying value).

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2009

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

**Investments** (continued)

At June 30, 2009, the County had the following investments:

	<u>Interest Rates</u>	<u>Maturities</u>	<u>Par</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>WAM (Years)</u>
<b>Investments in Investment Pool</b>						
Medium Term Corporate Notes	1.23% - 1.85%	8/10/2009 - 5/12/2009	50,000,000	47,776,400	49,137,005	1.35
Union Bank SWEEP account	Variable	On Demand	3,927,248	3,927,248	3,927,248	0.00
California Local Agency Investment Fund	Variable	On Demand	40,000,000	40,000,000	40,000,000	0.00
California Asset Management Program	Variable	On Demand	55,000,000	55,000,000	55,000,000	0.00
Mendocino County Delinquent Tax and Revenue Anticipation Note	Various	On Demand - Expires 5/13/2010	10,726,496	10,726,496	10,726,496	0.00
<b>Total investments in investment pool</b>			<u>159,653,744</u>	<u>157,430,144</u>	<u>158,790,749</u>	<u>0.41</u>
<b>Investments Outside Investment Pool</b>						
<i>Cash held with fiscal agent</i>						
Money market mutual funds	Variable	On Demand	7,093,859	7,093,859	7,093,859	0.00
Commercial paper	1.60%	12/1/2009	1,957,000	1,948,761	1,945,414	0.09
<b>Total investments outside investment pool</b>			<u>9,050,859</u>	<u>9,042,620</u>	<u>9,039,273</u>	<u>0.02</u>
<b>Total investments</b>			<u>\$ 168,704,603</u>	<u>\$ 166,472,764</u>	<u>\$ 167,830,022</u>	

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County manages its exposure to declines in fair values by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to provide the necessary cash flow and liquidity needed for operations. The County monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The County invested \$49,137,005 in floating rate securities. These are tied to the one or three month London Interbank Offer Rate (LIBOR) index.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law also limits investments in corporate bonds to the rating of A by Standard & Poor's and Moody's Investors Service for a maturity of up to one year and a rating of AA for maturities beyond one year.

**Concentration of Credit Risk**

At June 30, 2009, the County held 8.49% of its net investment in medium term notes issued by General Electric Capital Corporation. The County did not have 10% or more of its net investment in a single mutual fund.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

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

Concentration of Credit Risk (continued)

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 carrying value at June 30, 2009.

	<u>S&amp;P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
<b>Investments In Investment Pool</b>			
Medium Term Corporate Notes	AAA	AAA	9.28%
Medium Term Corporate Notes	AA+	AA3	1.26%
Medium Term Corporate Notes	AA-	AA3	2.42%
Medium Term Corporate Notes	AA	AA3	4.11%
Medium Term Corporate Notes	A	A3	3.80%
Medium Term Corporate Notes	A	A2	5.04%
Medium Term Corporate Notes	BBB+	Unrated	5.04%
Union Bank SWEEP	Unrated	Unrated	2.47%
Delinquent Tax and Revenue Anticipation Note	Unrated	Unrated	6.76%
California Local Agency Investment Fund	Unrated	Unrated	25.19%
California Asset Management Program	Unrated	Unrated	34.63%
			<u>100.00%</u>

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 had no securities exposed to custodial credit risk.

Local Agency Investment Fund

The County Treasurer's Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited with LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

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

Local Agency Investment Fund (continued)

At June 30, 2009, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$40 million, which approximates fair value and is the same as the value of the pool shares which is determined on an amortized cost basis. The total amount invested by all public agencies in PMIA on that day was \$50.7 billion. Of that amount, 14.71% was invested in structured notes and asset-backed securities with the remaining 85.29% invested in other non-derivative financial products.

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.	\$ 47,776,400

County Investment Pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the investment pool as of June 30, 2009:

**Statement of Net Assets**

Net assets held for pool participants	<u>\$ 171,019,583</u>
Equity of internal pool participants	\$ 34,092,604
Equity of external pool participants	<u>136,926,979</u>
Total net assets	<u>\$ 171,019,583</u>

**Statement of Changes in Net Assets**

Net assets for pool participants at July 1, 2008	\$ 174,950,157
Net change in investments by pool participants	<u>(3,930,574)</u>
Net assets at June 30, 2009	<u>\$ 171,019,583</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 5: **Short-Term Note Payable**

On July 2, 2008, the County issued a \$26,192,963 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, 2009, and was repaid with taxes and other revenues by June 24, 2009.

Short-term note payable activity for the year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2009</u>
Short-term note payable	\$ --	\$ 26,192,963	\$ 26,192,963	\$ --

Note 6: **Interfund Transactions**

**Interfund Receivables/Payables**

The composition of interfund balances as of June 30, 2009, are as follows:

*Advances from/to other funds:*

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund	General Fund	\$ <u>2,925,187</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.

The following represents the components of the estimated balance owed by the General Fund to the Tax Resources Fund:

	<u>Balance</u> <u>June 30, 2009</u>
Negative cash in the Tax Resources Fund	\$ 14,513,487
Less:	
Positive cash in the Tax Loss Reserve Fund	1,262,715
Secured Taxes receivables balance, including penalties and cost	<u>10,325,585</u>
	\$ <u>2,925,187</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 6: **Interfund Transactions** (continued)

**Interfund Receivables/Payables** (continued)

*Due from/to other funds:*

Receivable Fund	Payable Fund	Amount
General Fund	Mental Health Fund	\$ 11,910,000
	Other Governmental Funds	278,000
Debt Service Fund	General Fund	129,000
Pension Obligation Bonds Fund	General Fund	537,000
Other Governmental Funds	General Fund	7,377,000
Internal Service Funds	General Fund	4,135,000
		<b>\$ 24,366,000</b>

The above balances reflect temporary cash advances.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 6: **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:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 2,129,644
	Mental Health Services	1,340,937
	Pension Obligation Fund	7,945,115
	Internal Service Funds	150,000
	Other Governmental Funds	<u>6,411,439</u>
		<u>17,977,135</u>
Mental Health Services Fund	General Fund	429,852
	Debt Service Fund	47,476
	Pension Obligation Fund	<u>454,682</u>
	<u>932,010</u>	
Internal Service Funds	General Fund	596,819
	Pension Obligation Fund	<u>43,155</u>
	<u>639,974</u>	
Other Governmental Funds	General Fund	619,433
	Pension Obligation Fund	840,736
	Other Governmental Funds	<u>266,431</u>
	<u>1,726,600</u>	
	<u>\$ 21,275,719</u>	

During the year, capital assets of \$464,979 were transferred from Internal Service Funds to the General Fund. Because the General Fund is reported on a modified accrual basis and the Internal Service Funds are reported on a full accrual basis, the transaction results in a “transfer out” in the Internal Service Fund with no corresponding “transfer in” in the General Fund. As a result, “transfers in” do not equal “transfers out” on the fund financial statements.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 7: **Capital Assets**

