

**COUNTY OF MENDOCINO**  
**AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**THIS PAGE INTENTIONALLY LEFT BLANK**

COUNTY OF MENDOCINO

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2012

Table of Contents

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis (Required Supplementary Information) .....	3-10
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	11
Statement of Activities .....	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	14-15
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets – Governmental Activities.....	16
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	18-19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities – Governmental Activities .....	20
Proprietary Funds:	
Statement of Fund Net Assets.....	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	22
Statement of Cash Flows.....	23
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	24
Statement of Changes in Fiduciary Net Assets .....	25
Notes to the Basic Financial Statements.....	27-53
Required Supplementary Information:	
County Employee's Retirement Plan (Defined Benefit Pension Plan):	
Schedule of Funding Progress .....	55
Budgetary Comparison Schedule – General Fund.....	56-57
Budgetary Comparison Schedule – Mental Health Services Fund .....	58
Budgetary Comparison Schedule – Road Fund .....	59
Note to Required Supplementary Information:	
Budgetary Basis of Accounting.....	60
Supplemental Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet .....	61-64
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	65-68
Internal Service Funds:	
Combining Statement of Fund Net Assets .....	69-70
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	71-72
Combining Statement of Cash Flows .....	73-74

**COUNTY OF MENDOCINO**  
**AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Table of Contents (continued)

	<u>Page</u>
<b>FINANCIAL SECTION</b> (continued)	
Supplemental Information (continued):	
Investment Trust Funds:	
Combining Balance Sheet .....	75

## **FINANCIAL SECTION**

**THIS PAGE INTENTIONALLY LEFT BLANK**



## 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, 2012, 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 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, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated December 28, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Supervisors and Grand Jury  
County of Mendocino

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Gallina LLP*

Roseville, California  
December 28, 2012

# MENDOCINO COUNTY

## Management's Discussion and Analysis For the Year Ended June 30, 2012

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, 2012. We encourage readers to consider the information presented here.

### Financial Highlights

- ❖ The County of Mendocino's assets exceeded its liabilities at the close of the most recent fiscal year by \$66,760,202 (net assets). There was a deficit of (\$31,191,190) in unrestricted net assets.
- ❖ The County's total net assets decreased by \$8,197,567. Reasons for this decrease include increases to the closure/post-closure liability and change in the net pension asset balance.
- ❖ At the close of the current fiscal year, the County's combined (all governmental funds) ending fund balance was \$29,872,969. This was an increase of \$5,213,468 in comparison with the prior year.
- ❖ Unassigned fund balance for the General Fund at the close of the current fiscal year was \$12,146,891.
- ❖ Total debt decreased by \$3,685,426 (3.39%) during the 2011/12 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).

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 11-12 of this report.

# MENDOCINO COUNTY

## Management's Discussion and Analysis For the Year Ended June 30, 2012

**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.

The County of Mendocino maintains nineteen 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 mental health fund, the debt service fund and the pension obligation bonds fund, all of which are considered to be major funds. Data from the other fourteen 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 56) has been provided for the general fund to demonstrate compliance with this budget.

The basic Governmental Fund Financial Statements can be found on pages 14-20 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 21-23 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 24-25 of this report.

# MENDOCINO COUNTY

## Management's Discussion and Analysis For the Year Ended June 30, 2012

**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 27-53 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 55-60 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 61-75 of this report.

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Mendocino, assets exceeded liabilities by \$66,760,202 at the close of the 2011/12 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*	
	2012	2011
Current and other assets	\$ 115,454,283	\$ 119,464,870
Capital assets	100,140,041	100,307,029
Total Assets	215,594,324	219,771,899
Long-term liabilities	128,495,764	125,709,586
Other liabilities	20,338,358	19,104,544
Total Liabilities	148,834,122	144,814,130
Net Assets:		
Invested in capital assets, net of related debt	74,698,740	74,585,302
Restricted	23,252,652	25,669,041
Unrestricted	(31,191,190)	(25,296,574)
Total Net Assets	\$ 66,760,202	\$ 74,957,769

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

Investments in capital assets are subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net assets in the amount of (\$31,191,190) cannot be used to meet the County's ongoing obligations to citizens and creditors.

## MENDOCINO COUNTY

### Management's Discussion and Analysis For the Year Ended June 30, 2012

**Governmental Activities.** Governmental activities decreased the County's net assets by \$8,197,567. Key elements of this decrease are the increases in closure/post-closure liability and the change in the net pension asset balance.

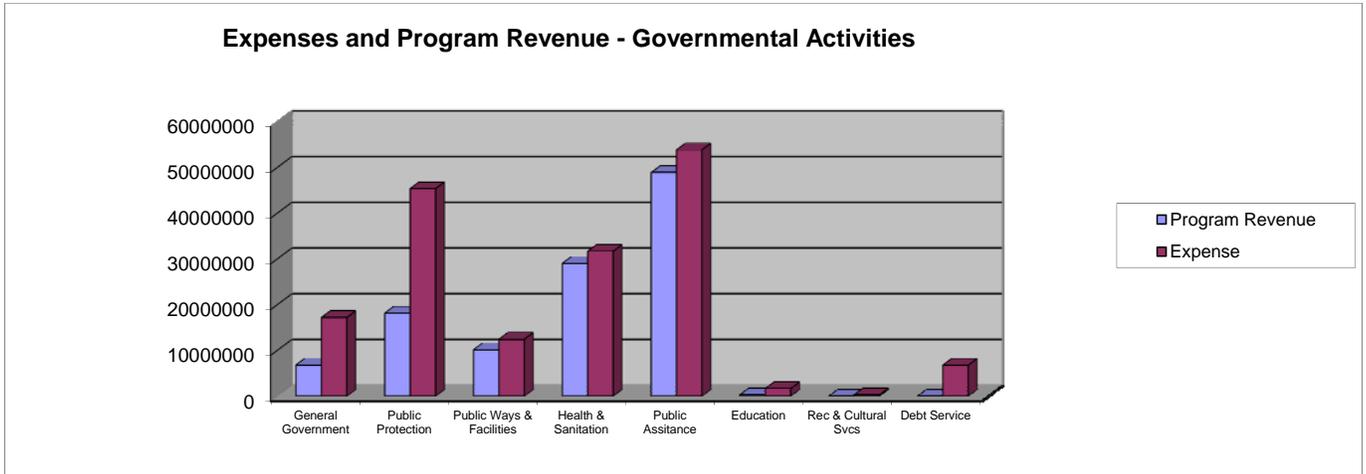
<b>Revenues</b>	2012	2011
<b>Program Revenues:</b>		
Fees, fines and charges for services	\$ 16,978,991	\$ 20,759,976
Operating grants & contributions	93,885,542	111,534,406
Capital grants & contributions	2,666,040	4,995,419
<b>General Revenues:</b>		
Property taxes	40,621,657	41,144,426
Sales & use taxes	10,723,295	9,741,986
Other taxes	3,842,861	3,644,843
Unrestricted interest & investment earnings	1,026,203	701,241
Miscellaneous	2,427,781	1,590,451
Change in estimate - OPEB	--	5,653,767
Special Item	--	11,499,287
Extraordinary Item - RDA dissolution	(1,405,328)	--
<b>Total Revenues, Special Item and Extraordinary Item</b>	<b>170,767,042</b>	<b>211,265,802</b>
<b>Expenses</b>		
<b>Expenses:</b>		
General government	17,899,927	16,205,286
Public protection	48,623,849	49,125,445
Public ways & facilities	12,784,390	12,916,136
Health & sanitation	35,317,480	35,845,647
Public assistance	55,458,554	58,642,918
Education	1,753,995	1,713,418
Recreation and cultural services	318,234	255,063
Interest on long-term debt	6,808,180	6,579,594
<b>Total Expenses</b>	<b>178,964,609</b>	<b>181,283,507</b>
<b>Change in Net Assets</b>	<b>(8,197,567)</b>	<b>29,982,295</b>
<b>Beginning Net Assets</b>	<b>74,957,769</b>	<b>44,975,474</b>
<b>Ending Net Assets</b>	<b>\$ 66,760,202</b>	<b>\$ 74,957,769</b>

