

**COUNTY OF MENDOCINO**

**AUDIT REPORT**

**JUNE 30, 2008**

**COUNTY OF MENDOCINO  
AUDIT REPORT  
For the Year Ended June 30, 2008**

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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, 2008, 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 \$333,244,021 as of June 30, 2008, and total plan net asset additions of \$23,289,806 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, 2008, 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 May 21, 2009, 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  
May 21, 2009



**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-vi).

**Financial Highlights**

- ❖ The County of Mendocino's liabilities exceeded its assets at the close of the most recent fiscal year by (\$33,415,849) (net assets). There was a deficit of (\$116,421,151) in unrestricted net assets.
- ❖ The County's total net assets increased by \$450,878. The primary reason for the increase was a property tax increase of 10.7% and slight increases in sales tax (2.6%) and other taxes (2.4%).
- ❖ At the close of the current fiscal year, the County's combined (all funds) ending fund balance was \$9,815,222. This was a decrease of \$16,893 in comparison with the prior year. Approximately 17% of this total amount or \$1,693,478 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 (\$352,199).
- ❖ Total debt decreased by \$1,293,678 (1.0%) during the 2007/08 Fiscal Year.

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

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

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

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

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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

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

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

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

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

Because the focus of Governmental Funds is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and charges in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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.

**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.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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 63-79 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Mendocino, liabilities exceeded assets by \$33,415,849 at the close of the 2007/08 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*	
	2008	2007
Current and other assets	\$ 42,920,676	\$ 40,001,482
Capital assets	88,845,228	89,649,412
Total Assets	131,765,904	129,650,894
Long-term liabilities	141,794,730	139,958,544
Other liabilities	23,387,023	23,559,077
Total Liabilities	165,181,753	163,517,621
Net Assets:		
Invest in capital assets, net of related debt	61,495,594	61,340,709
Restricted	21,509,708	15,534,013
Unrestricted	(116,421,151)	(110,741,449)
Total Net Assets	\$ (33,415,849)	\$ (33,866,727)

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

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

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 (\$116,421,151) 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 \$450,878. Key elements of this increase are increases in property tax revenues, sales tax, and other taxes.

<b>Revenues</b>	2008	2007
<b>Program Revenues:</b>		
Fees, fines and charges for services	\$ 20,646,391	\$ 17,918,439
Operating grants & contributions	101,985,322	97,869,509
Capital grants & contributions	3,340,214	6,231,879
<b>General Revenues:</b>		
Property taxes	40,582,360	36,647,247
Sales & use taxes	11,325,885	11,034,674
Other taxes	4,428,812	4,326,527
Unrestricted interest & investment earnings	2,282,460	2,685,787
Miscellaneous	2,251,907	4,789,553
<b>Total Revenues</b>	186,843,351	181,503,615

<b>Expenses</b>		
<b>Expenses:</b>		
General government	19,622,545	16,538,787
Public protection	48,722,589	44,831,491
Public ways & facilities	11,928,453	9,499,595
Health & sanitation	36,025,298	34,699,572
Public assistance	58,744,383	54,994,654
Education	2,025,207	1,869,325
Recreation and cultural services	624,908	903,307
Interest on long-term debt	8,699,090	7,034,447
<b>Total Expenses</b>	186,392,473	170,371,178

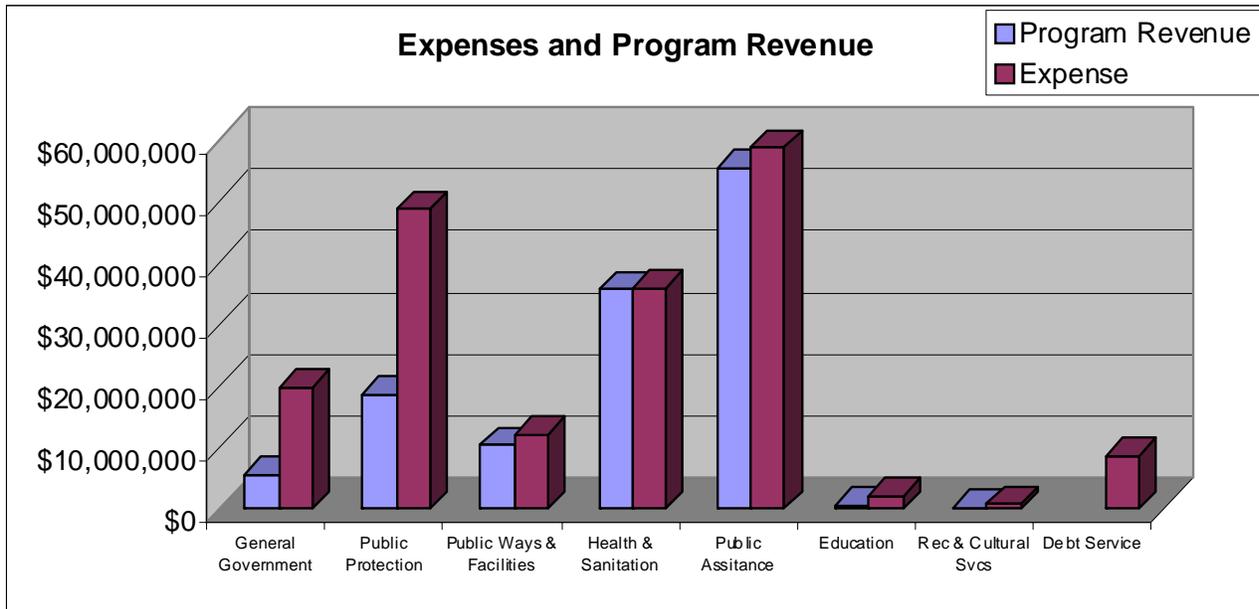
<b>Change in Net Assets</b>	450,878	11,132,437
<b>Beginning Net Assets</b>	(33,866,727)	(45,723,360)
<b>Prior Period Adjustment</b>	--	724,196
<b>Ending Net Assets</b>	\$ (33,415,849)	\$ (33,866,727)

**MENDOCINO COUNTY**  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2008

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

- ❖ Property taxes increased by \$3,935,113 (10.7%) during the year. Most of this increase is attributable to a 6.23% increase in assessed valuations and increased collections of prior years' taxes.

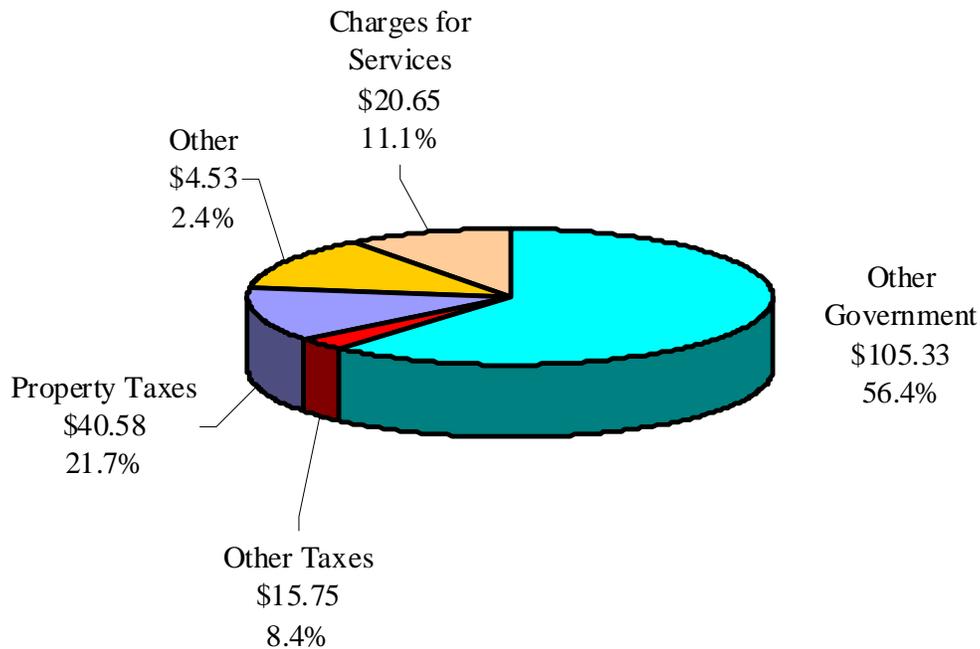
**Expenses and Program Revenues – Governmental Activities**



<b>Governmental Funds</b>	<b>Program Revenue</b>	<b>Expense</b>
General Government	\$5,603,963	\$19,622,545
Public Protection	\$18,440,089	\$48,722,589
Public Ways & Facilities	\$10,362,745	\$11,928,453
Health & Sanitation	\$35,673,299	\$36,025,298
Public Assistance	\$55,302,787	\$58,744,383
Education	\$405,526	\$2,025,207
Rec & Cultural Svcs	\$183,518	\$694,908
Debt Service	--	\$8,699,090

**MENDOCINO COUNTY**  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2008

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



The largest portion of revenue received by the County comes from Federal and State sources (approximately 56%). The second largest source comes from property taxes (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 30% of total revenue received is discretionary (not dedicated to particular services/programs).

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

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

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

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

**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 \$9,815,222, a decrease of \$16,893 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 (\$552,996); 2) to pay debt service (\$5,726,094); 3) for a variety of other restricted purposes (\$1,842,654).

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 (\$352,199), while total fund balance reached \$(97,346). The fund balance of the County of Mendocino's general fund decreased by (\$1,433,282) during the 2007/08 Fiscal Year.

The debt service fund had a total fund balance of \$1,818,359, 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 \$36,502. Interest expenditures decreased during the current period by \$30,802.

The pension obligation fund had a total fund balance of \$3,907,735, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year was \$1,280,690.

The mental health services fund had a total fund balance of (\$9,551,438). The net decrease in fund balance during the current year was \$2,295,971. Although the deficit fund balance is reported at more than \$9 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 (\$4,539,792).

**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 \$302,000 for fixes asset purchases from Asset Forfeiture funds.
- ❖ Increased Alcohol and Other Drug program's budgeted expenditures and corresponding revenues by \$264,600 for newly approved grant programs.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

- ❖ Increased District Attorney's budgeted expenditures and corresponding revenues by \$26,500 for fixed asset purchases reimbursed from Asset Forfeiture funds.
- ❖ Increased Garage's budgeted expenditures and corresponding revenues by \$120,000 for increased fuel costs reimbursed by departments.
- ❖ Moved appropriations of \$20,000 from Promotion to Grand Jury for cost overruns.

**Capital Asset and Debt Administration**

**Capital assets.** The County of Mendocino's investment in capital assets for its governmental activities as of June 30, 2008, amounts to \$88,845,228 (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 decrease in the County of Mendocino's investment in capital assets for the current fiscal year was 1.0%.