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2009
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 2,820,120	\$ 2,500	\$ --	\$ --	\$ 2,822,620
Construction in progress	6,493,291	6,680,797	(15,898)	(7,328,053)	5,830,137
Total capital assets, not being depreciated	<u>9,313,411</u>	<u>6,683,297</u>	<u>(15,898)</u>	<u>(7,328,053)</u>	<u>8,652,757</u>
Capital assets, being depreciated:					
Infrastructure	53,290,499	--	--	4,128,108	57,418,607
Structures and improvements	67,034,786	941,972	--	1,108,400	69,085,158
Equipment	24,930,741	1,660,140	(2,195,208)	--	24,395,673
Improvements other than buildings	2,943,451	--	--	2,547,072	5,490,523
Total capital assets, being depreciated	<u>148,199,477</u>	<u>2,602,112</u>	<u>(2,195,208)</u>	<u>7,783,580</u>	<u>156,389,961</u>
Less accumulated depreciation for:					
Infrastructure	(23,055,756)	(1,693,223)	--	--	(24,748,979)
Structures and improvements	(25,174,986)	(1,884,402)	--	(227,763)	(27,287,151)
Equipment	(17,934,402)	(1,487,012)	2,127,095	--	(17,294,319)
Improvements other than buildings	(2,502,516)	(135,002)	--	--	(2,637,518)
Total accumulated depreciation	<u>(68,667,660)</u>	<u>(5,199,639)</u>	<u>2,127,095</u>	<u>(227,763)</u>	<u>(71,967,967)</u>
Total capital assets, being depreciated, net	<u>79,531,817</u>	<u>(2,597,527)</u>	<u>(68,113)</u>	<u>7,555,817</u>	<u>84,421,994</u>
Governmental activities capital assets, net	<u>\$ 88,845,228</u>	<u>\$ 4,085,770</u>	<u>\$ (84,011)</u>	<u>\$ 227,764</u>	<u>\$ 93,074,751</u>

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 771,280
Public protection	1,342,249
Public ways and facilities	2,250,501
Health and sanitation	395,980
Public assistance	317,477
Education	81,982
Recreation and culture	12,931
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset	<u>27,239</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 5,199,639</u>

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2009

Note 8: **Long-Term Liabilities**

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2009, are as follows:

<u>Governmental Activities</u> <u>Type of Indebtedness (Purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2009</u>
<b>Loans Payable</b>					
Microwave Radio Network equipment loan	8/1/2013	4.30%	\$210,945-\$288,591	\$ 2,600,000	\$ 2,389,055
California Energy Commission Loan – 2004	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	<u>250,000</u>	<u>155,496</u>
Total Loans Payable				<u>\$ 2,850,000</u>	<u>\$ 2,544,551</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	\$ 2,000,000
<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>87,275,000</u>
Total Taxable Pension Obligation Bonds				<u>\$ 122,665,000</u>	<u>\$ 89,275,000</u>
<b>Certificates of Participation</b>					
<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	\$ 3,315,000
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>19,675,000</u>
<b>2001 Issue</b> (Refunding of 1998 certificates)					
Serial Current Interest Certificates	6/01/04-6/01/21	3.5%-4.8%	\$240,000-\$460,000	6,455,000	4,395,000
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>5,905,000</u>
Total Certificates of Participation				<u>\$ 30,445,000</u>	<u>\$ 25,580,000</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 8: **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, 2009:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Amounts Due Within One Year
<b>Governmental Activities</b>					
Certificates of participation	\$ 26,240,000	\$ --	\$ (660,000)	\$ 25,580,000	\$ 730,000
Bonds payable	92,160,000	--	(2,885,000)	89,275,000	3,055,000
Loans payable	2,776,102	--	(231,551)	2,544,551	513,523
Capital leases	933,532	--	(387,260)	546,272	282,651
Compensated absences	4,747,691	4,688,366	(4,036,121)	5,399,936	5,399,936
Liability for self-insurance	3,861,207	11,587,283	(11,399,100)	4,049,390	4,049,390
Landfill postclosure costs	7,654,198	748,886	--	8,403,084	--
<b>Total Governmental Activities</b>	<b>\$ 138,372,730</b>	<b>\$ 17,024,535</b>	<b>\$ (19,599,032)</b>	<b>\$ 135,798,233</b>	<b>\$ 14,030,500</b>

As of June 30, 2009, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Governmental Activities					
	Certifications of Participation		Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 730,000	\$ 1,292,102	\$ 3,055,000	\$ 4,848,443	\$ 513,523	\$ 103,430
2011	720,000	1,260,234	3,240,000	4,675,324	535,766	81,186
2012	755,000	1,228,702	3,405,000	4,509,199	558,961	57,993
2013	790,000	1,192,328	3,575,000	4,334,699	583,183	33,769
2014	830,000	1,153,718	3,755,000	4,151,449	313,647	8,509
2015-2019	4,780,000	5,134,610	21,995,000	17,383,108	39,471	1,571
2020-2024	6,895,000	3,809,122	28,780,000	10,407,914	--	--
2025-2029	8,175,000	1,830,898	21,470,000	1,904,389	--	--
2030-2034	1,905,000	100,012	--	--	--	--
	<b>\$ 25,580,000</b>	<b>\$ 17,001,726</b>	<b>\$ 89,275,000</b>	<b>\$ 52,214,525</b>	<b>\$ 2,544,551</b>	<b>\$ 286,458</b>

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 revenue funds, and other internal service funds.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 8: **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 \$3,556,324.

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**

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 \$1,768,181. The minimum future lease commitments on these leases are as follows:

Fiscal Year Ending June 30,	<u>Payments</u>
2010	\$ 302,916
2011	193,141
2012	<u>86,999</u>
Total Minimum Lease Payments	583,056
Less Amount Representing Interest	<u>(36,784)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 546,272</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 8: **Long-Term Liabilities** (continued)

B. **Leases** (continued)

**Capital Leases** (continued)

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

	<u>Governmental Activities</u>
Equipment	\$ 1,768,181
Less: accumulated amortization	<u>(1,132,529)</u>
Net Value	<u>\$ 635,652</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 \$5,399,936. The entire amount was considered current, based on experience.

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, 2009:

\$2,770,000 Pension Obligation Bonds – Series 1996

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 9: **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 \$8,403,084 reported as landfill closure/postclosure liability at June 30, 2009, 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 2009. 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, 2009</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 1,327,505
South Coast Landfill	Mendocino County	N/A	2034	4,258,898
Laytonville Landfill	Mendocino County	100%	Closed	<u>2,816,681</u>
				<u>\$ 8,403,084</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, 2009, investments of \$2,812,632 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.

Note 10: **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.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2009

Note 10: **Net Assets/Fund Balances** (continued)

**Net Assets** (continued)

- *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, 2009, 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, 2009

Note 10: **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 11: **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, 2009, were \$8,561,368; contributions by the employees of the County, special districts, and the Courts were \$6,836,202.