# MENDOCINO COUNTY

## Management's Discussion and Analysis For the Year Ended June 30, 2012

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

- ❖ Property taxes decreased by (\$522,769) (1.27%) during the year. Most of this decrease is attributable to a 0.64% decrease in assessed valuations.

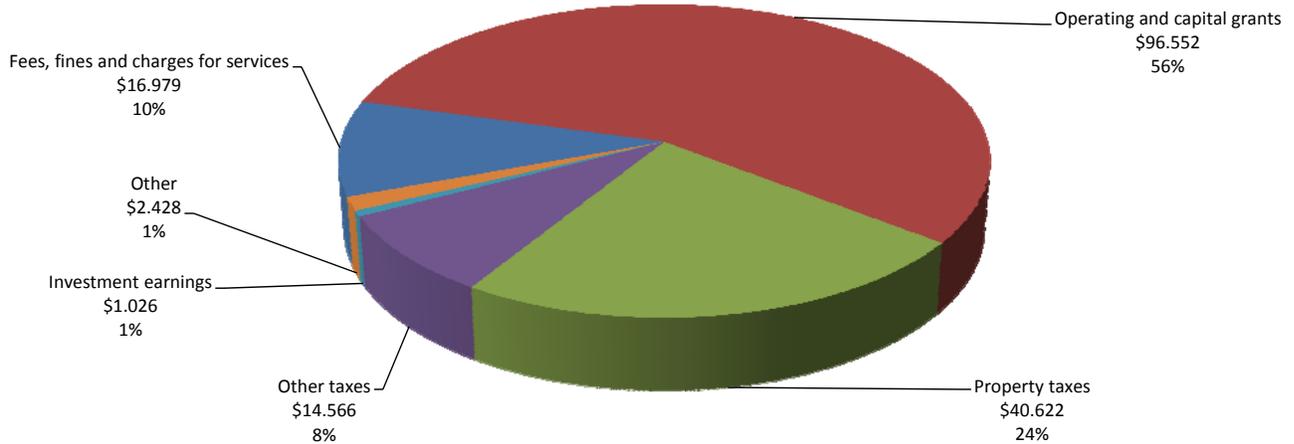


Expenses and Program Revenue		
Governmental Functions	Program Revenue	Expense
General Government	\$ 6,869,270	\$ 17,224,969
Public Protection	18,178,880	45,401,460
Public Ways & Facilities	10,167,788	12,478,228
Health & Sanitation	29,069,787	31,682,208
Public Assistance	48,912,042	53,884,512
Education	328,177	1,684,779
Rec & Cultural Svcs	4,629	304,497
Debt Service	-	6,808,180

# MENDOCINO COUNTY

## Management's Discussion and Analysis For the Year Ended June 30, 2012

### 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 (24%). 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 34% of total revenue received is discretionary (not dedicated to particular services/programs).

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

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

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

**Governmental funds.** The focus of the County of Mendocino's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County of Mendocino's governmental funds reported combined ending fund balances of \$29,872,969, an increase of \$5,213,468 from the prior year. Some of the fund balance is restricted 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 (\$698,595); 2) to pay debt service (\$7,300,497); 3) for specific road infrastructure projects (\$3,621,273); 4) for mental health programs (\$2,268,614); 5) for a variety of other restricted purposes (\$3,846,612).

The general fund is the chief operating fund of the County of Mendocino. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,146,891, while total fund balance reached \$12,470,215. The fund balance of the County of Mendocino's general fund increased by \$6,996,634 during the 2011/12 Fiscal Year.

## MENDOCINO COUNTY

### Management's Discussion and Analysis For the Year Ended June 30, 2012

The debt service fund had a total fund balance of \$2,022,397, all of which is assigned for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$3,265. Interest expenditures increased during the current period by \$1,030,721.

The pension obligation fund had a total fund balance of \$5,278,100, all of which is assigned for the payment of debt service. The net decrease in fund balance during the current year was (\$738,327).

The mental health services fund had a total fund balance of 2,268,614. The net increase in fund balance during the current year was \$956,995.

The road fund had a total fund balance of \$4,218,100. The net decrease for the year was (\$2,179,231).

**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 \$6,133,726.

**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 \$325,990 for fixed asset purchases from Asset Forfeiture and sheriff's efficiency audit from Federal COP grant funds.
- ❖ Increased Jail's budgeted expenditures and corresponding revenues by \$40,000 for fixed asset purchase from asset forfeiture.
- ❖ Increased Little River Airport's budgeted expenditures and corresponding revenues by \$32,000 for a new aviation fuel dispenser/card reader system.
- ❖ Increased Probation's budgeted expenditures and corresponding revenues by \$413,299 for the AB109 criminal justice realignment plan.
- ❖ Increased Emergency Service's budgeted expenditures and corresponding revenues by \$84,138 for NOAA/CalEMA grant to purchase tsunami sirens.
- ❖ Increased Treasurer's budgeted expenditures and corresponding revenues by \$49,999 for replacement of remittance processing system.