**County of Mendocino's Capital Assets**

	2008	2007
Land	\$ 2,820,120	\$ 3,298,969
Building and system	41,859,800	43,070,777
Improvements other than buildings	440,935	118,253
Machinery and equipment	6,996,339	7,934,051
Infrastructure	30,234,743	31,522,676
Construction in progress	6,493,291	3,704,686
Total	\$ 88,845,228	\$ 89,649,412

**Long-term debt.** At the end of the current fiscal year, the County of Mendocino has total debt outstanding of \$122,109,634.

**County of Mendocino's Outstanding Debt**

	2008	2007
General obligation bonds	\$ 92,160,000	\$ 94,890,000
Certificates of Participation	26,240,000	26,875,000
Capital leases & loans	3,709,634	1,638,312
Total	\$ 122,109,634	\$ 123,403,312

The County of Mendocino's total debt decreased by \$1,293,678 (1.0%) during the current fiscal year. The key factor in this decrease was an increase in principal payment on the general obligation bonds.

**MENDOCINO COUNTY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2008

State statutes limit the amount of general obligation debt a governmental entity may issue at 10% percent of its total assessed valuation. The current debt limitation for the County of Mendocino is \$882,133,155, 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 2007/08 fiscal years.

- ❖ Continued sluggish recovery 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, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Pooled cash and investments in county treasury	\$ 10,365,090
Restricted Assets:	
Cash with fiscal agent	10,026,172
Imprest cash	12,251
Accounts receivable	2,517,476
Property taxes receivable	1,635,377
Interest receivable	104,668
Due from other governments	15,148,142
Inventory	808,777
Deferred charges	2,302,723
Total Current Assets	<u>42,920,676</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	9,313,411
Depreciable, net	79,531,817
Total Noncurrent Assets	<u>88,845,228</u>
Total Assets	<u><u>\$ 131,765,904</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	4,814,501
Accrued salaries and benefits	4,468,947
Due to other governmental agencies	5,364,876
Interest payable	3,818,101
Unearned revenues	4,920,598
Loans payable	231,551
Bonds payable	2,885,000
Certificate of participation	660,000
Liability for unpaid claims	3,861,207
Compensated absences	4,747,691
Capital lease obligation	388,889
Total Current Liabilities	<u>36,161,361</u>
Noncurrent Liabilities:	
Long-term liabilities, due beyond one year	125,598,392
Other postemployment benefits (OPEB) liability	3,422,000
Total Noncurrent Liabilities	<u>129,020,392</u>
Total Liabilities	<u>165,181,753</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	61,495,594
Restricted for:	
Legally segregated taxes, grants and fees	11,405,428
Debt service and capital projects	10,104,280
Unrestricted	(116,421,151)
Total Net Assets	<u>(33,415,849)</u>
Total Liabilities and Net Assets	<u><u>\$ 131,765,904</u></u>

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

# COUNTY OF MENDOCINO

## Statement of Activities For the Year Ended June 30, 2008

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	\$ 19,622,545	\$ 3,834,337	\$ 1,769,626	\$ --	\$ (14,018,582)
Public protection	48,722,589	10,425,720	8,014,369	--	(30,282,500)
Public ways and facilities	11,928,453	246,906	6,775,625	3,340,214	(1,565,708)
Health and sanitation	36,025,298	5,965,728	29,707,571	--	(351,999)
Public assistance	58,744,383	110,648	55,192,139	--	(3,441,596)
Education	2,025,207	63,052	342,474	--	(1,619,681)
Recreation and cultural services	624,908	--	183,518	--	(441,390)
Debt Service:					
Interest	8,699,090	--	--	--	(8,699,090)
Total Governmental Activities	\$ 186,392,473	\$ 20,646,391	\$101,985,322	\$ 3,340,214	(60,420,546)
General Revenues:					
Taxes:					
Property taxes					40,582,360
Sales and use taxes					11,325,885
Transient occupancy taxes					3,840,335
Other					588,477
Unrestricted interest and investment earnings					2,282,460
Miscellaneous					2,251,907
Total General Revenues					60,871,424
Change in Net Assets					450,878
Net assets - July 1					(33,866,727)
Net assets - June 30					\$ (33,415,849)

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, 2008

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>
<b>ASSETS</b>			
Pooled cash and investments in county treasury	\$ 1,848,253	\$ 49,117	\$ --
Restricted Assets:			
Cash with fiscal agent	--	1,958,788	5,464,436
Imprest cash	11,471	--	--
Accounts receivable	1,240,424	--	--
Property taxes receivable	1,634,677	--	--
Interest receivable	104,668	--	--
Due from other governments	4,222,641	--	--
Due from other funds	11,728,831	--	--
Inventory	243,382	--	--
Total Assets	<u>\$ 21,034,347</u>	<u>\$ 2,007,905</u>	<u>\$ 5,464,436</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 2,289,244	\$ --	\$ --
Accrued salaries and benefits	3,691,585	--	--
Due to other funds	7,025,000	--	676,577
Matured principal and interest payable	--	189,546	880,124
Deferred revenue	2,440,482	--	--
Unearned revenue	320,506	--	--
Advances from other funds	5,364,876	--	--
Total Liabilities	<u>21,131,693</u>	<u>189,546</u>	<u>1,556,701</u>
<b>FUND BALANCES</b>			
Reserved:			
Encumbrances	--	--	--
Inventory	243,382	--	--
Imprest cash	11,471	--	--
Debt service	--	1,818,359	3,907,735
Endowments	--	--	--
Unreserved, reported in:			
General fund	(352,199)	--	--
Special revenue funds	--	--	--
Capital project funds	--	--	--
Debt service funds	--	--	--
Total Fund Balances	<u>(97,346)</u>	<u>1,818,359</u>	<u>3,907,735</u>
Total Liabilities and Fund Balances	<u>\$ 21,034,347</u>	<u>\$ 2,007,905</u>	<u>\$ 5,464,436</u>

continued

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

**COUNTY OF MENDOCINO**

Balance Sheet (continued)  
Governmental Funds  
June 30, 2008

	Mental Health Services	Other Governmental Funds	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Pooled cash and investments in county treasury	\$ --	\$ 8,121,572	\$ 10,018,942
Restricted Assets:			
Cash with fiscal agent	--	2,602,948	10,026,172
Imprest cash	100	680	12,251
Accounts receivable	596,322	560,847	2,397,593
Property taxes receivable	--	700	1,635,377
Interest receivable	--	--	104,668
Due from other governments	9,847,549	1,077,952	15,148,142
Due from other funds	--	4,343,000	16,071,831
Inventory	--	565,395	808,777
Total Assets	<u>\$ 10,443,971</u>	<u>\$ 17,273,094</u>	<u>\$ 56,223,753</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,364,261	\$ 1,126,663	\$ 4,780,168
Accrued salaries and benefits	257,353	495,984	4,444,922
Due to other funds	9,656,672	1,057,963	18,416,212
Matured principal and interest payable	--	--	1,069,670
Deferred revenue	8,717,123	20,000	11,177,605
Unearned revenue	--	834,572	1,155,078
Advances from other funds	--	--	5,364,876
Total Liabilities	<u>19,995,409</u>	<u>3,535,182</u>	<u>46,408,531</u>
<b>FUND BALANCES</b>			
Reserved:			
Encumbrances	--	552,996	552,996
Inventory	--	565,395	808,777
Imprest cash	100	680	12,251
Debt service	--	--	5,726,094
Endowments	--	1,021,626	1,021,626
Unreserved, reported in:			
General fund	--	--	(352,199)
Special revenue funds	(9,551,538)	7,228,827	(2,322,711)
Capital project funds	--	3,160,304	3,160,304
Debt service funds	--	1,208,084	1,208,084
Total Fund Balances	<u>(9,551,438)</u>	<u>13,737,912</u>	<u>9,815,222</u>
 Total Liabilities and Fund Balances	 <u>\$ 10,443,971</u>	 <u>\$ 17,273,094</u>	 <u>\$ 56,223,753</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, 2008

Fund Balance - total governmental funds (page 16)	\$ 9,815,222
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.	2,302,723
Deferred revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	11,177,605
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	88,757,286
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.	(3,765,520)
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:	(4,451,850)
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, 2008, are:	
Loans payable	(2,776,102)
Bonds payable	(92,160,000)
Certificates of participation	(26,240,000)
Capital leases	(933,532)
Accrued interest on long-term debt	(2,748,431)
Compensated absences	(4,739,052)
Landfill closure/post closure care costs	(7,654,198)
Net assets of governmental activities (page 13)	<u>\$ (33,415,849)</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, 2008

	General	Debt Service	Pension Obligation Bonds
<b>Revenues:</b>			
Taxes	\$ 55,417,551	\$ --	\$ --
Licenses, permits and franchises	2,752,771	--	--
Intergovernmental	66,431,290	--	--
Revenue from use of money and property	2,315,230	27,057	(263,187)
Fines, forfeitures and penalties	2,211,362	--	--
Charges for services	11,404,695	--	--
Other revenue	1,965,477	--	51,397
Total Revenues	142,498,376	27,057	(211,790)
<b>Expenditures:</b>			
Current:			
General government	15,327,741	7,583	2,251,664
Public protection	42,889,158	--	--
Public ways and facilities	238,049	--	--
Health and sanitation	11,740,816	--	--
Public assistance	54,843,109	--	--
Education	237,697	--	--
Recreation and culture services	343,186	--	--
Debt service - principal	--	663,507	2,730,000
Debt service - interest	2,191,032	1,376,411	5,189,340
Capital outlay	749,180	--	--
Total Expenditures	128,559,968	2,047,501	10,171,004
Excess (Deficiency) of Revenues Over (Under) Expenditures	13,938,408	(2,020,444)	(10,382,794)
<b>Other Financing Sources (Uses):</b>			
Debt issued	--	--	--
Transfers in	1,294,600	2,056,946	9,102,104
Transfers out	(16,666,290)	--	--
Total Other Financing Sources (Uses)	(15,371,690)	2,056,946	9,102,104
<b>Net change in fund balances</b>	(1,433,282)	36,502	(1,280,690)
Fund balances - beginning	1,335,936	1,781,857	5,188,425
Fund balances - ending	\$ (97,346)	\$ 1,818,359	\$ 3,907,735