#### 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, 2009. 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, 2009

Note 11: **County Employees Retirement Plan (Defined Benefit Pension Plan)** (continued)

Annual Pension Cost (continued)

The County's annual pension cost and prepaid pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2009, were as follows (in thousands):

Annual required contribution (County fiscal year basis)	\$ 6,046
Interest on beginning pension asset	(5,443)
Adjustment to the annual required contribution	<u>8,504</u>
Annual pension cost	9,107
Contributions made	<u>8,525</u>
Increase (Decrease) in pension asset	(582)
Net pension asset, beginning of year	<u>68,031</u>
Net pension asset, end of year	<u><u>\$ 67,449</u></u>

The following table shows the County's annual pension cost and the percentage contributed for the fiscal year 2008-2009 and each of the two preceding fiscal years (in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2007*	\$ 8,957	84%	\$ 69,768
2008*	9,403	82%	68,031
2009	9,107	94%	67,449

\* Restated

The County has made its annual required contribution (ARC) for each of the past three years. The difference between the ARC and the APC is due to the amortization of the Net Pension Asset.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 11: **County Employees Retirement Plan (Defined Benefit Pension Plan)** (continued)

Funded Status and Funding Progress

The following is the funded status information for each plan as of June 30, 2009, the most recent actuarial valuation date (dollar amounts in thousands):

Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
\$ 403,196	\$ 336,263	\$ 66,933	83.4%	\$ 72,235	92.7%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 12: **Other Postemployment Benefits (OPEB)**

Plan Description

The Mendocino County Employees Retirement Health Plan is a cost-sharing multiple employer defined benefit healthcare plan administered by the Mendocino County Employees' Retirement Association. The Plan provides medical and dental insurance benefits to eligible retirees. The Association is administered under the authority of the County Employees Retirement Law of 1937.

Employees hired before September 1998 who retire from active employment with the County and meet the following requirements are eligible for lifetime coverage under the Mendocino County Employees Retirement Health Plan: 1) has 10 or more years of service with Mendocino County; 2) is at least 50 on the date of retirement; and 3) makes the required contributions (if any) for retiree coverage as required by the Plan Administrator. Retirees have no required contributions for their own coverage. A contribution of \$510 per month is required for dependent coverage. A payment reserve of \$510 for each eligible retiree is set aside each month for health care costs.

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the County. The contribution is based on pay-as-you-go financing requirements. For fiscal year 2008-09, the County contributed \$4,568,000, or 62.0%, of the actuarially required contributions, to the Retiree Health Plan.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 12: **Other Postemployment Benefits (OPEB)** (continued)

Annual OPEB Cost and Net OPEB Obligation

The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. The County’s ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the County’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County’s net OPEB obligation to the Retiree Health Plan (dollar amount in thousands):

Annual required contribution	\$ 7,372
Annual OPEB cost (expense)	7,372
Contributions made	4,568
Increase in net OPEB obligation	2,804
Net OPEB obligation - beginning of year	3,422
Net OPEB obligation - end of year	\$ 6,226

The County’s Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan (as described in the funding policy above), and the Net OPEB Obligation for fiscal years 2008-09 is as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/08	\$7,372	53.6%	\$3,422
6/30/09	\$7,372	62.0%	\$6,226

In future years, three year trend information will be presented. Fiscal year 2008-09 was the first year of implementation of GASB Statement 45, and the County elected to implement prospectively; therefore prior year comparative data is not available.

Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of July 1, 2007, the plan’s most recent actuarial valuation date, was as follows (amounts in thousands):

Actuarial accrued liability (AAL)	\$ 129,377
Actuarial value of plan assets	--
Unfunded actuarial accrued liability (UAAL)	\$ 129,377
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active Plan members)	\$ 25,261
UAAL as a percentage of covered payroll	512.2%

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2009

Note 12: **Other Postemployment Benefits (OPEB)** (continued)

**Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return, an inflation rate of 3.25% per year, and assumed medical inflation of 11% graded down to 5% over 9 years. The OPEB plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years. The remaining amortization period at June 30, 2009, was 28 years.

Note 13: **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.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2009

Note 13: **Contingencies** (continued)

**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. The County has received notice of audit findings related to its state-funded mental health program that call into question approximately \$1,000,000 of expenditures from the 2002-2003 and 2003-2004 fiscal years. However, the County is actively disputing this amount and the outcome is uncertain. As of June 30, 2009, 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.

Note 14: **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 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:

**A. Unemployment Insurance**

The County is fully self-insured for this program. The estimated claims liability at fiscal year end was \$339,814.

**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, 2009, 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 \$1,427,325 includes incurred but not reported claims.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2009

Note 14: **Risk Management** (continued)

**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 Mercer Health & Benefits 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 \$2,282,251.

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

	<u>Unemployment Insurance</u>	<u>General Liability</u>	<u>Health Insurance</u>	<u>Total</u>
Claims liability, July 1, 2007	\$ 461,511	\$ 1,248,952	\$ 1,835,531	\$ 3,545,994
Current year claims and changes in estimates	278,692	334,636	10,369,315	10,982,643
Claims payments	<u>(267,982)</u>	<u>(175,471)</u>	<u>(10,223,977)</u>	<u>(10,667,430)</u>
Claims liability, June 30, 2008	<u>\$ 472,221</u>	<u>\$ 1,408,117</u>	<u>\$ 1,980,869</u>	<u>\$ 3,861,207</u>
Claims liability, July 1, 2008	\$ 472,221	\$ 1,408,117	\$ 1,980,869	\$ 3,861,207
Current year claims and changes in estimates	135,320	221,567	11,230,396	11,587,283
Claims payments	<u>(267,727)</u>	<u>(202,359)</u>	<u>(10,929,014)</u>	<u>(11,399,100)</u>
Claims liability, June 30, 2009	<u>\$ 339,814</u>	<u>\$ 1,427,325</u>	<u>\$ 2,282,251</u>	<u>\$ 4,049,390</u>

Note 15: **Subsequent Events**

On July 2, 2009, the County issued a \$26,255,320 tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable May 2010, and carries a 4.5% interest rate.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNTY OF MENDOCINO**

Required Supplementary Information  
For the Year Ended June 30, 2009

**SCHEDULE OF FUNDING PROGRESS – RETIREMENT PLAN**

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 (in thousands):

<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<sup>(1)</sup></u>	<u>UAAL as a % of Payroll</u>
6/30/07	\$ 358,259	\$ 317,937	\$ 40,322	88.7%	\$ 65,879	61.2%
6/30/08	373,852	353,421	20,411	94.5%	70,880	28.8%
6/30/09	403,196	336,263	66,933	83.4%	72,235	92.7%

(1) Plan members include the County of Mendocino, the Mendocino County Courts and the Russian River Cemetery District.

**SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT HEALTH PLAN**

The table below shows an 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 (in thousands):

In future years, three year trend information will be presented. Fiscal year 2007-08 was the first year of implementation of GASB Statement 45, and the County elected to implement prospectively; therefore prior year comparative data is not available.