#### Capital Asset and Debt Administration

**Capital assets.** The County of Mendocino's investment in capital assets for its governmental activities as of June 30, 2012, amounts to \$100,140,041 (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 0.2%. Additional details of capital assets are in Note 7 on Page 41.

## MENDOCINO COUNTY

### Management's Discussion and Analysis For the Year Ended June 30, 2012

#### County of Mendocino's Capital Assets

	2012	2011
Land	\$ 3,002,620	\$ 3,002,620
Structures and improvements	38,390,321	39,016,623
Improvements other than buildings	2,488,578	2,700,584
Equipment	6,955,241	7,208,902
Infrastructure	44,251,121	44,527,187
Construction in progress	5,052,160	3,851,113
Total	\$ 100,140,041	\$ 100,307,029

**Long-term debt.** At the end of the current fiscal year, the County of Mendocino has long-term debt outstanding of \$105,016,301.

#### County of Mendocino's Outstanding Debt

	2012	2011
General obligation bonds	\$ 79,575,000	\$ 82,980,000
Certificates of Participation	24,505,000	24,130,000
Capital leases & loans	936,301	1,591,727
Total	\$ 105,016,301	\$ 108,701,727

The County of Mendocino's total debt decreased by \$3,685,426 (3.39%) during the current fiscal year. The key factor in this decrease was an increase in principal payment on the general obligation bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue at 10% of its total assessed valuation. The current debt limitation for the County of Mendocino is \$951,986,284, 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 8 on pages 42-44 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 2012/13 fiscal year.

- ❖ Continued decline of national, state & local economies.
- ❖ Increased expenses to employee benefits due to increases in retirement costs.
- ❖ Decreased employee salaries due to salary concessions necessary with the lagging economy.

**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**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**COUNTY OF MENDOCINO**

Statement of Net Assets  
June 30, 2012

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and investments	\$ 38,127,965
Cash with fiscal agent	7,832,322
Other cash	250,027
Accounts receivable	705,418
Due from other governments	14,664,755
Taxes receivable	1,058,694
Inventories	698,595
Net pension asset	50,111,272
Deferred charges	2,005,235
Capital assets:	
Nondepreciable	8,054,780
Depreciable, net	<u>92,085,261</u>
Total Assets	<u><u>215,594,324</u></u>
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ 5,129,511
Salaries and benefits payable	2,289,022
Interest payable	1,767,023
Unearned revenue	11,152,802
Long-Term Liabilities:	
Portion due or payable within one year:	
Certificates of participation	975,000
Bonds payable	3,575,000
Loans payable	583,183
Liability for compensated absences	4,415,527
Claims liability	3,312,741
Portion due or payable after one year:	
Certificates of participation	23,530,000
Bonds payable	76,000,000
Loans payable	353,118
Other postemployment benefits (OPEB) liability	2,054,295
Closure/post-closure liability	<u>13,696,900</u>
Total Liabilities	<u><u>148,834,122</u></u>
<b><u>NET ASSETS</u></b>	
Invested in capital assets, net of related debt	74,698,740
Restricted for:	
Legally segregated taxes, grants and fees	9,083,310
Debt service and capital projects	14,169,342
Unrestricted	<u>(31,191,190)</u>
Total Net Assets	<u><u>66,760,202</u></u>
 Total Liabilities and Net Assets	 <u><u>\$215,594,324</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, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets
					Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 17,899,927	\$ 3,475,224	\$ 3,049,543	\$ 344,503	\$ (11,030,657)
Public protection	48,623,849	8,752,166	9,426,714	--	(30,444,969)
Public ways and facilities	12,784,390	329,114	7,517,137	2,321,537	(2,616,602)
Health and sanitation	35,317,480	4,105,555	24,964,232	--	(6,247,693)
Public assistance	55,458,554	280,822	48,631,220	--	(6,546,512)
Education	1,753,995	36,110	292,067	--	(1,425,818)
Recreation and culture	318,234	--	4,629	--	(313,605)
Debt Service:					
Interest	6,808,180	--	--	--	(6,808,180)
<b>Total Governmental Activities</b>	<b>\$ 178,964,609</b>	<b>\$ 16,978,991</b>	<b>\$ 93,885,542</b>	<b>\$ 2,666,040</b>	<b>(65,434,036)</b>
General Revenues:					
Taxes:					
Property taxes					40,621,657
Sales and use taxes					10,723,295
Transient occupancy tax					3,556,307
Other					286,554
Unrestricted interest and investment earnings					1,026,203
Miscellaneous					2,427,781
<b>Total General Revenues</b>					<b>58,641,797</b>
Change in Net Assets Before Extraordinary Item					(6,792,239)
Extraordinary item - RDA dissolution					(1,405,328)
Change in Net Asset					(8,197,567)
Net Assets - Beginning of Year					74,957,769
Net Assets - End of Year					<b>\$ 66,760,202</b>

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

**BASIC FINANCIAL STATEMENTS –  
FUND FINANCIAL STATEMENTS**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**COUNTY OF MENDOCINO**

Balance Sheet  
Governmental Funds  
June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>	<u>Mental Health Services</u>
<u>Assets</u>				
Pooled cash and investments in treasury	\$21,029,202	\$ 24,986	\$ --	\$ 3,542,915
Restricted Assets:				
Cash with fiscal agent	--	2,031,991	5,800,331	--
Imprest cash	9,535	--	--	100
Accounts receivable	432,439	--	--	193,622
Taxes receivable	848,694	--	--	--
Due from other governments	3,939,489	--	--	3,983,172
Inventory	101,768	--	--	--
Total Assets	<u>\$26,361,127</u>	<u>\$2,056,977</u>	<u>\$ 5,800,331</u>	<u>\$ 7,719,809</u>
<u>Liabilities</u>				
Accounts payable	\$ 1,813,247	\$ 1,350	\$ --	\$ 1,306,617
Accrued salaries and benefits	1,964,067	--	--	96,879
Due to other funds	--	--	522,231	--
Matured principal and interest payable	--	33,230	--	--
Deferred revenue	1,889,532	--	--	4,047,699
Unearned revenue	8,224,066	--	--	--
Total Liabilities	<u>13,890,912</u>	<u>34,580</u>	<u>522,231</u>	<u>5,451,195</u>
<u>Fund Balances</u>				
Nonspendable	101,768	--	--	--
Restricted	--	2,022,397	5,278,100	2,268,614
Assigned	221,556	--	--	--
Unassigned	12,146,891	--	--	--
Total Fund Balances	<u>12,470,215</u>	<u>2,022,397</u>	<u>5,278,100</u>	<u>2,268,614</u>
 Total Liabilities and Fund Balances	 <u>\$26,361,127</u>	 <u>\$2,056,977</u>	 <u>\$ 5,800,331</u>	 <u>\$ 7,719,809</u>