continued

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, 2008

	Mental Health Services	Other Governmental Funds	Totals
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Revenues:</b>			
Taxes	\$ --	\$ 1,007,796	\$ 56,425,347
Licenses, permits and franchises	--	360,446	3,113,217
Intergovernmental	16,679,403	20,784,227	103,894,920
Revenue from use of money and property	(499,618)	466,839	2,046,321
Fines, forfeitures and penalties	--	866,319	3,077,681
Charges for services	1,545,751	1,490,286	14,440,732
Other revenue	--	263,703	2,280,577
<b>Total Revenues</b>	<u>17,725,536</u>	<u>25,239,616</u>	<u>185,278,795</u>
<b>Expenditures:</b>			
Current:			
General government	--	597,320	18,184,308
Public protection	--	3,704,148	46,593,306
Public ways and facilities	--	10,429,538	10,667,587
Health and sanitation	19,554,828	4,433,494	35,729,138
Public assistance	--	2,759,343	57,602,452
Education	--	1,741,214	1,978,911
Recreation and culture services	--	245,325	588,511
Debt service - principal	--	--	3,393,507
Debt service - interest	--	--	8,756,783
Capital outlay	--	3,563,350	4,312,530
<b>Total Expenditures</b>	<u>19,554,828</u>	<u>27,473,732</u>	<u>187,807,033</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,829,292)</u>	<u>(2,234,116)</u>	<u>(2,528,238)</u>
<b>Other Financing Sources (Uses):</b>			
Debt issued	--	2,600,000	2,600,000
Transfers in	695,899	6,254,129	19,403,678
Transfers out	(1,162,578)	(1,663,465)	(19,492,333)
<b>Total Other Financing Sources (Uses)</b>	<u>(466,679)</u>	<u>7,190,664</u>	<u>2,511,345</u>
<b>Net change in fund balances</b>	(2,295,971)	4,956,548	(16,893)
Fund balances - beginning	<u>(7,255,467)</u>	<u>8,781,364</u>	<u>9,832,115</u>
Fund balances - ending	<u>\$ (9,551,438)</u>	<u>\$ 13,737,912</u>	<u>\$ 9,815,222</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, 2008

Net change to fund balance - total governmental funds (page 19)		\$ (16,893)
<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	\$ 5,374,133	
Less current year depreciation	<u>(4,987,264)</u>	386,869
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.		1,537,613
Loan proceeds and new capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(2,600,000)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal and refunded debt repayments:		
Capital leases	500,171	
Loans payable	28,507	
Bonds payable and certificates of participation	<u>3,365,000</u>	3,893,678
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Change in accrued interest on long-term debt	83,814	
Amortization of bond issuance costs	(26,121)	
Change in compensated absences	(347,066)	
Change in liability for closure/post closure care	<u>436,913</u>	147,540
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.		<u>(2,897,929)</u>
Change in net assets of governmental activities (page 14)		<u>\$ 450,878</u>

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

COUNTY OF MENDOCINO

Statement of Fund Net Assets  
Proprietary Funds  
June 30, 2008

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 346,148
Accounts receivable	119,883
Due from other funds	2,682,000
Total Current Assets	<u>3,148,031</u>
Noncurrent Assets:	
Depreciable capital assets, net	87,942
Total Noncurrent Assets	<u>87,942</u>
<b>Total Assets</b>	<u><u>\$ 3,235,973</u></u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	\$ 34,333
Accrued salaries and benefits	24,025
Compensated absences payable	8,639
Due to other funds	337,619
Liability for unpaid claims	3,861,207
Total Current Liabilities	<u>4,265,823</u>
Noncurrent Liabilities:	
Other postemployment benefits (OPEB) liability	3,422,000
Total Noncurrent Liabilities	<u>3,422,000</u>
<b>Total Liabilities</b>	<u><u>\$ 7,687,823</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	87,942
Unrestricted	<u>(4,539,792)</u>
Total Net Assets	<u>(4,451,850)</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 3,235,973</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, 2008

	Governmental Activities
	<u>Internal Service Funds</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 22,932,425
Other revenue	50,387
Total Operating Revenues	<u>22,982,812</u>
<b>Operating Expenses:</b>	
Salaries and employee benefits	437,266
Services and supplies	19,109,675
Insurance	5,093,163
Depreciation	27,795
Claims and judgments	175,471
Total Operating Expenses	<u>24,843,370</u>
<b>Operating Loss</b>	(1,860,558)
<b>Non-Operating Revenues:</b>	
Interest income	<u>26,943</u>
<b>Income (Loss) Before Transfers</b>	(1,833,615)
Transfers in	250,000
Transfers out	<u>(1,314,314)</u>
<b>Change in Net Assets</b>	(2,897,929)
Net Assets - Beginning of Year	<u>(1,553,921)</u>
<b>Net Assets - End of Year</b>	<u><u>\$ (4,451,850)</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, 2008

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from interfund services provided	\$ 22,878,266
Cash paid to suppliers for goods and services	(9,651,035)
Cash paid to employees for services	<u>(12,231,303)</u>
Net Cash Provided (Used) by Operating Activities	<u>995,928</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Transfers in	250,000
Transfers out	(161,345)
Loan repayment or borrowing	<u>(2,452,381)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(2,363,726)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from sales of capital assets	<u>10,289</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>10,289</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received	<u>26,943</u>
Net Cash Provided by Investing Activities	<u>26,943</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,330,566)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,676,714</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 346,148</u></u>

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

**COUNTY OF MENDOCINO**

Statement of Cash Flows (continued)  
Proprietary Funds  
For the Year Ended June 30, 2008

	<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)	\$ (1,860,558)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	27,795
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(104,546)
Increase (decrease) in:	
Accounts payable	(297,197)
Accrued salaries	10,723
Compensated absences	4
OPEB liability	2,904,494
Liability for self-insurance	<u>315,213</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ 995,928</u></u>
<b>Non cash investing, capital, and financing activities:</b>	
Transfer of capital assets to governmental funds	<u><u>\$ 1,152,969</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, 2008

	Investment Trust	Agency Funds	Pension Trust Fund
<b>ASSETS</b>			
Cash and investments in County			
Treasury	\$ 142,591,985	\$ 9,440,853	\$ 12,552,229
Accounts receivable	--	--	3,995,840
Taxes receivable	--	10,586,917	--
Advances to other funds	--	5,364,876	--
Other investments	--	--	316,695,952
Total Assets	\$ 142,591,985	25,392,646	333,244,021
<b>LIABILITIES</b>			
Accounts payable	\$ --	\$ --	\$ 1,891,304
Agency funds held for others	--	25,392,646	--
Total Liabilities	--	25,392,646	1,891,304
<b>NET ASSETS</b>			
Net Assets held in trust for:			
Retirement system	--	--	331,352,717
Investment pool participants	142,591,985	--	--
Total Net Assets	142,591,985	--	331,352,717
<b>Total Liabilities and Net Assets</b>	<b>\$ 142,591,985</b>	<b>\$ 25,392,646</b>	<b>\$ 333,244,021</b>

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, 2008

	Investment Trust	Pension Trust
<b>Additions:</b>		
Contributions:		
Employer contributions	\$ --	\$ 7,269,154
Member contributions	--	6,612,780
Other income	--	292,428
Contributions on pooled investments	141,098,814	--
Interest and investment income (net)	5,447,334	(15,846,554)
Total Additions	146,546,148	(1,672,192)
<b>Deductions:</b>		
Benefit payments	--	19,656,734
Refunds of contributions	--	1,064,287
Distributions from investment pool	125,323,458	--
Administrative expense	--	426,194
Total Deductions	125,323,458	21,147,215
<b>Change in net assets</b>	21,222,690	(22,819,407)
<b>Net assets, beginning</b>	121,369,295	354,172,124
<b>Net assets, ending</b>	\$ 142,591,985	\$ 331,352,717

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, 2008

### 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. **New Accounting Pronouncements**

##### *Governmental Accounting Standards Board Statement No. 45*

For the fiscal year ended June 30, 2008, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement is effective for the County for fiscal periods beginning after December 15, 2006.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

**B. New Accounting Pronouncements** (continued)

*Governmental Accounting Standards Board Statement No. 45* (continued)

This statement requires that governments account for, and report, the annual cost of other postemployment benefits (OPEB) and the outstanding obligation and commitments related to OPEB in the same manner as they currently do for pensions. The statement does not require that governments fund their OPEB plans, only that they account for them and report them. OPEB generally consist of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including their beneficiaries in some cases.

Implementation of GASB Statement No. 45 primarily impacted the County's government-wide and proprietary funds financial statements for the year ended June 30, 2008. In addition, implementation required additional note disclosure and required supplemental information.

*Governmental Accounting Standards Board Statement No. 50*

For the fiscal year ended June 30, 2008, the County implemented GASB Statement No. 50, "*Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*". This statement is effective for the County for fiscal periods beginning after June 15, 2007.

GASB Statement No. 50 amends GASB Statement No. 27 to require employers participating in a sole or agent multiple-employer defined benefit pension plan to disclose the funded status of the plan as of the most recent actuarial valuation date and to include a reference linking the funded status disclosure in the notes to the financial statements to the required schedule of funding progress in required supplementary information. Statement 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits.

Implementation of GASB Statement No. 50 primarily impacted the County's note disclosure for the employee's retirement plans.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

### C. **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.

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, 2008, 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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

### C. Basis of Presentation

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

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.

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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

### C. Basis of Presentation

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

- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand.
- The *Pension Trust Fund* accounts for the pooled cash held in the County Treasury for the Mendocino County Employees' Retirement Association.
- The *Agency Funds* account for assets held by the County as an agent for various local governments.

### D. 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

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

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

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.

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.

**E. 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.

**F. 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.

**G. 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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

### H. 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.

### I. Restricted Assets

The County has \$10,026,172 restricted cash deposited with fiscal agents to meet Certificates of Participation and Pension Obligation Bond reserve fund requirements.

### J. 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.

### K. 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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

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

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

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.

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.

#### L. **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.

#### M. **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.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

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

**N. Estimates**

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

Note 2: **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	\$ 97,346
Special Revenue Funds:	
Mental Health Services	9,551,438
Lighting Special District – Alexander Estates	20,726
Lighting Special District – Noyo	7,839
Miscellaneous Grants	1,208,946
Accumulated Capital Outlay	7,561
Internal Service Funds:	
Health Insurance	2,254,442
Retiree Health Insurance	3,332,889

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 above at more than \$9 million, receivables recorded as deferred revenue comprise a majority of that amount.