<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>
7/01/07	\$ 129,377	\$ --	\$ 129,377	00.0%	\$ 25,261	512.2%

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 59,872,536	\$ 59,872,536	\$ 57,087,491	\$ (2,785,045)
Licenses and permits	2,844,811	2,844,811	2,559,465	(285,346)
Fines, forfeits and penalties	1,837,184	2,004,023	2,208,217	204,194
Revenue from use of money and property	2,083,696	2,083,696	1,175,055	(908,641)
Intergovernmental	74,984,195	74,990,325	69,333,316	(5,657,009)
Charges for services	12,416,497	12,416,497	11,125,494	(1,291,003)
Other revenue	4,031,302	4,531,978	2,304,845	(2,227,133)
<b>Total Revenues</b>	<b>158,070,221</b>	<b>158,743,866</b>	<b>145,793,883</b>	<b>(12,949,983)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	16,451,698	17,005,162	15,065,347	1,939,815
Public protection	49,413,258	49,453,210	48,343,817	1,109,393
Public way and facilities	2,132,305	2,132,305	1,848,400	283,905
Health and sanitation	16,083,750	16,140,907	13,093,753	3,047,154
Public assistance	63,532,991	63,582,393	57,316,128	6,266,265
Education	326,505	326,505	270,828	55,677
Recreation and cultural services	343,795	355,795	332,908	22,887
Debt service - principal	3,030,000	3,030,000	--	3,030,000
Debt service - interest	2,200,000	2,200,000	1,220,897	979,103
Capital outlay	553,315	700,997	439,244	261,753
<b>Total Expenditures</b>	<b>154,067,617</b>	<b>154,927,274</b>	<b>137,931,322</b>	<b>16,995,952</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>4,002,604</b>	<b>3,816,592</b>	<b>7,862,561</b>	<b>4,045,969</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	687,220	743,313	1,181,125	437,812
Transfers out	(8,071,301)	(8,071,301)	(10,032,020)	(1,960,719)
<b>Total Other Financing Sources (Uses)</b>	<b>(7,384,081)</b>	<b>(7,327,988)</b>	<b>(8,850,895)</b>	<b>(1,522,907)</b>
<b>Net change in fund balances</b>	<b>(3,381,477)</b>	<b>(3,511,396)</b>	<b>(988,334)</b>	<b>2,523,062</b>
<b>Fund balances - beginning</b>	<b>(97,346)</b>	<b>(97,346)</b>	<b>(97,346)</b>	<b>--</b>
<b>Fund balances - ending</b>	<b>\$ (3,478,823)</b>	<b>\$ (3,608,742)</b>	<b>\$ (1,085,680)</b>	<b>\$ 2,523,062</b>

Reconciliation to the statement of revenues, expenditures and changes in fund balance - governmental funds

Total expenditures from the budgetary comparison schedule	\$ 137,931,322
The County budgets transfers to the Pension Obligation Fund as functional expenditures.	<u>(7,945,115)</u>
Total expenditures from the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 129,986,207</u>

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
Mental Health Services Fund  
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Revenue from use of money and property	\$ (300,000)	\$ (300,000)	\$ (243,583)	\$ 56,417
Intergovernmental	21,355,918	21,847,906	20,901,389	(946,517)
Charges for services	1,425,000	1,425,000	1,737,603	312,603
Total Revenues	<u>22,480,918</u>	<u>22,972,906</u>	<u>22,395,409</u>	<u>(577,497)</u>
<b>Expenditures:</b>				
Current:				
Health and sanitation	21,107,421	21,599,409	19,819,020	1,780,389
Capital outlay	3,000	3,000	--	3,000
Total Expenditures	<u>21,110,421</u>	<u>21,602,409</u>	<u>19,819,020</u>	<u>1,783,389</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,370,497</u>	<u>1,370,497</u>	<u>2,576,389</u>	<u>1,205,892</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	288,926	288,926	1,340,937	1,052,011
Transfers out	(477,328)	(477,328)	(932,010)	(454,682)
Total Other Financing Sources (Uses)	<u>(188,402)</u>	<u>(188,402)</u>	<u>408,927</u>	<u>597,329</u>
Net change in fund balances	1,182,095	1,182,095	2,985,316	1,803,221
Fund balances - beginning	<u>(9,551,438)</u>	<u>(9,551,438)</u>	<u>(9,551,438)</u>	<u>--</u>
Fund balances - ending	<u>\$ (8,369,343)</u>	<u>\$ (8,369,343)</u>	<u>\$ (6,566,122)</u>	<u>\$ 1,803,221</u>

## COUNTY OF MENDOCINO

Required Supplementary Information  
For the Year Ended June 30, 2009

### **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. Unencumbered appropriations lapse at year-end.

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).

## **SUPPLEMENTAL INFORMATION**

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2009

	Special Revenue					Welfare Advance
	Road	Accumulated Capital Outlay	Library	Fish and Game	Special Aviation	
<b>Assets</b>						
Cash and investments in County Treasury	\$ 4,160,109	\$ 895	\$ 323,901	\$ 158,193	\$ 118,337	\$ 238,490
Cash with fiscal agent	--	--	--	--	--	--
Imprest cash	50	--	180	--	--	--
Accounts receivable	1,392	40,000	934	--	--	--
Due from other governmental agencies	536,206	21,452	--	--	--	--
Due from other funds	--	215,000	--	--	--	--
Inventory	600,409	--	--	--	--	--
<b>Total Assets</b>	<u><u>\$ 5,298,166</u></u>	<u><u>\$ 277,347</u></u>	<u><u>\$ 325,015</u></u>	<u><u>\$ 158,193</u></u>	<u><u>\$ 118,337</u></u>	<u><u>\$ 238,490</u></u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 174,193	\$ 73,307	\$ 5,324	\$ 1,762	\$ --	\$ --
Accrued salaries and benefits	258,876	--	56,113	--	--	--
Due to other funds	--	--	--	--	--	--
Unearned revenue	--	--	--	--	--	238,490
Deferred revenue	--	21,452	--	--	--	--
<b>Total Liabilities</b>	<u><u>433,069</u></u>	<u><u>94,759</u></u>	<u><u>61,437</u></u>	<u><u>1,762</u></u>	<u><u>--</u></u>	<u><u>238,490</u></u>
Fund Balances:						
Reserved for:						
Encumbrances	25,484	10,090	--	--	--	--
Inventory	600,409	--	--	--	--	--
Imprest cash	50	--	180	--	--	--
Endowments	--	--	--	--	--	--
Unreserved:						
Undesignated	<u>4,239,154</u>	<u>172,498</u>	<u>263,398</u>	<u>156,431</u>	<u>118,337</u>	<u>--</u>
<b>Total Fund Balances</b>	<u><u>4,865,097</u></u>	<u><u>182,588</u></u>	<u><u>263,578</u></u>	<u><u>156,431</u></u>	<u><u>118,337</u></u>	<u><u>--</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 5,298,166</u></u>	<u><u>\$ 277,347</u></u>	<u><u>\$ 325,015</u></u>	<u><u>\$ 158,193</u></u>	<u><u>\$ 118,337</u></u>	<u><u>\$ 238,490</u></u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2009

	Special Revenue				
	Supplemental Law Enforcement	COPS AB 1913	Sheriff Special Projects	Mobile Spay/ Neuter	Museum Bookstore/ Projects
<b>Assets</b>					
Cash and investments in County Treasury	\$ 924	\$ 93,346	\$ 13,960	\$ 735	\$ 1,011
Cash with fiscal agent	--	--	--	--	--
Imprest cash	--	--	--	--	--
Accounts receivable	--	--	--	40	434
Due from other governmental agencies	--	31,923	1,944	--	--
Due from other funds	--	--	--	41,000	103,000
Inventory	--	--	--	--	--
<b>Total Assets</b>	<u>\$ 924</u>	<u>\$ 125,269</u>	<u>\$ 15,904</u>	<u>\$ 41,775</u>	<u>\$ 104,445</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ --	\$ 11,496	\$ --	\$ 739	\$ 1,195
Accrued salaries and benefits	5,413	--	2,324	--	--
Due to other funds	15,000	--	--	--	--
Unearned revenue	--	--	--	--	--
Deferred revenue	--	--	--	--	--
<b>Total Liabilities</b>	<u>20,413</u>	<u>11,496</u>	<u>2,324</u>	<u>739</u>	<u>1,195</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Endowments	--	--	--	--	--
Unreserved:					
Undesignated	(19,489)	113,773	13,580	41,036	103,250
<b>Total Fund Balances</b>	<u>(19,489)</u>	<u>113,773</u>	<u>13,580</u>	<u>41,036</u>	<u>103,250</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 924</u>	<u>\$ 125,269</u>	<u>\$ 15,904</u>	<u>\$ 41,775</u>	<u>\$ 104,445</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2009