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

continued

**COUNTY OF MENDOCINO**

Balance Sheet (continued)  
 Governmental Funds  
 June 30, 2012

	<u>Road</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Pooled cash and investments in treasury	\$4,579,704	\$ 3,150,488	\$32,327,295
Restricted Assets:			
Cash with fiscal agent	--	--	7,832,322
Imprest cash	50	780	10,465
Accounts receivable	2,475	2,800	631,336
Taxes receivable	--	210,000	1,058,694
Due from other governments	3,012,597	2,577,524	13,512,782
Inventory	596,827	--	698,595
Total Assets	<u>\$8,191,653</u>	<u>\$ 5,941,592</u>	<u>\$56,071,489</u>
 <u>Liabilities</u>			
Accounts payable	\$1,667,756	\$ 215,089	\$ 5,004,059
Accrued salaries and benefits	136,129	78,736	2,275,811
Due to other funds	--	1,812,379	2,334,610
Matured principal and interest payable	--	--	33,230
Deferred revenue	2,169,668	219,845	8,326,744
Unearned revenue	--	--	8,224,066
Total Liabilities	<u>3,973,553</u>	<u>2,326,049</u>	<u>26,198,520</u>
 <u>Fund Balances</u>			
Nonspendable	596,827	--	698,595
Restricted	3,621,273	3,625,056	16,815,440
Assigned	--	--	221,556
Unassigned	--	(9,513)	12,137,378
Total Fund Balances	<u>4,218,100</u>	<u>3,615,543</u>	<u>29,872,969</u>
 Total Liabilities and Fund Balances	<u>\$8,191,653</u>	<u>\$ 5,941,592</u>	<u>\$56,071,489</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  
For the Year Ended June 30, 2012

Fund Balance - total governmental funds (page 14)	\$ 29,872,969
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.	2,005,235
The pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefore not reported in the funds.	50,111,272
Deferred revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	8,326,744
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	100,140,041
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.	(2,928,736)
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:	6,133,726
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.	
Loans payable	(936,301)
Bonds payable	(79,575,000)
Certificates of participation	(24,505,000)
Accrued interest on long-term debt	(1,733,793)
Compensated absences	(4,399,760)
Landfill closure/post closure care costs	(13,696,900)
OPEB liability	<u>(2,054,295)</u>
Net assets of governmental activities (page 11)	<u>\$ 66,760,202</u>

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

**COUNTY OF MENDOCINO**

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>
<b>Revenues:</b>			
Taxes	\$ 54,853,752	\$ --	\$ --
Licenses, permits and franchises	2,378,594	--	--
Intergovernmental	65,224,988	--	--
Revenue from use of money and property	720,329	26,104	(25,093)
Fines, forfeitures and penalties	2,057,897	18,000	--
Charges for services	10,427,939	--	--
Other revenues	2,131,749	38,729	46,028
Total Revenues	<u>137,795,248</u>	<u>82,833</u>	<u>20,935</u>
<b>Expenditures:</b>			
Current:			
General government	13,206,898	19,023	2,150
Public protection	41,090,866	--	--
Public ways and facilities	(125,722)	--	--
Health and sanitation	10,321,460	--	--
Public assistance	50,477,545	--	--
Education	200,586	--	--
Recreation and culture	291,735	--	--
Debt service:			
Principal	--	1,863,961	3,405,000
Interest	571,206	2,372,144	4,509,199
Capital outlay	1,711,758	--	--
Total Expenditures	<u>117,746,332</u>	<u>4,255,128</u>	<u>7,916,349</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>20,048,916</u>	<u>(4,172,295)</u>	<u>(7,895,414)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	658,273	2,495,560	7,157,087
Transfers out	(13,710,555)	--	--
Issuance of refunding debt	--	25,810,000	--
Payment to refunded bond escrow agent	--	(24,130,000)	--
Total Other Financing Sources (Uses)	<u>(13,052,282)</u>	<u>4,175,560</u>	<u>7,157,087</u>
Extraordinary Item - RDA dissolution	<u>--</u>	<u>--</u>	<u>--</u>
<b>Net Changes in Fund Balances</b>	6,996,634	3,265	(738,327)
Fund Balances, Beginning of Year	<u>5,473,581</u>	<u>2,019,132</u>	<u>6,016,427</u>
Fund Balances, End of Year	<u>\$ 12,470,215</u>	<u>\$ 2,022,397</u>	<u>\$ 5,278,100</u>

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, 2012

	Mental Health Services	Road	Other Governmental Funds	Total
<b>Revenues:</b>				
Taxes	\$ --	\$ 35,397	\$ 1,070,591	\$ 55,959,740
Licenses, permits and franchises	--	56,724	287,469	2,722,787
Intergovernmental	16,262,758	8,487,049	7,621,609	97,596,404
Revenue from use of money and property	1,497	28,688	19,997	771,522
Fines, forfeitures and penalties	--	54,750	213,995	2,344,642
Charges for services	1,098,430	217,640	241,491	11,985,500
Other revenues	64,397	46,613	100,265	2,427,781
Total Revenues	<u>17,427,082</u>	<u>8,926,861</u>	<u>9,555,417</u>	<u>173,808,376</u>
<b>Expenditures:</b>				
Current:				
General government	--	--	142,632	13,370,703
Public protection	--	--	1,878,304	42,969,170
Public ways and facilities	--	9,745,457	41,502	9,661,237
Health and sanitation	16,005,950	--	2,672,016	28,999,426
Public assistance	--	--	2,357,294	52,834,839
Education	--	--	1,361,449	1,562,035
Recreation and culture	--	--	3,727	295,462
Debt service:				
Principal	--	--	--	5,268,961
Interest	--	--	--	7,452,549
Capital outlay	--	4,197,558	319,222	6,228,538
Total Expenditures	<u>16,005,950</u>	<u>13,943,015</u>	<u>8,776,146</u>	<u>168,642,920</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,421,132</u>	<u>(5,016,154)</u>	<u>779,271</u>	<u>5,165,456</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	--	3,321,985	1,253,222	14,886,127
Transfers out	(464,137)	(485,062)	(453,033)	(15,112,787)
Issuance of refunding debt	--	--	--	25,810,000
Payment to refunded bond escrow agent	--	--	--	(24,130,000)
Total Other Financing Sources (Uses)	<u>(464,137)</u>	<u>2,836,923</u>	<u>800,189</u>	<u>1,453,340</u>
Extraordinary Item - RDA dissolution	--	--	(1,405,328)	(1,405,328)
<b>Net Changes in Fund Balances</b>	956,995	(2,179,231)	174,132	5,213,468
Fund Balances, Beginning of Year	<u>1,311,619</u>	<u>6,397,331</u>	<u>3,441,411</u>	<u>24,659,501</u>
Fund Balances, End of Year	<u>\$ 2,268,614</u>	<u>\$ 4,218,100</u>	<u>\$ 3,615,543</u>	<u>\$ 29,872,969</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, 2012