The Internal Service Funds for insurance (health, general liability, and retiree health) all had a deficit fund equity at fiscal year ending June 30, 2008, 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.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Note 2: **Stewardship, Compliance and Accountability** (continued)

**Deficit Fund Equity** (continued)

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

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

Note 3: **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. The Board of Supervisors reviews and approves the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual costs and fair value.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 3: **Cash and Investments** (continued)

At June 30, 2008, total County cash and investments were as follows:

*Cash:*

Cash on hand	\$ 673,043
Imprest cash	12,251
Certificates of deposit	61,508,078
Overdrafts (deposits less outstanding warrants)	<u>(2,639,895)</u>
Total cash	<u>59,553,477</u>

*Investments:*

In Treasurer's pool	115,408,931
With fiscal agents	<u>10,026,172</u>
Total investments	125,435,103
Total cash and investments	<u><u>\$ 184,988,580</u></u>

Total cash and investments at June 30, 2008, were presented on the County's financial statements as follows:

Primary government	\$ 20,403,513
Investment trust fund	142,591,985
Pension trust fund	12,552,229
Agency funds	<u>9,440,853</u>
Total cash and investments	<u><u>\$ 184,988,580</u></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.

At June 30, 2008, the carrying value of the County's deposits was \$(2,639,895) and the bank balance was \$6,084,958. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the bank balance, \$100,000 was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Note 3: **Cash and Investments** (continued)

**Investments**

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 - Select Agencies	270 days	40%	10%
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, 2008, the County held 33.36% of its net investment in medium term notes. The investment policy has a limit of 30% for this type of investment. The amount of the noncompliance is approximately \$6.3 million.

In all other respects, 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, 2008, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not required (fair value was 99.57% of carrying value).

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Note 3: **Cash and Investments** (continued)

**Investments** (continued)

At June 30, 2008, 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>						
Federal Agency Obligations	5.32%	1/23/2009	\$ 5,000,000	\$ 5,064,750	\$ 4,997,500	0.56
Medium Term Corporate Notes	2.66% - 5.52%	1/26/2009 - 4/10/2012	63,000,000	61,867,820	62,705,883	1.76
Union Bank SWEEP account	Variable	On Demand	2,903,630	2,903,630	2,903,630	0.00
California Local Agency Investment Fund	Variable	On Demand	32,000,000	32,000,000	32,000,000	0.00
California Asset Management Program	Variable	On Demand	2,075,422	2,075,422	2,075,422	0.00
Mendocino County Delinquent Tax and Revenue Anticipation Note	Various	On Demand	10,726,496	10,726,496	10,726,496	0.00
<b>Total investments in investment pool</b>			<u>115,705,548</u>	<u>114,638,118</u>	<u>115,408,931</u>	0.98
<b>Investments Outside Investment Pool</b>						
<i>Cash held with fiscal agent</i>						
Money market mutual funds	Variable	On Demand	4,677,984	4,677,984	4,677,984	0.00
Investment contract	Variable	7/1/2008	3,418,000	3,418,000	3,418,000	0.00
Investment contract	2.75%	12/1/2008	1,957,000	1,931,050	1,930,188	0.42
<b>Total investments outside investment pool</b>			<u>10,052,984</u>	<u>10,027,034</u>	<u>10,026,172</u>	0.07
<b>Total investments</b>			<u>\$ 125,758,532</u>	<u>\$ 124,665,152</u>	<u>\$ 125,435,103</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 \$4,997,500 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, 2008, the County held 7.85% 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, 2008

Note 3: **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 fair value at June 30, 2008.

	<u>S&amp;P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
<b>Investments In Investment Pool</b>			
Federal Agencies	AAA	AAA	4.44%
Medium Term Corporate Notes	AAA	AAA	13.11%
Medium Term Corporate Notes	AAA	Unrated	7.11%
Medium Term Corporate Notes	AA+	AA3	1.79%
Medium Term Corporate Notes	AA-	AA3	9.81%
Medium Term Corporate Notes	AA-	AA2	3.42%
Medium Term Corporate Notes	AA	AA2	4.48%
Medium Term Corporate Notes	AA	A2	7.11%
Medium Term Corporate Notes	A+	A1	4.45%
Medium Term Corporate Notes	BBB-	BAA2	4.46%
Delinquent Tax and Revenue Anticipation Note	Unrated	Unrated	9.53%
California Local Agency Investment Fund	Unrated	Unrated	28.44%
California Asset Management Program	Unrated	Unrated	1.85%
			<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

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

### Note 3: **Cash and Investments** (continued)

#### Local Agency Investment Fund (continued)

responsibility for LAIF. The Board consists of five members as designated by State Statute.

At June 30, 2008, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$32 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 \$70 billion. Of that amount, 14.72% was invested in structured notes and asset-backed securities with the remaining 85.28% 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.	\$ 5,064,750

#### 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, 2008:

#### **Statement of Net Assets**

Net assets held for pool participants	<u>\$ 174,950,157</u>
Equity of internal pool participants	\$ 32,358,172
Equity of external pool participants	<u>142,591,985</u>
Total net assets	<u>\$ 174,950,157</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 3: **Cash and Investments** (continued)

County Investment pool Condensed Financial Statements (continued)

**Statement of Changes in Net Assets**

Net assets for pool participants at July 1, 2007	\$ 148,598,737
Net change in investments by pool participants	<u>26,351,420</u>
Net assets at June 30, 2008	<u><u>\$ 174,950,157</u></u>

Note 4: **Short-Term Note Payable**

On July 2, 2007, the County issued a \$26,106,955 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, 2008, and was repaid with taxes and other revenues by June 24, 2008.

Short-term note payable activity for the year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2008</u>
Short-term note payable	\$ <u>          --</u>	\$ <u>26,106,955</u>	\$ <u>26,106,955</u>	\$ <u>          --</u>

Note 5: **Interfund Transactions**

**Interfund Receivables/Payables**

The composition of interfund balances as of June 30, 2008, are as follows:

***Advances from/to other funds:***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund	General Fund	\$ <u>5,364,876</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.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 5: **Interfund Transactions** (continued)

**Interfund Receivables/Payables** (continued)

*Advances from/to other funds (continued):*

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

	<u>Balance June 30, 2008</u>
Negative cash in the Tax Resources Fund	\$ 14,594,668
Less:	
Positive cash in the Tax Loss Reserve Fund	1,262,715
Secured Taxes receivables balance, including penalties and cost	<u>7,967,077</u>
	<u>\$ 5,364,876</u>

*Due from/to other funds:*

Receivable Fund	Payable Fund	Amount
General Fund	Pension Obligation Bonds	\$ 676,577
	Mental Health Fund	9,656,672
	Internal Service Funds	337,619
	Other Governmental Funds	1,057,963
Other Governmental Funds	General Fund	4,343,000
Internal Service Funds	General Fund	<u>2,682,000</u>
		<u>\$ 18,753,831</u>

The above balances reflect temporary cash advances.

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 5: **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	\$ 2,007,702
	Mental Health Services	695,899
	Pension Obligation Fund	7,642,952
	Internal Service Funds	250,000
	Other Governmental Funds	<u>6,069,737</u>
		<u>16,666,290</u>
Mental Health Services Fund	General Fund	567,985
	Debt Service Fund	49,244
	Pension Obligation Fund	527,020
	Other Governmental Funds	<u>18,329</u>
		<u>1,162,578</u>
Internal Service Funds	General Fund	1,277,824
	Pension Obligation Fund	<u>36,490</u>
		<u>1,314,314</u>
Other Governmental Funds	General Fund	601,760
	Pension Obligation Fund	895,642
	Other Governmental Funds	<u>166,063</u>
		<u>1,663,465</u>
		<u>\$ 20,806,647</u>

During the year, capital assets of \$1,152,969 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, 2008

Note 6: **Capital Assets**

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2008
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 3,298,969	\$ --	\$ --	\$ (478,849)	\$ 2,820,120
Construction in progress	3,704,686	3,129,616	--	(341,011)	6,493,291
Total capital assets, not being depreciated	<u>7,003,655</u>	<u>3,129,616</u>	<u>--</u>	<u>(819,860)</u>	<u>9,313,411</u>
Capital assets, being depreciated:					
Infrastructure	53,021,739	--	(3,727)	272,487	53,290,499
Structures and improvements	66,430,266	128,848	(3,177)	478,849	67,034,786
Equipment	28,617,798	1,685,505	(5,372,562)	--	24,930,741
Improvements other than buildings	2,591,598	285,665	(2,336)	68,524	2,943,451
Total capital assets, being depreciated	<u>150,661,401</u>	<u>2,100,018</u>	<u>(5,381,802)</u>	<u>819,860</u>	<u>148,199,477</u>
Less accumulated depreciation for:					
Infrastructure	(21,499,063)	(1,557,212)	519	--	(23,055,756)
Structures and improvements	(23,359,489)	(1,816,966)	1,469	--	(25,174,986)
Equipment	(20,683,747)	(1,611,081)	4,360,426	--	(17,934,402)
Improvements other than buildings	(2,473,345)	(29,800)	629	--	(2,502,516)
Total accumulated depreciation	<u>(68,015,644)</u>	<u>(5,015,059)</u>	<u>4,363,043</u>	<u>--</u>	<u>(68,667,660)</u>
Total capital assets, being depreciated, net	<u>82,645,757</u>	<u>(2,915,041)</u>	<u>(1,018,759)</u>	<u>819,860</u>	<u>79,531,817</u>
Government activities capital assets, net	<u>\$ 89,649,412</u>	<u>\$ 214,575</u>	<u>\$ (1,018,759)</u>	<u>\$ --</u>	<u>\$ 88,845,228</u>

A significant portion of the retirements are due to a change in the capitalization threshold from \$500 to \$2,000.