Special Revenue

	<u>Recorder Modernization</u>	<u>Micrographics</u>	<u>Assessor</u>	<u>General Plan Update</u>	<u>Realignment</u>
<b>Assets</b>					
Cash and investments in County Treasury	\$ 680	\$ 3,875	\$ 594	\$ 749	\$ 560
Cash with fiscal agent	--	--	--	--	--
Imprest cash	--	--	--	--	--
Accounts receivable	16	8	--	218	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	81,000	--	113,000	900,000	1,049,000
Inventory	--	--	--	--	--
<b>Total Assets</b>	<u><u>\$ 81,696</u></u>	<u><u>\$ 3,883</u></u>	<u><u>\$ 113,594</u></u>	<u><u>\$ 900,967</u></u>	<u><u>\$ 1,049,560</u></u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 50	\$ 743	\$ --	\$ 109,744	\$ --
Accrued salaries and benefits	--	2,686	--	--	--
Due to other funds	--	--	--	--	--
Unearned revenue	--	--	--	--	1,049,560
Deferred revenue	--	--	--	--	--
<b>Total Liabilities</b>	<u><u>50</u></u>	<u><u>3,429</u></u>	<u><u>--</u></u>	<u><u>109,744</u></u>	<u><u>1,049,560</u></u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Endowments	--	--	--	--	--
Unreserved:					
Undesignated	<u>81,646</u>	<u>454</u>	<u>113,594</u>	<u>791,223</u>	<u>--</u>
<b>Total Fund Balances</b>	<u><u>81,646</u></u>	<u><u>454</u></u>	<u><u>113,594</u></u>	<u><u>791,223</u></u>	<u><u>--</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 81,696</u></u>	<u><u>\$ 3,883</u></u>	<u><u>\$ 113,594</u></u>	<u><u>\$ 900,967</u></u>	<u><u>\$ 1,049,560</u></u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2009

	Special Revenue					Total Special Revenue
	Miscellaneous Grants	Special Revenue Trusts	Landfill Closure	Special Districts Lighting	Special Districts Other	
<b>Assets</b>						
Cash and investments in County Treasury \$	863	\$ 639	\$ 2,632	\$ 208,800	\$ 780,616	\$ 6,109,909
Cash with fiscal agent	--	--	--	--	--	--
Imprest cash	50	--	--	--	400	680
Accounts receivable	--	--	102,837	--	47,518	193,397
Due from other governmental agencies	466,645	--	--	--	52,043	1,110,213
Due from other funds	--	1,018,000	2,810,000	--	--	6,330,000
Inventory	--	--	--	--	--	600,409
Total Assets	<u>\$ 467,558</u>	<u>\$ 1,018,639</u>	<u>\$ 2,915,469</u>	<u>\$ 208,800</u>	<u>\$ 880,577</u>	<u>\$ 14,344,608</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 86,499	\$ --	\$ 447	\$ --	\$ 67,300	\$ 532,799
Accrued salaries and benefits	109,173	--	--	--	40,481	475,066
Due to other funds	221,000	--	--	--	--	236,000
Unearned revenue	--	547,715	--	--	--	1,835,765
Deferred revenue	--	--	--	--	--	21,452
Total Liabilities	<u>416,672</u>	<u>547,715</u>	<u>447</u>	<u>--</u>	<u>107,781</u>	<u>3,101,082</u>
Fund Balances:						
Reserved for:						
Encumbrances	27,377	--	--	--	--	62,951
Inventory	--	--	--	--	--	600,409
Imprest cash	50	--	--	--	400	680
Endowments	--	--	--	--	--	--
Unreserved:						
Undesignated	23,459	470,924	2,915,022	208,800	772,396	10,579,486
Total Fund Balances	<u>50,886</u>	<u>470,924</u>	<u>2,915,022</u>	<u>208,800</u>	<u>772,796</u>	<u>11,243,526</u>
Total Liabilities and Fund Balances	<u>\$ 467,558</u>	<u>\$ 1,018,639</u>	<u>\$ 2,915,469</u>	<u>\$ 208,800</u>	<u>\$ 880,577</u>	<u>\$ 14,344,608</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2009

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permament Fund</u>	
	<u>Capital Projects</u>	<u>Redevelopment Agency</u>	<u>Endowment Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash and investments in County Treasury	\$ 188	\$ 901,000	\$ 262	\$ 7,011,359
Cash with fiscal agent	1,526,879	--	--	1,526,879
Imprest cash	--	--	--	680
Accounts receivable	18,870	--	--	212,267
Due from other governmental agencies	--	--	--	1,110,213
Due from other funds	--	--	1,047,000	7,377,000
Inventory	--	9,798	--	610,207
Total Assets	<u>\$ 1,545,937</u>	<u>\$ 910,798</u>	<u>\$ 1,047,262</u>	<u>\$ 17,848,605</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 1,783	\$ 2,257	\$ --	\$ 536,839
Accrued salaries and benefits	--	--	--	475,066
Due to other funds	42,000	--	--	278,000
Unearned revenue	--	--	--	1,835,765
Deferred revenue	--	--	--	21,452
Total Liabilities	<u>43,783</u>	<u>2,257</u>	<u>--</u>	<u>3,147,122</u>
Fund Balances:				
Reserved for:				
Encumbrances	1,507,258	--	--	1,570,209
Inventory	--	9,798	--	610,207
Imprest cash	--	--	--	680
Endowments	--	--	1,047,262	1,047,262
Unreserved:				
Undesignated	<u>(5,104)</u>	<u>898,743</u>	<u>--</u>	<u>11,473,125</u>
Total Fund Balances	<u>1,502,154</u>	<u>908,541</u>	<u>1,047,262</u>	<u>14,701,483</u>
Total Liabilities and Fund Balances	<u>\$ 1,545,937</u>	<u>\$ 910,798</u>	<u>\$ 1,047,262</u>	<u>\$ 17,848,605</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2009