Net change to fund balance - total governmental funds (page 19) \$ 5,213,468

Amounts reported for governmental activities in the statement of activities  
are different because:

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.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 5,406,344	
Less current year depreciation	<u>(5,556,600)</u>	(150,256)

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.		(3,305,795)
--	--	-------------

Interest received in advance as a result of a debt service forward agreement are deferred in the government-wide statements and recognized over the life of the bonds.		209,196
--	--	---------

Long-term debt proceeds provide current financial resources for governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.		(25,810,000)
--	--	--------------

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	96,465	
Loans payable	558,961	
Bonds payable and certificates of participation	<u>28,840,000</u>	29,495,426

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.

Change in accrued interest on long-term debt	738,694	
Amortization of bond issuance costs	(94,325)	
Change in net pension asset	(6,833,355)	
Change in net OPEB obligation	(1,895,295)	
Change in compensated absences	429,344	
Change in liability for closure/post closure care	<u>(4,593,717)</u>	(12,248,654)

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>(1,600,952)</u>
--	--	--------------------

Change in net assets of governmental activities (page 12) \$ (8,197,567)

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

COUNTY OF MENDOCINO

Statement of Fund Net Assets  
Proprietary Funds  
June 30, 2012

	<u>Governmental Activities Internal Service Funds</u>
<u>ASSETS</u>	
Current Assets:	
Pooled cash and investments in treasury	\$ 5,790,205
Other cash	250,027
Accounts receivable	74,082
Due from other governments	1,151,973
Due from other funds	<u>2,358,360</u>
Total Current Assets	<u>9,624,647</u>
 Total Assets	 <u><u>9,624,647</u></u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	125,452
Accrued salaries and benefits	13,211
Due to other funds	23,750
Compensated absences	15,767
Liability for unpaid claims	<u>3,312,741</u>
Total Current Liabilities	<u>3,490,921</u>
 Total Liabilities	 <u>3,490,921</u>
 <u>NET ASSETS</u>	
Unrestricted	<u>6,133,726</u>
Total Net Assets	<u><u>6,133,726</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, 2012

	Governmental Activities <hr/> Internal Service Funds <hr/>
Operating Revenues:	
Charges for services	\$ 18,243,532
Total Operating Revenues	<u>18,243,532</u>
Operating Expenses:	
Salaries and employee benefits	504,544
Services and supplies	15,803,348
Insurance	4,675,821
Depreciation	16,732
Claims and judgments	531,292
Total Operating Expenses	<u>21,531,737</u>
Operating Income (Loss)	<u>(3,288,205)</u>
Non-Operating Revenues (Expenses):	
Interest income	45,485
Intergovernmental revenue	1,415,108
Total non-operating revenues (expenses)	<u>1,460,593</u>
Income (Loss) Before Transfers	(1,827,612)
Transfers in	499,956
Transfers out	<u>(273,296)</u>
Change in Net Assets	(1,600,952)
Net Assets - Beginning of Year	<u>7,734,678</u>
Net Assets - End of Year	<u><u>\$ 6,133,726</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, 2012

	Governmental Activities
	<u>Internal Service Funds</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash receipts from interfund services provided	\$ 17,181,452
Cash paid to employees for services	(512,288)
Cash paid to suppliers for goods and services	<u>(20,590,657)</u>
Net Cash Provided (Used) by Operating Activities	<u>(3,921,493)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING</b>	
Interfund loans	(1,144,610)
Transfers in	499,956
Transfers out	(273,296)
Intergovernmental revenues	1,415,108
Net Cash Provided (Used) by Investing Activities	<u>497,158</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest received (paid)	<u>45,485</u>
Net Cash Provided (Used) by Investing Activities	<u>45,485</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(3,378,850)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>9,419,082</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 6,040,232</u></u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ (3,288,205)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	16,732
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(1,062,080)
Increase (decrease) in:	
Accounts payable	11,294
Accrued salaries	(11,170)
Compensated absences	3,426
Claims liability	<u>408,510</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u><u>\$ (3,921,493)</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, 2012

	<u>Investment Trust</u>	<u>Agency Funds</u>	<u>Pension Trust Fund</u>	<u>Private Purpose Trust Fund</u>
<u>Assets</u>				
Cash and investments in treasury	\$ 141,268,374	\$ 9,649,889	\$ 2,354,860	\$ 818,042
Other investments	--	--	340,497,907	--
Accounts receivable	--	--	279,662	--
Taxes receivable	--	12,933,580	--	--
Other assets	--	--	3,786	9,798
Total Assets	<u>\$ 141,268,374</u>	<u>\$ 22,583,469</u>	<u>\$ 343,136,215</u>	<u>\$ 827,840</u>
<u>Liabilities</u>				
Accounts payable and accrued expense: \$	--	\$ --	\$ 399,403	\$ --
Agency funds held for others	--	22,583,469	--	--
Total Liabilities	<u>--</u>	<u>22,583,469</u>	<u>399,403</u>	<u>--</u>
<u>Net assets</u>				
Net Assets held in trust for:				
Other entities	--	--	--	827,840
Retirement system	--	--	342,736,812	--
Investment pool participants	141,268,374	--	--	--
Total Net Assets	<u>141,268,374</u>	<u>--</u>	<u>342,736,812</u>	<u>827,840</u>
Total Liabilities and Net Assets	<u>\$ 141,268,374</u>	<u>\$ 22,583,469</u>	<u>\$ 343,136,215</u>	<u>\$ 827,840</u>