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

General government	\$ 822,529
Public protection	1,278,258
Public ways and facilities	2,098,824
Health and sanitation	406,979
Public assistance	315,751
Education	52,022
Recreation and culture	12,901
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset	<u>27,795</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 5,015,059</u>

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2008

### Note 7: Long-Term Liabilities

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2008, 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, 2008</u>
<b>Loans Payable</b>					
Microwave Radio Network equipment loan	8/1/2013	4.30%	\$210,945 - \$288,591	\$ 2,600,000	\$ 2,600,000
California Energy Commission Loan – 2004	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	<u>250,000</u>	<u>176,102</u>
Total Loans Payable				<u>\$ 2,850,000</u>	<u>\$ 2,776,102</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	\$ 3,895,000
<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>88,265,000</u>
Total Taxable Pension Obligation Bonds				<u>\$ 122,665,000</u>	<u>\$ 92,160,000</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	\$ 3,700,000
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>20,060,000</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	4,670,000
Term Current Interest Certificates	6/01/2024	4.98%	\$480,000-\$525,000	<u>1,510,000</u>	<u>1,510,000</u>
2001 Issue				<u>7,965,000</u>	<u>6,180,000</u>
Total Certificates of Participation				<u>\$ 30,445,000</u>	<u>\$ 26,240,000</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 7: **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, 2008:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
<b>Governmental Activities</b>					
Certificates of participation	\$ 26,875,000	\$ --	\$ (635,000)	\$ 26,240,000	\$ 660,000
Bonds payable	94,890,000	--	(2,730,000)	92,160,000	2,885,000
Loans payable	204,609	2,600,000	(28,507)	2,776,102	231,551
Capital leases	1,433,703	--	(500,171)	933,532	388,889
Compensated absences	4,400,621	4,490,133	(4,143,063)	4,747,691	4,747,691
Liability for self-insurance	4,063,500	10,982,643	(11,184,936)	3,861,207	3,861,207
Landfill postclosure costs	8,091,111	--	(436,913)	7,654,198	--
<b>Total Governmental Activities</b>	<b>\$ 139,958,544</b>	<b>\$ 18,072,776</b>	<b>\$ (19,658,590)</b>	<b>\$ 138,372,730</b>	<b>\$ 12,774,338</b>

As of June 30, 2008, 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
2009	\$ 660,000	\$ 1,980,428	\$ 2,885,000	\$ 7,910,710	\$ 231,551	\$ 111,212
2010	730,000	2,022,102	3,055,000	7,903,443	513,523	124,858
2011	720,000	1,980,234	3,240,000	7,915,324	535,766	103,469
2012	755,000	1,983,702	3,405,000	7,914,199	558,961	81,154
2013	790,000	1,982,328	3,575,000	7,909,699	583,183	57,865
2014-2018	4,560,000	9,916,145	20,865,000	39,421,281	353,118	74,608
2019-2023	5,815,000	9,917,905	27,275,000	39,238,020	--	--
2024-2028	8,500,000	10,774,562	27,860,000	31,187,559	--	--
2029-2033	3,710,000	4,004,748	--	--	--	--
	<b>\$ 26,240,000</b>	<b>\$ 44,562,154</b>	<b>\$ 92,160,000</b>	<b>\$ 149,400,235</b>	<b>\$ 2,776,102</b>	<b>\$ 553,166</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, 2008

Note 7: **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 \$3,765,520.

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 \$3,521,673. The minimum future lease commitments on these leases are as follows:

Fiscal Year Ending June 30,	<u>Payments</u>
2009	\$ 422,219
2010	302,916
2011	189,719
2012	<u>86,999</u>
Total Minimum Lease Payments	1,001,853
Less Amount Representing Interest	<u>(68,321)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 933,532</u>

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 7: **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	\$ 2,604,856
Less: accumulated amortization	<u>(1,359,128)</u>
Net Value	<u>\$ 1,245,728</u>

**C. Compensated Absences**

Vacation – employees accrue vacation at varying rates depending on the length of an employee’s service. Upon termination unused vacation, up to accrual limits, is paid off in cash. Sick leave – all employees accrue sick leave at the rate of 15 days per year. Sick leave may be accrued without limit. Upon termination, unused sick leave will be applied toward length of service for retirement credit. Holidays must be taken within the calendar year and are not accruable. The County records the gross vacation liability. At fiscal year end, the total liability for compensated absences was \$4,747,691. 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, 2008:

\$5,120,000 Pension Obligation Bonds – Series 1996

**COUNTY OF MENDOCINO**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2008

Note 8: **Municipal Solid Waste Landfill Closure and Postclosure Care Costs**

State and federal law and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$7,654,198 reported as landfill closure/postclosure liability at June 30, 2008, 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 2008. 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, 2008</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 997,840
South Coast Landfill	Mendocino County	N/A	2034	4,047,191
Laytonville Landfill	Mendocino County	100%	Closed	<u>2,609,167</u>
				<u>\$ 7,654,198</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, 2008, investments of \$2,300,235 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 9: **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, 2008

Note 9: **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, 2008, 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, 2008

Note 9: **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 10: **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, 2008, were \$6,429,216; contributions by the employees of the County and the special districts were \$6,612,780; and contributions by the Courts were \$799,938.

### 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, 2008. 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, 2008

Note 10: **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, 2008, 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
\$ 373,852	\$ 353,421	\$ 20,411	94.50%	\$ 70,880	28.8%

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 11: **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 2007-08, the County contributed \$3,950,000, or 53.6%, 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, 2008

Note 11: **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)	<u>7,372</u>
Contributions made	<u>(3,950)</u>
Increase in net OPEB obligation	3,422
Net OPEB obligation - beginning of year	<u>--</u>
Net OPEB obligation - end of year	<u><u>\$ 3,422</u></u>

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 year 2007-08 is as follows (dollar amounts in thousands):

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

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.

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	<u>--</u>
Unfunded actuarial accrued liability (UAAL)	\$129,377
Funded ratio (actuarial value of plan assets/AAL)	--%
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, 2008

Note 11: **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, 2008, was 29 years.

Note 12: **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, 2008

Note 12: **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, 2008, 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 13: **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 \$472,221.

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, 2008, 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 \$1,408,117 includes incurred but not reported claims.

## COUNTY OF MENDOCINO

### Notes to the Basic Financial Statements For the Year Ended June 30, 2008

Note 13: **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 \$1,980,869.

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

	Unemployment Insurance	General Liability	Health Insurance	Total
Claims liability, July 1, 2006	\$ 446,453	\$ 1,068,942	\$ 1,662,013	\$ 3,177,408
Current year claims and changes in estimates	270,381	440,064	9,888,648	10,599,093
Claims payments	(255,323)	(260,054)	(9,715,130)	(10,230,507)
Claims liability, June 30, 2007	\$ 461,511	\$ 1,248,952	\$ 1,835,531	\$ 3,545,994
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	(267,982)	(175,471)	(10,223,977)	(10,667,430)
Claims liability, June 30, 2008	\$ 472,221	\$ 1,408,117	\$ 1,980,869	\$ 3,861,207

Note 14: **Subsequent Events**

On July 2, 2008, the County issued a \$26,192,963 tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable June 30, 2009, and carries a 4.5% interest rate.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COUNTY OF MENDOCINO**

Required Supplementary Information  
For the Fiscal Year Ended June 30, 2008

**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:

<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>
6/30/06	\$ 320,123,000	\$ 288,461,000	\$ 31,662,000	90.1%	\$ 57,665,000	54.9%
6/30/07	358,259,000	317,937,000	40,322,000	88.7%	65,879,000	61.2%
6/30/08	373,852,000	353,421,000	20,411,000	94.5%	70,880,000	28.8%

(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 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	\$ 129,377,000	\$ --	\$ 129,377,000	00.0%	\$ 25,261,000	512.2%

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 55,957,550	\$ 55,957,550	\$ 55,417,551	\$ (539,999)
Licenses and permits	3,086,193	3,086,193	2,752,771	(333,422)
Fines, forfeits and penalties	1,896,607	2,165,458	2,211,362	45,904
Revenue from use of money and property	2,155,010	2,155,010	2,315,230	160,220
Intergovernmental	70,979,961	71,294,561	66,431,290	(4,863,271)
Charges for services	11,382,063	11,472,563	11,404,695	(67,868)
Other revenue	4,171,078	4,240,078	1,965,477	(2,274,601)
<b>Total Revenues</b>	<b>149,628,462</b>	<b>150,371,413</b>	<b>142,498,376</b>	<b>(7,873,037)</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	16,620,860	16,768,481	16,199,304	569,177
Public protection	47,046,256	47,108,640	47,020,112	88,528
Public way and facilities	557,592	557,592	238,049	319,543
Health and sanitation	15,102,281	14,735,629	12,352,542	2,383,087
Public assistance	61,778,186	61,778,186	56,838,604	4,939,582
Education	295,752	295,752	252,076	43,676
Recreation and cultural services	355,146	355,146	362,021	(6,875)
Debt service - principal	1,850,000	1,850,000	--	1,850,000
Debt service - interest	1,813,500	1,813,500	2,191,032	(377,532)
Capital outlay	598,940	958,114	749,180	208,934
<b>Total Expenditures</b>	<b>146,018,513</b>	<b>146,221,040</b>	<b>136,202,920</b>	<b>10,018,120</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>3,609,949</b>	<b>4,150,373</b>	<b>6,295,456</b>	<b>2,145,083</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,021,728	1,021,728	1,294,600	272,872
Transfers out	(8,272,077)	(8,272,077)	(9,023,338)	(751,261)
<b>Total Other Financing Sources (Uses)</b>	<b>(7,250,349)</b>	<b>(7,250,349)</b>	<b>(7,728,738)</b>	<b>(478,389)</b>
<b>Net change in fund balances</b>	<b>(3,640,400)</b>	<b>(3,099,976)</b>	<b>(1,433,282)</b>	<b>1,666,694</b>
<b>Fund balances - beginning</b>	<b>1,335,936</b>	<b>1,335,936</b>	<b>1,335,936</b>	<b>--</b>
<b>Fund balances - ending</b>	<b>\$ (2,304,464)</b>	<b>\$ (1,764,040)</b>	<b>\$ (97,346)</b>	<b>\$ 1,666,694</b>
<b><u>Reconciliation to the statement of revenues, expenditures and changes in fund balance - governmental funds</u></b>				
Total expenditures from the budgetary comparison schedule			\$ 136,202,920	
The County budgets transfers to the Pension Obligation Fund as functional expenditures.			<u>(7,642,952)</u>	
<b>Total expenditures from the statement of revenues, expenditures and changes in fund balance - governmental funds</b>			<b><u>\$ 128,559,968</u></b>	

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
Mental Health Services Fund  
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Revenue from use of money and property	\$ 100,000	\$ 100,000	\$ (499,618)	\$ (599,618)
Intergovernmental	18,375,798	18,354,828	16,679,403	(1,675,425)
Charges for services	100,000	100,000	1,545,751	1,445,751
Other revenue	2,936,825	1,488,242	--	(1,488,242)
<b>Total Revenues</b>	<u>21,512,623</u>	<u>20,043,070</u>	<u>17,725,536</u>	<u>(2,317,534)</u>
<b>Expenditures:</b>				
Current:				
Health and sanitation	20,749,791	20,391,569	19,554,828	836,741
Capital outlay	76,076	--	--	--
<b>Total Expenditures</b>	<u>20,825,867</u>	<u>20,391,569</u>	<u>19,554,828</u>	<u>836,741</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>686,756</u>	<u>(348,499)</u>	<u>(1,829,292)</u>	<u>(1,480,793)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	--	695,899	695,899	--
Transfers out	(518,348)	(635,558)	(1,162,578)	(527,020)
<b>Total Other Financing Sources (Uses)</b>	<u>(518,348)</u>	<u>60,341</u>	<u>(466,679)</u>	<u>(527,020)</u>
Net change in fund balances	168,408	(288,158)	(2,295,971)	(2,007,813)
Fund balances - beginning	<u>(7,255,467)</u>	<u>(7,255,467)</u>	<u>(7,255,467)</u>	<u>--</u>
Fund balances - ending	<u>\$ (7,087,059)</u>	<u>\$ (7,543,625)</u>	<u>\$ (9,551,438)</u>	<u>\$ (2,007,813)</u>