	Special Revenue					Welfare Advance
	Road	Accumulated Capital Outlay	Library	Fish and Game	Special Aviation	
<b>Revenues:</b>						
Taxes	\$ 341,377	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	68,714	--	--	--	--	--
Aid from other governmental agencies	10,504,540	--	295,794	--	40,000	--
Revenue from use of money and property	53,226	4,582	8,270	2,957	--	--
Fines, forfeitures and penalties	69,200	13,742	--	64,428	--	--
Charges for services	196,511	--	49,751	--	--	--
Other revenue	112,352	67,841	42,716	20	--	--
<b>Total Revenues</b>	<b>11,345,920</b>	<b>86,165</b>	<b>396,531</b>	<b>67,405</b>	<b>40,000</b>	<b>--</b>
<b>Expenditures:</b>						
Current:						
General government	--	--	--	--	--	--
Public protection	--	--	--	28,065	--	--
Public ways and facilities	9,385,383	--	--	--	--	--
Health and sanitation	--	--	--	--	--	--
Public assistance	--	--	--	--	--	--
Education	--	--	1,498,313	--	--	--
Recreation and culture services	--	--	--	--	--	--
Capital outlay	3,484,869	490,461	--	--	--	--
<b>Total Expenditures</b>	<b>12,870,252</b>	<b>490,461</b>	<b>1,498,313</b>	<b>28,065</b>	<b>--</b>	<b>--</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,524,332)	(404,296)	(1,101,782)	39,340	40,000	--
<b>Other Financing Sources (Uses):</b>						
Transfers In	3,288,553	638,538	1,331,746	--	--	--
Transfers Out	(826,737)	(44,093)	(79,736)	--	(44,598)	--
<b>Total Other Financing Sources (Uses)</b>	<b>2,461,816</b>	<b>594,445</b>	<b>1,252,010</b>	<b>--</b>	<b>(44,598)</b>	<b>--</b>
<b>Net Change in Fund Balances</b>	<b>937,484</b>	<b>190,149</b>	<b>150,228</b>	<b>39,340</b>	<b>(4,598)</b>	<b>--</b>
Fund Balances, Beginning of year	3,927,613	(7,561)	113,350	117,091	122,935	--
Fund Balances, Ending	\$ 4,865,097	\$ 182,588	\$ 263,578	\$ 156,431	\$ 118,337	\$ --

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2009

	Special Revenue				
	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	68,590	179,151	23,876	--	--
Revenue from use of money and property	670	2,053	745	890	2,856
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	--	--	--	--	--
Other revenue	9,000	--	1,000	19,446	18,034
<b>Total Revenues</b>	<b>78,260</b>	<b>181,204</b>	<b>25,621</b>	<b>20,336</b>	<b>20,890</b>
<b>Expenditures:</b>					
Current:					
General government	--	--	--	--	--
Public protection	109,930	168,486	33,814	20,342	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	22,176
Capital outlay	31,202	--	34,647	--	--
<b>Total Expenditures</b>	<b>141,132</b>	<b>168,486</b>	<b>68,461</b>	<b>20,342</b>	<b>22,176</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(62,872)	12,718	(42,840)	(6)	(1,286)
<b>Other Financing Sources (Uses):</b>					
Transfers In	--	--	--	--	--
Transfers Out	(10,100)	(12,718)	(1,946)	--	(12,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(10,100)</b>	<b>(12,718)</b>	<b>(1,946)</b>	<b>--</b>	<b>(12,000)</b>
<b>Net Change in Fund Balances</b>	<b>(72,972)</b>	<b>--</b>	<b>(44,786)</b>	<b>(6)</b>	<b>(13,286)</b>
Fund Balances, Beginning of year	53,483	113,773	58,366	41,042	116,536
Fund Balances, Ending	\$ (19,489)	\$ 113,773	\$ 13,580	\$ 41,036	\$ 103,250

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)

Nonmajor Governmental Funds  
For the Year Ended June 30, 2009

	Special Revenue				
	Recorder			General	
	Modernization	Micrographics	Assessor	Plan Update	Realignment
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Aid from other governmental agencies	--	--	--	--	--
Revenue from use of money and property	2,015	(188)	2,681	16,133	--
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	42,413	52,733	--	487,752	--
Other revenue	--	19,011	16,704	1,073	--
<b>Total Revenues</b>	<b>44,428</b>	<b>71,556</b>	<b>19,385</b>	<b>504,958</b>	<b>--</b>
<b>Expenditures:</b>					
Current:					
General government	23,815	67,432	5,868	--	--
Public protection	--	--	--	329,309	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	5,443	--	--	--	--
<b>Total Expenditures</b>	<b>29,258</b>	<b>67,432</b>	<b>5,868</b>	<b>329,309</b>	<b>--</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	15,170	4,124	13,517	175,649	--
<b>Other Financing Sources (Uses):</b>					
Transfers In	--	--	--	--	--
Transfers Out	--	(4,125)	(26,430)	--	--
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>(4,125)</b>	<b>(26,430)</b>	<b>--</b>	<b>--</b>
<b>Net Change in Fund Balances</b>	<b>15,170</b>	<b>(1)</b>	<b>(12,913)</b>	<b>175,649</b>	<b>--</b>
Fund Balances, Beginning of year	66,476	455	126,507	615,574	--
Fund Balances, Ending	<u>\$ 81,646</u>	<u>\$ 454</u>	<u>\$ 113,594</u>	<u>\$ 791,223</u>	<u>\$ --</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, 2009

	Special Revenue					Total Special Revenue
	Miscellaneous Grants	Special Revenue Trusts	Landfill Closure	Special Districts Lighting	Special Districts Other	
<b>Revenues:</b>						
Taxes	\$ --	\$ --	\$ --	\$ 65,214	\$ 126,896	\$ 533,487
Licenses, permits and franchises	--	--	--	--	194,220	262,934
Aid from other governmental agencies	8,143,453	162,307	--	712	629,001	20,047,424
Revenue from use of money and property	--	6,008	54,356	--	24,128	181,382
Fines, forfeitures and penalties	27,302	--	--	--	23,993	198,665
Charges for services	--	28,251	443,263	--	56,986	1,357,660
Other revenue	23,311	--	--	1,610	234,922	567,040
<b>Total Revenues</b>	<b>8,194,066</b>	<b>196,566</b>	<b>497,619</b>	<b>67,536</b>	<b>1,290,146</b>	<b>23,148,592</b>
<b>Expenditures:</b>						
Current:						
General government	--	50,776	--	--	--	147,891
Public protection	1,581,719	176,398	--	--	617,379	3,065,442
Public ways and facilities	--	--	--	37,940	--	9,423,323
Health and sanitation	2,655,271	463,155	206,516	--	1,225,687	4,550,629
Public assistance	2,334,099	9,000	--	--	--	2,343,099
Education	--	--	--	--	--	1,498,313
Recreation and culture services	90,006	--	--	--	--	112,182
Capital outlay	27,302	--	--	--	94,088	4,168,012
<b>Total Expenditures</b>	<b>6,688,397</b>	<b>699,329</b>	<b>206,516</b>	<b>37,940</b>	<b>1,937,154</b>	<b>25,308,891</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,505,669	(502,763)	291,103	29,596	(647,008)	(2,160,299)
<b>Other Financing Sources (Uses):</b>						
Transfers In	--	973,687	--	--	282,432	6,514,956
Transfers Out	(245,837)	--	--	--	(140,911)	(1,449,231)
<b>Total Other Financing Sources (Uses)</b>	<b>(245,837)</b>	<b>973,687</b>	<b>--</b>	<b>--</b>	<b>141,521</b>	<b>5,065,725</b>
<b>Net Change in Fund Balances</b>	<b>1,259,832</b>	<b>470,924</b>	<b>291,103</b>	<b>29,596</b>	<b>(505,487)</b>	<b>2,905,426</b>
Fund Balances, Beginning of year	(1,208,946)	--	2,623,919	179,204	1,278,283	8,338,100
Fund Balances, Ending	\$ 50,886	\$ 470,924	\$ 2,915,022	\$ 208,800	\$ 772,796	\$ 11,243,526