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

**COUNTY OF MENDOCINO**

Statement of Changes in Fiduciary Net Assets  
For the Year Ended June 30, 2012

	Investment Trust	Pension Trust Fund	Private Prupose Trust Fund
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>Additions</u>			
Contributions:			
Employer contributions	\$ --	\$ 11,811,076	\$ --
Member contributions	--	4,840,275	--
Contributions on pooled investments	339,904,987	--	--
Interest and investment income - net	841,502	(4,078,489)	3,245
Total Additions	<u>340,746,489</u>	<u>12,572,862</u>	<u>3,245</u>
 <u>Deductions</u>			
Benefit payments	--	24,180,110	--
Distributions from investment pool	316,003,993	--	--
Payments to taxing entities	--	--	427,324
Administrative expense	--	698,463	344,908
Total Deductions	<u>316,003,993</u>	<u>24,878,573</u>	<u>772,232</u>
 Change in net assets before extraordinary items	24,742,496	(12,305,711)	(768,987)
 <u>Extraordinary item</u>			
Dissolution of County Redevelopment Agency	--	--	1,596,827
 Change in net assets	24,742,496	(12,305,711)	827,840
 Net Assets, beginning	<u>116,525,878</u>	<u>355,042,523</u>	<u>--</u>
 Net Assets, ending	<u>\$ 141,268,374</u>	<u>\$ 342,736,812</u>	<u>\$ 827,840</u>

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

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **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, 2012

### 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, Lakewood Lighting District, Meadowbrook Manor Sanitation District, Mendocino County Air Quality Management District, and Mendocino County Public Facilities Corporation are districts and a corporation governed by the County board of supervisors. The component unit's governing body is substantially the same as the primary government, hence, these units are presented by blending them with the primary government.

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

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

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

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

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, 2012, 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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### *Fund Financial Statements*

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

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

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 *Road Fund* is a special revenue fund that provides for planning, design, construction, maintenance and administration of County maintained roads. Revenues consist primarily of highway user taxes and other intergovernmental revenues.

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, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### *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 *Agency Funds* account for assets held by the County as an agent for various local governments.
- The *Pension Trust Fund* accounts for the pooled cash held in the County Treasury for the Mendocino County Employees' Retirement Association.
- The *Private Purpose Trust Fund* accounts for assets held by the RDA Successor Agency.

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

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

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

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

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Cash and Investments

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

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

#### E. Cash and Cash Equivalents

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

#### F. Receivables

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

#### G. Inventories

Inventories are valued at average cost. Inventories in the Road Fund consist of road supplies, fuel and various consumable items. Inventories in the General Fund consist of office supplies. Inventory recorded by governmental funds are recorded as expenditures at the time the inventory is consumed. Reported inventories of governmental funds are equally offset by nonspendable fund balance to indicate that portion of fund balance is not in spendable form.

#### H. Restricted Assets

The County has \$7,832,322 restricted cash deposited with fiscal agents to meet Certificates of Participation, Pension Obligation Bond and other long-term debt reserve fund requirements.

#### I. Property Tax Revenue

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

#### Alternative Method of Distribution of Tax Levies

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

The County maintains 25% of the total delinquent secured taxes for participating entities in the County, as calculated at the end of the fiscal year, in the tax loss reserve fund. The balance in the fund was approximately \$1,262,715 million at year end.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### J. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The County defines capital assets as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year.

Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

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

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

#### K. Deferred Revenue and Unearned Revenue

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

#### L. Interfund Transactions

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

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

#### M. Estimates

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

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

**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>
Capital Project Funds:	
Capital Projects	\$ 9,513
Internal Service Funds:	
Unemployment Insurance	271,019

The deficit equity in the Capital Projects fund is due to costs that exceeded anticipated revenues.

The Internal Service Funds for insurance (unemployment) had a deficit fund equity at fiscal year ending June 30, 2012, 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.

**NOTE 3: CASH AND INVESTMENTS**

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of securing and protecting the public funds of the County and other participants. Fund not immediately required for daily operations are invested in an attempt to earn a yield commensurate to current conditions. 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 investment pool participants every quarter. 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, 2012**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

At June 30, 2012, total County cash and investments were as follows:

<i>Cash:</i>	
Cash on hand	\$ 1,523,668
Imprest cash	10,465
Deposits less outstanding warrants	8,229,546
Cash with fiscal agents	1,000
Total cash	<u>9,764,679</u>
 <i>Investments:</i>	
In Treasurer's pool	182,705,478
With fiscal agents	7,831,322
With fiscal agents, Pension Trust Fund	340,497,907
Total investments	<u>531,034,707</u>
Total cash and investments	<u>\$ 540,799,386</u>

Total cash and investments at June 30, 2012, were presented on the County's financial statements as follows:

Primary government	\$ 46,210,314
Investment trust fund	141,268,374
Pension trust fund	342,852,767
Agency funds	9,649,889
Other fiduciary	818,042
Total cash and investments	<u>\$ 540,799,386</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 trust deed mortgage notes having a value of 150% of the County's total cash deposits.

At June 30, 2012, the carrying value of the County's deposits was \$7,979,522 and the bank balance was \$11,049,718. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the bank balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### 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.

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

At June 30, 2012, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not made (fair value was 99.80% of carrying value).

At June 30, 2012, the County had the following investments:

	Interest Rates	Maturities	Par	Fair Value	Book/Carrying Value	WAM (Years)
<b>Investment Pool</b>						
Federal agency obligations	0.15% - 0.92%	10/2/12 - 9/28/16	\$ 44,188,000	\$ 44,800,803	\$ 45,182,561	1.96
Treasury obligations	0.24% - 0.50%	11/30/13 - 10/31/15	14,325,000	14,402,254	14,410,228	2.36
Medium term notes	0.48% - 2.12%	10/23/12 - 9/15/16	49,041,000	49,604,274	49,575,231	1.45
Commercial paper	0.15% - 0.39%	7/2/12 - 12/5/12	9,882,000	9,875,360	9,875,360	0.24
Negotiable certificate of deposits	0.19% - 1.22%	7/17/12 - 9/12/14	43,600,000	43,601,831	43,606,451	0.81
Bank of New York Mellon Sweep	Variable	On Demand	55,647	55,647	55,647	0.00
California Local Agency Investment Fund (LAIF)	Variable	On Demand	19,000,000	19,000,000	19,000,000	0.00
California Asset Management Program	Variable	On Demand	1,000,000	1,000,000	1,000,000	0.00
			<u>181,091,647</u>	<u>182,340,169</u>	<u>182,705,478</u>	<u>1.27</u>
<b>Investments Outside Investment Pool</b>						
<i>Cash held with fiscal agent</i>						
Commercial paper	0.15% - 0.39%	7/2/12 - 12/5/12	1,957,000	1,950,561	1,957,000	0.24
Money market mutual funds	0.01%	On Demand	5,874,322	5,874,322	5,874,322	0.00
			<u>\$ 7,831,322</u>	<u>\$ 7,824,883</u>	<u>\$ 7,831,322</u>	<u>0.06</u>
<b>Total Investments</b>			<u>\$ 188,922,969</u>	<u>\$ 190,165,052</u>	<u>\$ 190,536,800</u>	