## COUNTY OF MENDOCINO

Required Supplementary Information  
For the Fiscal Year Ended June 30, 2008

### **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, 2008

	Special Revenue				
	Road	Accumulated Capital Outlay	Library	Fish and Game	Special Aviation
<b>Assets</b>					
Cash and investments in County Treasury	\$ 3,487,585	\$ 7,492	\$ 165,119	\$ 117,681	\$ 122,064
Cash with fiscal agent	--	--	--	--	--
Imprest cash	50	--	180	--	--
Accounts receivable	197,317	323	10,560	--	--
Due from other governmental agencies	707,610	--	--	--	20,871
Due from other funds	--	100,000	--	--	--
Taxes receivable	700	--	--	--	--
Inventory	555,597	--	--	--	--
Total Assets	<u>\$ 4,948,859</u>	<u>\$ 107,815</u>	<u>\$ 175,859</u>	<u>\$ 117,681</u>	<u>\$ 142,935</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 798,266	\$ 115,376	\$ 16,264	\$ 590	\$ --
Accrued salaries and benefits	222,980	--	46,245	--	--
Due to other funds	--	--	--	--	--
Unearned revenue	--	--	--	--	--
Deferred revenue	--	--	--	--	20,000
Total Liabilities	<u>1,021,246</u>	<u>115,376</u>	<u>62,509</u>	<u>590</u>	<u>20,000</u>
Fund Balances:					
Reserved for:					
Encumbrances	350,366	146,066	--	--	--
Inventory	555,597	--	--	--	--
Imprest cash	50	--	180	--	--
Endowments	--	--	--	--	--
Unreserved:					
Undesignated	<u>3,021,600</u>	<u>(153,627)</u>	<u>113,170</u>	<u>117,091</u>	<u>122,935</u>
Total Fund Balances	<u>3,927,613</u>	<u>(7,561)</u>	<u>113,350</u>	<u>117,091</u>	<u>122,935</u>
Total Liabilities and Fund Balances	<u>\$ 4,948,859</u>	<u>\$ 107,815</u>	<u>\$ 175,859</u>	<u>\$ 117,681</u>	<u>\$ 142,935</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2008

	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	\$ 59,479	\$ 113,773	\$ 58,366	\$ 42,369	\$ 115,934
Cash with fiscal agent	--	--	--	--	--
Imprest cash	--	--	--	--	--
Accounts receivable	--	--	--	--	980
Due from other governmental agencies	--	--	--	--	--
Due from other funds	--	--	--	--	--
Taxes receivable	--	--	--	--	--
Inventory	--	--	--	--	--
Total Assets	<u>\$ 59,479</u>	<u>\$ 113,773</u>	<u>\$ 58,366</u>	<u>\$ 42,369</u>	<u>\$ 116,914</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 1,008	\$ --	\$ --	\$ 1,327	\$ 378
Accrued salaries and benefits	4,988	--	--	--	--
Due to other funds	--	--	--	--	--
Unearned revenue	--	--	--	--	--
Deferred revenue	--	--	--	--	--
Total Liabilities	<u>5,996</u>	<u>--</u>	<u>--</u>	<u>1,327</u>	<u>378</u>
Fund Balances:					
Reserved for:					
Encumbrances	5,901	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Endowments	--	--	--	--	--
Unreserved:					
Undesignated	<u>47,582</u>	<u>113,773</u>	<u>58,366</u>	<u>41,042</u>	<u>116,536</u>
Total Fund Balances	<u>53,483</u>	<u>113,773</u>	<u>58,366</u>	<u>41,042</u>	<u>116,536</u>
Total Liabilities and Fund Balances	<u>\$ 59,479</u>	<u>\$ 113,773</u>	<u>\$ 58,366</u>	<u>\$ 42,369</u>	<u>\$ 116,914</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2008

	Special Revenue				
	Recorder Modernization	Micrographics	Assessor	General Plan Update	Realignment
<b>Assets</b>					
Cash and investments in County Treasury	\$ 135,970	\$ 3,765	\$ 126,485	\$ 11,358	\$ 1,572
Cash with fiscal agent	--	--	--	--	--
Imprest cash	--	--	--	--	--
Accounts receivable	432	172	22	4,911	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	--	--	--	640,000	833,000
Taxes receivable	--	--	--	--	--
Inventory	--	--	--	--	--
Total Assets	\$ 136,402	\$ 3,937	\$ 126,507	\$ 656,269	\$ 834,572
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 69,926	\$ 1,237	\$ --	\$ 40,695	\$ --
Accrued salaries and benefits	--	2,245	--	--	--
Due to other funds	--	--	--	--	--
Unearned revenue	--	--	--	--	834,572
Deferred revenue	--	--	--	--	--
Total Liabilities	69,926	3,482	--	40,695	834,572
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Endowments	--	--	--	--	--
Unreserved:					
Undesignated	66,476	455	126,507	615,574	--
Total Fund Balances	66,476	455	126,507	615,574	--
Total Liabilities and Fund Balances	\$ 136,402	\$ 3,937	\$ 126,507	\$ 656,269	\$ 834,572

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2008

	Special Revenue				
	Miscellaneous Grants	Landfill Closure	Special Districts Lighting	Special Districts Other	Total Special Revenue
<b>Assets</b>					
Cash and investments in County Treasury	\$ --	\$ 100,235	\$ 207,769	\$ 990,221	\$ 5,867,237
Cash with fiscal agent	--	--	--	--	--
Imprest cash	50	--	--	400	680
Accounts receivable	--	342,641	--	3,489	560,847
Due from other governmental agencies	--	--	--	349,471	1,077,952
Due from other funds	--	2,200,000	--	--	3,773,000
Taxes receivable	--	--	--	--	700
Inventory	--	--	--	--	555,597
Total Assets	<u>\$ 50</u>	<u>\$ 2,642,876</u>	<u>\$ 207,769</u>	<u>\$ 1,343,581</u>	<u>\$ 11,836,013</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 115	\$ 18,957	\$ --	\$ 25,255	\$ 1,089,394
Accrued salaries and benefits	179,483	--	--	40,043	495,984
Due to other funds	1,029,398	--	28,565	--	1,057,963
Unearned revenue	--	--	--	--	834,572
Deferred revenue	--	--	--	--	20,000
Total Liabilities	<u>1,208,996</u>	<u>18,957</u>	<u>28,565</u>	<u>65,298</u>	<u>3,497,913</u>
Fund Balances:					
Reserved for:					
Encumbrances	50,663	--	--	--	552,996
Inventory	--	--	--	--	555,597
Imprest cash	50	--	--	400	680
Endowments	--	--	--	--	--
Unreserved:					
Undesignated	<u>(1,259,659)</u>	<u>2,623,919</u>	<u>179,204</u>	<u>1,277,883</u>	<u>7,228,827</u>
Total Fund Balances	<u>(1,208,946)</u>	<u>2,623,919</u>	<u>179,204</u>	<u>1,278,283</u>	<u>8,338,100</u>
Total Liabilities and Fund Balances	<u>\$ 50</u>	<u>\$ 2,642,876</u>	<u>\$ 207,769</u>	<u>\$ 1,343,581</u>	<u>\$ 11,836,013</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2008

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permanant 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	\$ 9,919	\$ 1,222,790	\$ 1,021,626	\$ 8,121,572
Cash with fiscal agent	2,602,948	--	--	2,602,948
Imprest cash	--	--	--	680
Accounts receivable	--	--	--	560,847
Due from other governmental agencies	--	--	--	1,077,952
Due from other funds	570,000	--	--	4,343,000
Taxes receivable	--	--	--	700
Inventory	--	9,798	--	565,395
Total Assets	<u>\$ 3,182,867</u>	<u>\$ 1,232,588</u>	<u>\$ 1,021,626</u>	<u>\$ 17,273,094</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 22,563	\$ 14,706	\$ --	\$ 1,126,663
Accrued salaries and benefits	--	--	--	495,984
Due to other funds	--	--	--	1,057,963
Unearned revenue	--	--	--	834,572
Deferred revenue	--	--	--	20,000
Total Liabilities	<u>22,563</u>	<u>14,706</u>	<u>--</u>	<u>3,535,182</u>
Fund Balances:				
Reserved for:				
Encumbrances	--	--	--	552,996
Inventory	--	9,798	--	565,395
Imprest cash	--	--	--	680
Endowments	--	--	1,021,626	1,021,626
Unreserved:				
Undesignated	<u>3,160,304</u>	<u>1,208,084</u>	<u>--</u>	<u>11,597,215</u>
Total Fund Balances	<u>3,160,304</u>	<u>1,217,882</u>	<u>1,021,626</u>	<u>13,737,912</u>
 Total Liabilities and Fund Balances	 <u>\$ 3,182,867</u>	 <u>\$ 1,232,588</u>	 <u>\$ 1,021,626</u>	 <u>\$ 17,273,094</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2008

	Special Revenue				
	Road	Accumulated Capital Outlay	Library	Fish and Game	Special Aviation
<b>Revenues:</b>					
Taxes	\$ 125,370	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	85,247	--	--	--	--
Aid from other governmental agencies	10,694,896	129,114	341,073	--	62,616
Revenue from use of money and property	69,374	10,630	20,182	6,253	--
Fines, forfeitures and penalties	69,312	8,750	--	52,350	--
Charges for services	165,912	--	63,052	--	--
Other revenue	67,190	20,083	41,666	--	--
<b>Total Revenues</b>	<b>11,277,301</b>	<b>168,577</b>	<b>465,973</b>	<b>58,603</b>	<b>62,616</b>
<b>Expenditures:</b>					
Current:					
General government	--	--	--	--	--
Public protection	--	--	--	47,020	--
Public ways and facilities	10,367,924	--	--	--	22,942
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	1,741,214	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	1,991,551	1,294,796	--	--	6,814
<b>Total Expenditures</b>	<b>12,359,475</b>	<b>1,294,796</b>	<b>1,741,214</b>	<b>47,020</b>	<b>29,756</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,082,174)	(1,126,219)	(1,275,241)	11,583	32,860
<b>Other Financing Sources (Uses):</b>					
Debt issued	--	--	--	--	--
Transfers In	3,131,681	1,099,636	1,308,491	--	--
Transfers Out	(386,922)	--	(80,294)	--	--
<b>Total Other Financing Sources (Uses)</b>	<b>2,744,759</b>	<b>1,099,636</b>	<b>1,228,197</b>	<b>--</b>	<b>--</b>
<b>Net Change in Fund Balances</b>	<b>1,662,585</b>	<b>(26,583)</b>	<b>(47,044)</b>	<b>11,583</b>	<b>32,860</b>
Fund Balances, Beginning of year	2,265,028	19,022	160,394	105,508	90,075
Fund Balances, Ending	\$ 3,927,613	\$ (7,561)	\$ 113,350	\$ 117,091	\$ 122,935