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, 2009

	Capital Projects	Debt Service	Permanent Fund	
	Capital Projects	Redevelopment Agency	Endowment Funds	Total
<b>Revenues:</b>				
Taxes	\$ --	\$ 310,501	\$ --	\$ 843,988
Licenses, permits and franchises	--	--	--	262,934
Aid from other governmental agencies	911,391	--	--	20,958,815
Revenue from use of money and property	45,028	20,577	21,101	268,088
Fines, forfeitures and penalties	--	--	--	198,665
Charges for services	--	--	--	1,357,660
Other revenue	--	--	4,535	571,575
<b>Total Revenues</b>	<b>956,419</b>	<b>331,078</b>	<b>25,636</b>	<b>24,461,725</b>
<b>Expenditures:</b>				
Current:				
General government	--	525,964	--	673,855
Public protection	--	--	--	3,065,442
Public ways and facilities	--	--	--	9,423,323
Health and sanitation	--	--	--	4,550,629
Public assistance	--	--	--	2,343,099
Education	--	--	--	1,498,313
Recreation and culture services	--	--	--	112,182
Capital outlay	2,614,569	--	--	6,782,581
<b>Total Expenditures</b>	<b>2,614,569</b>	<b>525,964</b>	<b>--</b>	<b>28,449,424</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,658,150)</u>	<u>(194,886)</u>	<u>25,636</u>	<u>(3,987,699)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	--	162,914	--	6,677,870
Transfers Out	--	(277,369)	--	(1,726,600)
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>(114,455)</b>	<b>--</b>	<b>4,951,270</b>
<b>Net Change in Fund Balances</b>	<b>(1,658,150)</b>	<b>(309,341)</b>	<b>25,636</b>	<b>963,571</b>
Fund Balances, Beginning of year	<u>3,160,304</u>	<u>1,217,882</u>	<u>1,021,626</u>	<u>13,737,912</u>
Fund Balances, Ending	<u><u>\$ 1,502,154</u></u>	<u><u>\$ 908,541</u></u>	<u><u>\$ 1,047,262</u></u>	<u><u>\$ 14,701,483</u></u>

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets  
Internal Service Funds  
June 30, 2009

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<b>Assets</b>				
Current Assets:				
Pooled cash and investments in county treasury	\$ 796	\$ 230	\$ 369	\$ 725
Other cash	--	--	--	--
Accounts receivable	--	--	--	9,442
Due from other funds	83,000	139,000	564,000	2,227,000
Total current assets	<u>83,796</u>	<u>139,230</u>	<u>564,369</u>	<u>2,237,167</u>
Noncurrent assets:				
Depreciable:				
Equipment	96,737	36,777	--	2,438
Less accumulated depreciation	(46,543)	(26,268)	--	(2,438)
Total noncurrent assets	<u>50,194</u>	<u>10,509</u>	<u>--</u>	<u>--</u>
Total Assets	<u>\$ 133,990</u>	<u>\$ 149,739</u>	<u>\$ 564,369</u>	<u>\$ 2,237,167</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ 23,541
Accrued salaries and benefits	--	--	--	6,638
Compensated absences payable	--	--	--	6,984
Liability for unpaid claims	--	--	339,814	1,427,325
Total current liabilities	<u>--</u>	<u>--</u>	<u>339,814</u>	<u>1,464,488</u>
Noncurrent liabilities:				
Other postemployment benefits (OPEB) liability	--	--	--	--
Total noncurrent liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Liabilities	<u>--</u>	<u>--</u>	<u>339,814</u>	<u>1,464,488</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	50,194	10,509	--	--
Unrestricted	83,796	139,230	224,555	772,679
Total Net Assets	<u>133,990</u>	<u>149,739</u>	<u>224,555</u>	<u>772,679</u>
Total Liabilities and Net Assets	<u>\$ 133,990</u>	<u>\$ 149,739</u>	<u>\$ 564,369</u>	<u>\$ 2,237,167</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets (continued)  
Internal Service Funds  
June 30, 2009

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b>Assets</b>				
Current Assets:				
Pooled cash and investments in county treasury	\$ 530	\$ 91	\$ --	\$ 2,741
Other cash	--	299,700	121,909	421,609
Accounts receivable	--	35,952	39,752	85,146
Due from other funds	42,000	1,080,000	--	4,135,000
Total current assets	<u>42,530</u>	<u>1,415,743</u>	<u>161,661</u>	<u>4,644,496</u>
Noncurrent assets:				
Depreciable:				
Equipment	2,394	--	--	138,346
Less accumulated depreciation	<u>(2,394)</u>	--	--	<u>(77,643)</u>
Total noncurrent assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>60,703</u>
Total Assets	<u>\$ 42,530</u>	<u>\$ 1,415,743</u>	<u>\$ 161,661</u>	<u>\$ 4,705,199</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ 37	\$ 1,619	\$ 31,643	\$ 56,840
Accrued salaries and benefits	3,571	6,415	3,235	19,859
Compensated absences payable	1,257	1,448	1,960	11,649
Liability for unpaid claims	--	2,282,251	--	4,049,390
Total current liabilities	<u>4,865</u>	<u>2,291,733</u>	<u>36,838</u>	<u>4,137,738</u>
Noncurrent liabilities:				
Other postemployment benefits (OPEB) liability	--	--	6,226,000	6,226,000
Total noncurrent liabilities	<u>--</u>	<u>--</u>	<u>6,226,000</u>	<u>6,226,000</u>
Total Liabilities	<u>4,865</u>	<u>2,291,733</u>	<u>6,262,838</u>	<u>10,363,738</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	--	--	--	60,703
Unrestricted	37,665	(875,990)	(6,101,177)	(5,719,242)
Total Net Assets	<u>37,665</u>	<u>(875,990)</u>	<u>(6,101,177)</u>	<u>(5,658,539)</u>
Total Liabilities and Net Assets	<u>\$ 42,530</u>	<u>\$ 1,415,743</u>	<u>\$ 161,661</u>	<u>\$ 4,705,199</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Internal Service Funds  
For the Year Ended June 30, 2009