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 3: **CASH AND INVESTMENTS** (CONTINUED)

#### Investments (continued)

For information regarding investments held by the Pension Trust refer to the Mendocino County Employees' Retirement Association financial statements which may be obtained by contacting the Retirement office at 625B Kings Court, Ukiah, California, 95482.

#### 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 had invested \$74,594,174 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, 2012, the County held 5.16% (\$10,498,134) of its net investment in Federal agency obligations issued by Federal National Mortgage Association. The County did not have 10% or more of its net investment in a single mutual fund. This is in compliance with the investment policy and California Government Code.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

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 carrying value at June 30, 2012.

<b>Investments In Investment Pool</b>	<u>S&amp;P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Federal agency obligations	Aaa	AA+	20.90%
Federal agency obligations	P-1	A-1+	3.67%
Treasury obligations	Aaa	AA+	7.90%
Medium term notes	A1	A+	3.17%
Medium term notes	A1	AA+	0.54%
Medium term notes	A2	A	4.77%
Medium term notes	A2	A+	1.11%
Medium term notes	A2	AA-	1.64%
Medium term notes	Aa2	AA-	6.05%
Medium term notes	Aaa	AAA	0.55%
Medium term notes	Aa1	AA	0.58%
Medium term notes	Aa2	AA	0.55%
Medium term notes	Aa2	AA+	0.86%
Medium term notes	Aa3	A	0.66%
Medium term notes	Aa3	A-	0.55%
Medium term notes	Aa3	A+	2.89%
Medium term notes	Aa3	AA-	3.29%
Commercial paper	P-1	A-1	3.99%
Commercial paper	P-1	A-1+	1.42%
Negotiable Certificates of Deposit	P-1	A-1	0.55%
Negotiable Certificates of Deposit	Aa1	AA-	1.65%
Negotiable Certificates of Deposit	P-1	A-1+	0.88%
Negotiable Certificates of Deposit	Aa3	AA-	4.39%
Negotiable Certificates of Deposit	Aa2	NR	2.74%
Negotiable Certificates of Deposit	Unrated	Unrated	13.71%
Bank of New York Mellon Sweep	Unrated	Unrated	0.03%
California Local Agency Investment Fund	Unrated	Unrated	10.42%
California Asset Management Program	Unrated	Unrated	0.55%
			<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.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 3: CASH AND INVESTMENTS (CONTINUED)

#### Local Agency Investment Fund

The County Treasurer's Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF). LAIF is part of the Pooled Money Investment Account (PMIA), an investment pool consisting of funds held by the state in addition to those deposited with LAIF. All PMIA funds are managed by the Investment Division of the State Treasurer's Office. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California Government Code.

Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute.

At June 30, 2012, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$19 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 \$60.5 billion. Of that amount, 3.47% was invested in structured notes and asset-backed securities with the remaining 96.53% 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.	<u>\$ 74,594,174</u>

#### 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, 2012:

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

Net assets held for pool participants	<u>\$ 192,208,665</u>
Equity of internal pool participants	\$ 47,767,389
Equity of external pool participants	<u>144,441,276</u>
Total net assets	<u>\$ 192,208,665</u>

##### **Statement of Changes in Net Assets**

Net assets for pool participants at July 1, 2011	\$ 151,895,038
Net change in investments by pool participants	<u>40,313,627</u>
Net assets at June 30, 2012	<u>\$ 192,208,665</u>

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

**NOTE 4: ENDOWMENTS**

For the year ended June 30, 2012, the net appreciation on investments of donor-restricted endowments was \$6,175. Under local ordinances and State statutes, the County is authorized based on a total-return policy to spend the appreciation on the supplies and maintenance of the community libraries and museums.

**NOTE 5: SHORT-TERM NOTE PAYABLE**

On July 2, 2011, the County issued a \$25,000,000 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, 2012, and was repaid with taxes and other revenues by June 29, 2012. The County incurred and paid interest of approximately \$469,000.

Short-term note payable activity for the year ended June 30, 2012, was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2012</u>
Short-term note payable	<u>\$ --</u>	<u>\$ 25,000,000</u>	<u>\$ 25,000,000</u>	<u>\$ --</u>

**NOTE 6: INTERFUND TRANSACTIONS**

**Interfund Receivables/Payables**

The composition of interfund balances as of June 30, 2012, are as follows:

***Due from/to other funds:***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Funds	Pension Obligation Fund	\$ 522,231
	Internal Service Funds	23,750
	Nonmajor Governmental Funds	<u>1,812,379</u>
		<u>\$ 2,358,360</u>

The above balances reflect temporary cash advances.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 6: **INTERFUND TRANSACTIONS** (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	\$ 2,495,560
	Road Fund	3,271,185
	Pension Obligation Fund	6,220,632
	Internal Service Funds	499,956
	Nonmajor Governmental Funds	<u>1,223,222</u>
		<u>13,710,555</u>
Mental Health Services Fund	General Fund	189,533
	Pension Obligation Fund	<u>274,604</u>
		<u>464,137</u>
Road Fund	General Fund	121,456
	Pension Obligation Fund	<u>363,606</u>
		<u>485,062</u>
Internal Service Funds	General Fund	235,321
	Pension Obligation Fund	<u>37,975</u>
		<u>273,296</u>
Nonmajor Governmental Funds	General Fund	111,963
	Road	50,800
	Pension Obligation Fund	260,270
	Nonmajor Governmental Funds	<u>30,000</u>
		<u>453,033</u>
		<u>\$ 15,386,083</u>