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2008

	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	148,514	284,628	--	--	--
Revenue from use of money and property	5,550	9,571	6,110	1,683	7,546
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	--	--	--	--	--
Other revenue	--	--	--	28,906	32,198
<b>Total Revenues</b>	<b>154,064</b>	<b>294,199</b>	<b>6,110</b>	<b>30,589</b>	<b>39,744</b>
<b>Expenditures:</b>					
Current:					
General government	--	--	--	--	--
Public protection	147,640	274,637	6,047	24,373	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	32,972
Capital outlay	50,524	--	26,771	--	--
<b>Total Expenditures</b>	<b>198,164</b>	<b>274,637</b>	<b>32,818</b>	<b>24,373</b>	<b>32,972</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(44,100)	19,562	(26,708)	6,216	6,772
<b>Other Financing Sources (Uses):</b>					
Debt issued	--	--	--	--	--
Transfers In	--	--	--	--	--
Transfers Out	(22,160)	(25,037)	(55,015)	--	(8,364)
<b>Total Other Financing Sources (Uses)</b>	<b>(22,160)</b>	<b>(25,037)</b>	<b>(55,015)</b>	<b>--</b>	<b>(8,364)</b>
<b>Net Change in Fund Balances</b>	<b>(66,260)</b>	<b>(5,475)</b>	<b>(81,723)</b>	<b>6,216</b>	<b>(1,592)</b>
Fund Balances, Beginning of year	119,743	119,248	140,089	34,826	118,128
Fund Balances, Ending	\$ 53,483	\$ 113,773	\$ 58,366	\$ 41,042	\$ 116,536

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2008

	Special Revenue				
	Recorder Modernization	Micrographics	Assessor	General Plan Update	Realignment
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Aid from other governmental agencies	--	--	--	--	--
Revenue from use of money and property	14,186	(519)	7,440	56,559	--
Fines, forfeitures and penalties	--	--	--	--	--
Charges for services	49,002	64,703	--	370,906	--
Other revenue	--	20,179	17,746	4,922	--
<b>Total Revenues</b>	<b>63,188</b>	<b>84,363</b>	<b>25,186</b>	<b>432,387</b>	<b>--</b>
<b>Expenditures:</b>					
Current:					
General government	293,978	79,596	7,283	--	--
Public protection	--	--	--	462,352	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	--	--	--	--	--
<b>Total Expenditures</b>	<b>293,978</b>	<b>79,596</b>	<b>7,283</b>	<b>462,352</b>	<b>--</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(230,790)	4,767	17,903	(29,965)	--
<b>Other Financing Sources (Uses):</b>					
Debt issued	--	--	--	--	--
Transfers In	--	--	--	64,311	--
Transfers Out	--	(4,312)	(43,420)	(557,690)	--
<b>Total Other Financing Sources (Uses)</b>	<b>--</b>	<b>(4,312)</b>	<b>(43,420)</b>	<b>(493,379)</b>	<b>--</b>
<b>Net Change in Fund Balances</b>	<b>(230,790)</b>	<b>455</b>	<b>(25,517)</b>	<b>(523,344)</b>	<b>--</b>
Fund Balances, Beginning of year	297,266	--	152,024	1,138,918	--
Fund Balances, Ending	\$ 66,476	\$ 455	\$ 126,507	\$ 615,574	\$ --

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, 2008

	Special Revenue				Total Special Revenue
	Miscellaneous Grants	Landfill Closure	Special Districts Lighting	Special Districts Other	
<b>Revenues:</b>					
Taxes	\$ --	\$ --	\$ 62,452	\$ 122,928	\$ 310,750
Licenses, permits and franchises	--	--	--	275,199	360,446
Aid from other governmental agencies	8,237,525	--	735	625,246	20,524,347
Revenue from use of money and property	--	98,138	--	50,573	363,276
Fines, forfeitures and penalties	--	--	--	325,907	456,319
Charges for services	--	718,647	--	58,064	1,490,286
Other revenue	3,340	15,490	664	1,521	253,905
<b>Total Revenues</b>	<b>8,240,865</b>	<b>832,275</b>	<b>63,851</b>	<b>1,459,438</b>	<b>23,759,329</b>
<b>Expenditures:</b>					
Current:					
General government	--	--	--	--	380,857
Public protection	2,029,164	--	--	712,915	3,704,148
Public ways and facilities	--	--	38,672	--	10,429,538
Health and sanitation	3,600,156	193,383	--	639,955	4,433,494
Public assistance	2,759,343	--	--	--	2,759,343
Education	--	--	--	--	1,741,214
Recreation and culture services	126,497	--	--	--	159,469
Capital outlay	11,545	--	--	596	3,382,597
<b>Total Expenditures</b>	<b>8,526,705</b>	<b>193,383</b>	<b>38,672</b>	<b>1,353,466</b>	<b>26,990,660</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(285,840)	638,892	25,179	105,972	(3,231,331)
<b>Other Financing Sources (Uses):</b>					
Debt issued	--	--	--	--	--
Transfers In	45,805	--	--	604,205	6,254,129
Transfers Out	(346,141)	--	--	(134,110)	(1,663,465)
<b>Total Other Financing Sources (Uses)</b>	<b>(300,336)</b>	<b>--</b>	<b>--</b>	<b>470,095</b>	<b>4,590,664</b>
<b>Net Change in Fund Balances</b>	<b>(586,176)</b>	<b>638,892</b>	<b>25,179</b>	<b>576,067</b>	<b>1,359,333</b>
Fund Balances, Beginning of year	(622,770)	1,985,027	154,025	702,216	6,978,767
Fund Balances, Ending	\$ (1,208,946)	\$ 2,623,919	\$ 179,204	\$ 1,278,283	\$ 8,338,100

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, 2008

	Capital Projects	Debt Service	Permanent Fund	
	Capital Projects	Redevelopment Agency	Endowment Funds	Total
<b>Revenues:</b>				
Taxes	\$ --	\$ 697,046	\$ --	\$ 1,007,796
Licenses, permits and franchises	--	--	--	360,446
Aid from other governmental agencies	215,000	--	44,880	20,784,227
Revenue from use of money and property	13,445	42,026	48,092	466,839
Fines, forfeitures and penalties	410,000	--	--	866,319
Charges for services	--	--	--	1,490,286
Other revenue	--	9,798	--	263,703
<b>Total Revenues</b>	<b>638,445</b>	<b>748,870</b>	<b>92,972</b>	<b>25,239,616</b>
<b>Expenditures:</b>				
Current:				
General government	--	216,463	--	597,320
Public protection	--	--	--	3,704,148
Public ways and facilities	--	--	--	10,429,538
Health and sanitation	--	--	--	4,433,494
Public assistance	--	--	--	2,759,343
Education	--	--	--	1,741,214
Recreation and culture services	--	--	85,856	245,325
Capital outlay	180,753	--	--	3,563,350
<b>Total Expenditures</b>	<b>180,753</b>	<b>216,463</b>	<b>85,856</b>	<b>27,473,732</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	457,692	532,407	7,116	(2,234,116)
<b>Other Financing Sources (Uses):</b>				
Debt issued	2,600,000	--	--	2,600,000
Transfers In	--	--	--	6,254,129
Transfers Out	--	--	--	(1,663,465)
<b>Total Other Financing Sources (Uses)</b>	<b>2,600,000</b>	<b>--</b>	<b>--</b>	<b>7,190,664</b>
<b>Net Change in Fund Balances</b>	<b>3,057,692</b>	<b>532,407</b>	<b>7,116</b>	<b>4,956,548</b>
Fund Balances, Beginning of year	102,612	685,475	1,014,510	8,781,364
Fund Balances, Ending	\$ 3,160,304	\$ 1,217,882	\$ 1,021,626	\$ 13,737,912

## COUNTY OF MENDOCINO

### Combining Statement of Fund Net Assets Internal Service Funds June 30, 2008

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<b>Assets</b>				
Current Assets:				
Cash	\$ --	\$ 1,469	\$ 4,333	\$ 185,599
Accounts receivable	--	--	--	--
Due from other funds	--	567,000	615,000	1,500,000
Total current assets	<u>--</u>	<u>568,469</u>	<u>619,333</u>	<u>1,685,599</u>
Noncurrent assets:				
Depreciable:				
Equipment	109,510	36,777	--	2,438
Less accumulated depreciation	(40,037)	(18,308)	--	(2,438)
Total noncurrent assets	<u>69,473</u>	<u>18,469</u>	<u>--</u>	<u>--</u>
Total Assets	<u>\$ 69,473</u>	<u>\$ 586,938</u>	<u>\$ 619,333</u>	<u>\$ 1,685,599</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ 4,800	\$ 7,616	\$ --	\$ 3,192
Accrued salaries and benefits	--	--	--	7,036
Due to other funds	61,808	--	--	--
Compensated absences payable	--	--	--	5,112
Liability for unpaid claims	--	--	472,221	1,408,117
Total current liabilities	<u>66,608</u>	<u>7,616</u>	<u>472,221</u>	<u>1,423,457</u>
Noncurrent liabilities:				
Other postemployment benefits (OPEB) liability	--	--	--	--
Total noncurrent liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Liabilities	<u>66,608</u>	<u>7,616</u>	<u>472,221</u>	<u>1,423,457</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	69,473	18,469	--	--
Unrestricted	(66,608)	560,853	147,112	262,142
Total Net Assets	<u>2,865</u>	<u>579,322</u>	<u>147,112</u>	<u>262,142</u>
Total Liabilities and Net Assets	<u>\$ 69,473</u>	<u>\$ 586,938</u>	<u>\$ 619,333</u>	<u>\$ 1,685,599</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets (continued)  
Internal Service Funds  
June 30, 2008