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<b>Operating Revenues:</b>				
Charges and fees	\$ --	\$ 25,934	\$ 200,000	\$ 1,911,060
Other	--	20,201	266	--
<b>Total Operating Revenues</b>	<u>--</u>	<u>46,135</u>	<u>200,266</u>	<u>1,911,060</u>
<b>Operating Expenses:</b>				
Salaries and benefits	--	--	--	137,728
Services and supplies	173	47,326	947	293,851
Insurance	--	--	267,726	775,969
Depreciation	19,279	7,960	--	--
Claims and judgments	--	--	(132,407)	221,567
<b>Total Operating Expenses</b>	<u>19,452</u>	<u>55,286</u>	<u>136,266</u>	<u>1,429,115</u>
<b>Operating Income (Loss)</b>	<u>(19,452)</u>	<u>(9,151)</u>	<u>64,000</u>	<u>481,945</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest revenue (expense)	577	9,873	13,443	41,022
Gain on disposal of capital assets	--	34,674	--	--
<b>Total Non-Operating Revenues (Expenses)</b>	<u>577</u>	<u>44,547</u>	<u>13,443</u>	<u>41,022</u>
<b>Income (Loss) Before Transfers</b>	<u>(18,875)</u>	<u>35,396</u>	<u>77,443</u>	<u>522,967</u>
Transfers in	150,000	--	--	--
Transfers out	--	(464,979)	--	(12,430)
<b>Change in net assets</b>	131,125	(429,583)	77,443	510,537
Net Assets - Beginning	2,865	579,322	147,112	262,142
Prior period adjustments	--	--	--	--
<b>Net Assets - Ending</b>	<u>\$ 133,990</u>	<u>\$ 149,739</u>	<u>\$ 224,555</u>	<u>\$ 772,679</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, 2009

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b>Operating Revenues:</b>				
Charges and fees	\$ 3,610,770	\$ 13,976,924	\$ 4,840,686	\$ 24,565,374
Other	--	--	--	20,467
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Revenues	3,610,770	13,976,924	4,840,686	24,585,841
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating Expenses:</b>				
Salaries and benefits	188,589	136,453	2,757,555	3,220,325
Services and supplies	14,720	11,621,527	4,560,952	16,539,496
Insurance	3,459,866	710,326	403,114	5,617,001
Depreciation	--	--	--	27,239
Claims and judgments	--	301,382	--	390,542
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	3,663,175	12,769,688	7,721,621	25,794,603
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating Income (Loss)</b>	<u>(52,405)</u>	<u>1,207,236</u>	<u>(2,880,935)</u>	<u>(1,208,762)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Non-Operating Revenues (Expenses)</b>				
Interest revenue (expense)	(13,803)	(11,682)	(3,666)	35,764
Gain on disposal of capital assets	--	--	--	34,674
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	(13,803)	(11,682)	(3,666)	70,438
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Income (Loss) Before Transfers</b>	<u>(66,208)</u>	<u>1,195,554</u>	<u>(2,884,601)</u>	<u>(1,138,324)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Transfers in	--	--	--	150,000
Transfers out	(40,167)	(116,802)	(5,596)	(639,974)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Change in net assets</b>	<u>(106,375)</u>	<u>1,078,752</u>	<u>(2,890,197)</u>	<u>(1,628,298)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Net Assets - Beginning	144,040	(2,254,442)	(3,332,889)	(4,451,850)
Prior period adjustments	--	299,700	121,909	421,609
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Assets - Ending</b>	<u>\$ 37,665</u>	<u>\$ (875,990)</u>	<u>\$ (6,101,177)</u>	<u>\$ (5,658,539)</u>

# COUNTY OF MENDOCINO

## Combining Statement of Cash Flows Internal Service Funds For the Year Ended June 30, 2009

	Software Acquisition	Vehicle Replacement	Unemployment Insurance	General Liability Insurance
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from interfund services provided	\$ --	\$ 46,135	\$ 200,266	\$ 1,901,618
Cash paid to suppliers for goods and services	(4,800)	(7,616)	(268,673)	(1,251,830)
Cash paid to employees for services	(173)	(47,326)	--	(136,254)
Net Cash Provided (Used) by Operating Activities	(4,973)	(8,807)	(68,407)	513,534
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	150,000	--	--	--
Transfers out	--	(464,979)	--	(12,430)
Due from other funds	(83,000)	428,000	51,000	(727,000)
Due to other funds	(61,808)	--	--	--
Net Cash Provided (Used) by Noncapital Financing Activities	5,192	(36,979)	51,000	(739,430)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sales of capital assets	--	34,674	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	--	34,674	--	--
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid)	577	9,873	13,443	41,022
Net Cash Provided (Used) by Investing Activities	577	9,873	13,443	41,022
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	796	(1,239)	(3,964)	(184,874)
<b>Cash and Cash Equivalents, Beginning of Year</b>	--	1,469	4,333	185,599
<b>Cash and Cash Equivalents, End of Year</b>	\$ 796	\$ 230	\$ 369	\$ 725
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (19,452)	\$ (9,151)	\$ 64,000	\$ 481,945
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	19,279	7,960	--	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	(9,442)
Increase (decrease) in:				
Accounts payable	(4,800)	(7,616)	--	20,349
Accrued salaries	--	--	--	(398)
Compensated absences	--	--	--	1,872
OPEB Liability	--	--	--	--
Claims liability	--	--	(132,407)	19,208
Net Cash Provided (Used) by Operating Activities	\$ (4,973)	\$ (8,807)	\$ (68,407)	\$ 513,534
<b>Non cash investing, capital, and financing activities:</b>				
Transfer of capital assets to governmental funds	\$ --	\$ 464,979	\$ --	\$ --

continued

# COUNTY OF MENDOCINO

## Combining Statement of Cash Flows (continued) Internal Service Funds For the Year Ended June 30, 2009

	Worker's Compensation	Health Insurance	Retiree Health Insurance	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from interfund services provided	\$ 3,610,770	\$ 13,949,638	\$ 4,912,151	\$ 24,620,578
Cash paid to suppliers for goods and services	(3,474,968)	(12,330,398)	(4,836,247)	(22,174,532)
Cash paid to employees for services	(194,049)	(134,854)	(66,642)	(579,298)
	(58,247)	1,484,386	9,262	1,866,748
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	--	--	--	150,000
Transfers out	(40,167)	(116,802)	(5,596)	(639,974)
Due from other funds	(42,000)	(1,080,000)	--	(1,453,000)
Due to other funds	--	(275,811)	--	(337,619)
	(82,167)	(1,472,613)	(5,596)	(2,280,593)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sales of capital assets	--	--	--	34,674
	--	--	--	34,674
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid)	(13,803)	(11,682)	(3,666)	35,764
Net Cash Provided (Used) by Investing Activities	(13,803)	(11,682)	(3,666)	35,764
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(154,217)	91	--	(343,407)
<b>Cash and Cash Equivalents, Beginning of Year</b>	154,747	--	--	346,148
<b>Cash and Cash Equivalents, End of Year</b>	\$ 530	\$ 91	\$ --	\$ 2,741
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (52,405)	\$ 1,207,236	\$ (2,880,935)	\$ (1,208,762)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	--	--	--	27,239
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	(27,286)	71,465	34,737
Increase (decrease) in:				
Accounts payable	(382)	1,455	13,501	22,507
Accrued salaries	(5,453)	1,500	185	(4,166)
Compensated absences	(7)	99	1,046	3,010
OPEB Liability	--	--	2,804,000	2,804,000
Claims liability	--	301,382	--	188,183
	(58,247)	1,484,386	9,262	1,866,748
<b>Net Cash Provided (Used) by Operating Activities</b>	\$ (58,247)	\$ 1,484,386	\$ 9,262	\$ 1,866,748
<b>Non cash investing, capital, and financing activities:</b>				
Transfer of capital assets to governmental funds	\$ --	\$ --	\$ --	\$ 464,979