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b>Assets</b>				
Current Assets:				
Cash	\$ 154,747	\$ --	\$ --	\$ 346,148
Accounts receivable	--	8,666	111,217	119,883
Due from other funds	--	--	--	2,682,000
Total current assets	<u>154,747</u>	<u>8,666</u>	<u>111,217</u>	<u>3,148,031</u>
Noncurrent assets:				
Depreciable:				
Equipment	4,652	2,258	--	155,635
Less accumulated depreciation	<u>(4,652)</u>	<u>(2,258)</u>	<u>--</u>	<u>(67,693)</u>
Total noncurrent assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>87,942</u>
 Total Assets	 <u>\$ 154,747</u>	 <u>\$ 8,666</u>	 <u>\$ 111,217</u>	 <u>\$ 3,235,973</u>
 <b>Liabilities</b>				
Current Liabilities:				
Accounts payable	\$ 419	\$ 164	\$ 18,142	\$ 34,333
Accrued salaries and benefits	9,024	4,915	3,050	24,025
Due to other funds	--	275,811	--	337,619
Compensated absences payable	1,264	1,349	914	8,639
Liability for unpaid claims	<u>--</u>	<u>1,980,869</u>	<u>--</u>	<u>3,861,207</u>
Total current liabilities	<u>10,707</u>	<u>2,263,108</u>	<u>22,106</u>	<u>4,265,823</u>
Noncurrent liabilities:				
Other postemployment benefits (OPEB) liability	<u>--</u>	<u>--</u>	<u>3,422,000</u>	<u>3,422,000</u>
Total noncurrent liabilities	<u>--</u>	<u>--</u>	<u>3,422,000</u>	<u>3,422,000</u>
 Total Liabilities	 <u>10,707</u>	 <u>2,263,108</u>	 <u>3,444,106</u>	 <u>7,687,823</u>
 <b>Net Assets</b>				
Invested in capital assets, net of related debt	--	--	--	87,942
Unrestricted	<u>144,040</u>	<u>(2,254,442)</u>	<u>(3,332,889)</u>	<u>(4,539,792)</u>
Total Net Assets	<u>144,040</u>	<u>(2,254,442)</u>	<u>(3,332,889)</u>	<u>(4,451,850)</u>
 Total Liabilities and Net Assets	 <u>\$ 154,747</u>	 <u>\$ 8,666</u>	 <u>\$ 111,217</u>	 <u>\$ 3,235,973</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Internal Service Funds  
For the Year Ended June 30, 2008

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemploymen Insurance</u>	<u>General Liability Insurance</u>
<b>Operating Revenues:</b>				
Charges and fees	\$ --	\$ 515,955	\$ 300,000	\$ 1,944,491
Other	--	50,387	--	--
Total Operating Revenues	<u>--</u>	<u>566,342</u>	<u>300,000</u>	<u>1,944,491</u>
<b>Operating Expenses:</b>				
Salaries and benefits	--	--	--	142,420
Services and supplies	175,511	521,957	11,657	418,084
Insurance	--	--	267,982	705,117
Depreciation	19,347	7,960	--	488
Claims and judgments	--	--	--	175,471
Total Operating Expenses	<u>194,858</u>	<u>529,917</u>	<u>279,639</u>	<u>1,441,580</u>
<b>Operating Income (Loss)</b>	<u>(194,858)</u>	<u>36,425</u>	<u>20,361</u>	<u>502,911</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest revenue (expense)	<u>(1,152)</u>	<u>20,800</u>	<u>31,853</u>	<u>69,348</u>
Total Non-Operating Revenues (Expenses)	<u>(1,152)</u>	<u>20,800</u>	<u>31,853</u>	<u>69,348</u>
<b>Income (Loss) Before Transfers</b>	<u>(196,010)</u>	<u>57,225</u>	<u>52,214</u>	<u>572,259</u>
Transfers in	250,000	--	--	--
Transfers out	<u>--</u>	<u>(1,152,969)</u>	<u>--</u>	<u>(12,769)</u>
<b>Change in net assets</b>	53,990	(1,095,744)	52,214	559,490
Net Assets - Beginning	<u>(51,125)</u>	<u>1,675,066</u>	<u>94,898</u>	<u>(297,348)</u>
<b>Net Assets - Ending</b>	<u>\$ 2,865</u>	<u>\$ 579,322</u>	<u>\$ 147,112</u>	<u>\$ 262,142</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, 2008

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b>Operating Revenues:</b>				
Charges and fees	\$ 3,445,057	\$ 12,260,354	\$ 4,466,568	\$ 22,932,425
Other	--	--	--	50,387
<b>Total Operating Revenues</b>	<u>3,445,057</u>	<u>12,260,354</u>	<u>4,466,568</u>	<u>22,982,812</u>
<b>Operating Expenses:</b>				
Salaries and benefits	161,984	89,065	43,797	437,266
Services and supplies	12,840	11,107,296	6,862,330	19,109,675
Insurance	3,091,554	679,375	349,135	5,093,163
Depreciation	--	--	--	27,795
Claims and judgments	--	--	--	175,471
<b>Total Operating Expenses</b>	<u>3,266,378</u>	<u>11,875,736</u>	<u>7,255,262</u>	<u>24,843,370</u>
<b>Operating Income (Loss)</b>	<u>178,679</u>	<u>384,618</u>	<u>(2,788,694)</u>	<u>(1,860,558)</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest revenue (expense)	<u>(21,743)</u>	<u>(49,366)</u>	<u>(22,797)</u>	<u>26,943</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>(21,743)</u>	<u>(49,366)</u>	<u>(22,797)</u>	<u>26,943</u>
<b>Income (Loss) Before Transfers</b>	156,936	335,252	(2,811,491)	(1,833,615)
Transfers in	--	--	--	250,000
Transfers out	<u>(37,363)</u>	<u>(107,484)</u>	<u>(3,729)</u>	<u>(1,314,314)</u>
<b>Change in net assets</b>	119,573	227,768	(2,815,220)	(2,897,929)
Net Assets - Beginning	<u>24,467</u>	<u>(2,482,210)</u>	<u>(517,669)</u>	<u>(1,553,921)</u>
<b>Net Assets - Ending</b>	<u>\$ 144,040</u>	<u>\$ (2,254,442)</u>	<u>\$ (3,332,889)</u>	<u>\$ (4,451,850)</u>

**COUNTY OF MENDOCINO**

Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2008

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from interfund services provided	\$ --	\$ 566,342	\$ 300,000	\$ 1,944,491
Cash paid to suppliers for goods and services	(13,906)	(71,534)	(268,929)	(1,136,824)
Cash paid to employees for services	(175,511)	(521,957)	--	(137,654)
	<u>(189,417)</u>	<u>(27,149)</u>	<u>31,071</u>	<u>670,013</u>
Net Cash Provided (Used) by Operating Activities				
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	250,000	--	--	--
Transfers out	--	--	--	(12,769)
Loan repayment or borrowing	(68,192)	7,000	(615,000)	(1,500,000)
	<u>181,808</u>	<u>7,000</u>	<u>(615,000)</u>	<u>(1,512,769)</u>
Net Cash Provided (Used) by Noncapital Financing Activities				
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sales of capital assets	8,405	--	--	1,582
	<u>8,405</u>	<u>--</u>	<u>--</u>	<u>1,582</u>
Net Cash Provided (Used) by Capital and Related Financing Activities				
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid)	(1,152)	20,800	31,853	69,348
Net Cash Provided (Used) by Investing Activities	<u>(1,152)</u>	<u>20,800</u>	<u>31,853</u>	<u>69,348</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(356)	651	(552,076)	(771,826)
<b>Cash and Cash Equivalents, Beginning of Year</b>	356	818	556,409	957,425
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ --</u>	<u>\$ 1,469</u>	<u>\$ 4,333</u>	<u>\$ 185,599</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (194,858)	\$ 36,425	\$ 20,361	\$ 502,911
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	19,347	7,960	--	488
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	--
Increase (decrease) in:				
Accounts payable	(13,906)	(71,534)	--	2,683
Accrued salaries	--	--	--	3,910
Compensated absences	--	--	--	856
OPEB Liability	--	--	--	--
Claims liability	--	--	10,710	159,165
	<u>(189,417)</u>	<u>(27,149)</u>	<u>31,071</u>	<u>670,013</u>
Net Cash Provided (Used) by Operating Activities				
<b>Non cash investing, capital, and financing activities:</b>				
Transfer of capital assets to governmental funds	\$ --	\$ 1,152,969	\$ --	\$ --

continued

**COUNTY OF MENDOCINO**

Combining Statement of Cash Flows (continued)

Internal Service Funds

For the Year Ended June 30, 2008

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash receipts from interfund services provided	\$ 3,445,057	\$ 12,267,025	\$ 4,355,351	\$ 22,878,266
Cash paid to suppliers for goods and services	(3,159,378)	(640,467)	(4,359,997)	(9,651,035)
Cash paid to employees for services	<u>(160,935)</u>	<u>(11,194,085)</u>	<u>(41,161)</u>	<u>(12,231,303)</u>
Net Cash Provided (Used) by Operating Activities	<u>124,744</u>	<u>432,473</u>	<u>(45,807)</u>	<u>995,928</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfers in	--	--	--	250,000
Transfers out	(37,363)	(107,484)	(3,729)	(161,345)
Loan repayment or borrowing	--	<u>(276,189)</u>	--	<u>(2,452,381)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(37,363)</u>	<u>(383,673)</u>	<u>(3,729)</u>	<u>(2,363,726)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Proceeds from sales of capital assets	<u>302</u>	--	--	<u>10,289</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>302</u>	--	--	<u>10,289</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid)	<u>(21,743)</u>	<u>(49,366)</u>	<u>(22,797)</u>	<u>26,943</u>
Net Cash Provided (Used) by Investing Activities	<u>(21,743)</u>	<u>(49,366)</u>	<u>(22,797)</u>	<u>26,943</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	65,940	(566)	(72,333)	(1,330,566)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>88,807</u>	<u>566</u>	<u>72,333</u>	<u>1,676,714</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 154,747</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 346,148</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ 178,679	\$ 384,618	\$ (2,788,694)	\$ (1,860,558)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	--	--	--	27,795
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	6,671	(111,217)	(104,546)
Increase (decrease) in:				
Accounts payable	(54,984)	(106,430)	(53,026)	(297,197)
Accrued salaries	2,730	2,199	1,884	10,723
Compensated absences	(1,681)	77	752	4
OPEB Liability	--	--	2,904,494	2,904,494
Claims liability	--	<u>145,338</u>	--	<u>315,213</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 124,744</u>	<u>\$ 432,473</u>	<u>\$ (45,807)</u>	<u>\$ 995,928</u>
<b>Non cash investing, capital, and financing activities:</b>				
Transfer of capital assets to governmental funds	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,152,969</u>

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
Investment Trust Funds  
June 30, 2008

	Special Districts Local Boards	School Districts	Total
<u>Assets</u>			
Cash and investments in County Treasury	<u>\$ 9,522,918</u>	<u>\$ 133,069,067</u>	<u>\$ 142,591,985</u>
<u>Fund Balance</u>			
Fund Balance:			
Reserved for pool participants	<u>\$ 9,522,918</u>	<u>\$ 133,069,067</u>	<u>\$ 142,591,985</u>