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

**NOTE 7: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2012
<b>Governmental Activities</b>					
Capital assets, not being depreciated:					
Land	\$ 3,002,620	\$ --	\$ --	\$ --	\$ 3,002,620
Construction in progress	3,851,113	1,923,534	--	(722,487)	5,052,160
<b>Total capital assets, not being depreciated</b>	<b>6,853,733</b>	<b>1,923,534</b>	<b>--</b>	<b>(722,487)</b>	<b>8,054,780</b>
Capital assets, being depreciated:					
Infrastructure	73,040,697	1,122,205	--	722,487	74,885,389
Structures and improvements	69,819,764	1,279,603	--	--	71,099,367
Equipment	27,442,546	1,081,002	(917,481)	--	27,606,067
Improvements other than buildings	5,657,836	--	--	--	5,657,836
<b>Total capital assets, being depreciated</b>	<b>175,960,843</b>	<b>3,482,810</b>	<b>(917,481)</b>	<b>722,487</b>	<b>179,248,659</b>
Less accumulated depreciation for:					
Infrastructure	(28,513,510)	(2,120,758)	--	--	(30,634,268)
Structures and improvements	(30,803,141)	(1,905,905)	--	--	(32,709,046)
Equipment	(20,233,644)	(1,334,663)	917,481	--	(20,650,826)
Improvements other than buildings	(2,957,252)	(212,006)	--	--	(3,169,258)
<b>Total accumulated depreciation</b>	<b>(82,507,547)</b>	<b>(5,573,332)</b>	<b>917,481</b>	<b>--</b>	<b>(87,163,398)</b>
<b>Total capital assets, being depreciated, net</b>	<b>93,453,296</b>	<b>(2,090,522)</b>	<b>--</b>	<b>722,487</b>	<b>92,085,261</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 100,307,029</b>	<b>\$ (166,988)</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 100,140,041</b>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 871,649
Public protection	1,296,458
Public ways and facilities	2,662,482
Health and sanitation	349,201
Public assistance	291,830
Education	71,984
Recreation and culture	12,996
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset	16,732
<b>Total Depreciation Expense - Governmental Functions</b>	<b>\$ 5,573,332</b>

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

**NOTE 8: LONG-TERM LIABILITIES**

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2012, 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, 2012</u>
<b>Loans Payable</b>					
Microwave Radio Network equipment loan	8/1/2013	4.30%	\$210,945-\$288,591	\$ 2,600,000	\$ 847,677
California Energy Commission Loan - 2004	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	250,000	88,624
Total Loans Payable				<u>\$ 2,850,000</u>	<u>\$ 936,301</u>
<b>Taxable Pension Obligation Bonds</b>					
<b>2002 Series</b> (Issued to partially refund the 1996 Series and to meet the net pension obligation of the County's retirement plan)	7/1/04-7/1/26	2.07%-5.77%	\$885,000-\$7,560,000	\$ 91,945,000	\$ 79,575,000
Total Taxable Pension Obligation Bonds				<u>\$ 91,945,000</u>	<u>\$ 79,575,000</u>
<b>Refunding Certificates of Participation</b>					
<b>2012 Series</b> (Issued to refund 2002 and 2000 Series COPs)	7/15/2012 - 7/15/2030	1.00% - 4.30%	\$975,000 - \$1,830,000	\$ 25,810,000	\$ 24,505,000
Total Certificates of Participation				<u>\$ 25,810,000</u>	<u>\$ 24,505,000</u>

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

The following is a summary of long-term liabilities transactions for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities</b>					
Certificates of participation	\$ 24,130,000	\$ --	\$ (24,130,000)	\$ --	\$ --
Refunding certificates of participation	--	25,810,000	(1,305,000)	24,505,000	975,000
Bonds payable	82,980,000	--	(3,405,000)	79,575,000	3,575,000
Loans payable	1,495,262	--	(558,961)	936,301	583,183
Capital leases	96,465	--	(96,465)	--	--
Compensated absences	4,841,445	--	(425,918)	4,415,527	4,415,527
Liability for self-insurance	2,904,231	14,588,535	(14,180,025)	3,312,741	3,312,741
Landfill postclosure costs	9,103,183	4,593,717	--	13,696,900	--
Total Governmental Activities	<u>\$ 125,550,586</u>	<u>\$ 44,992,252</u>	<u>\$ (44,101,369)</u>	<u>\$ 126,441,469</u>	<u>\$ 12,861,451</u>

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 8: **LONG-TERM LIABILITIES** (CONTINUED)

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

As of June 30, 2012, 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
2013	975,000	897,184	3,575,000	4,334,699	583,183	33,769
2014	985,000	877,686	3,755,000	4,151,449	313,647	8,509
2015	1,020,000	848,136	3,940,000	3,948,830	26,056	1,305
2016	1,045,000	817,534	4,155,000	3,725,408	13,415	266
2017	1,085,000	786,184	4,385,000	3,489,704	--	--
2018-2022	5,965,000	3,373,052	25,850,000	13,429,270	--	--
2023-2027	8,160,000	2,083,112	33,915,000	5,102,199	--	--
2028-2032	5,270,000	452,574	--	--	--	--
	<u>\$ 24,505,000</u>	<u>\$ 10,135,462</u>	<u>\$ 79,575,000</u>	<u>\$ 38,181,559</u>	<u>\$ 936,301</u>	<u>\$ 43,849</u>

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

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.

Refunding Certificates of Participation

On May 10, 2012, the County issued \$25,810,000 of refunded certificates of participation to refund its 2000 and 2001 series certificates of participation. The new certificates of participation bear fixed interest rates ranging from 1.0% to 4.3% and are due in semi-annual installments on June 1 and December 1 of each year through 2030. The new issue will reduce total debt service payments for the County by a total of \$1,961,420 with a present value economic gain of \$1,407,623.

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 \$2,928,736.

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.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 8: **LONG-TERM LIABILITIES** (CONTINUED)

**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 \$4,415,527. The entire amount was considered current, based on experience.

NOTE 9: **MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal law and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$13,696,900 reported as landfill closure/postclosure liability at June 30, 2012, 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 2012. 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, 2012</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 2,643,222
South Coast Landfill	Mendocino County	100%	2034	7,015,275
Laytonville Landfill	Mendocino County	100%	Closed	<u>4,038,403</u>
				<u>\$ 13,696,900</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, 2012, investments of \$2,944,871 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.

During the fiscal year ended June 30, 2012, the County modified the remaining time period relating to the post-closure monitoring liability. This change increased the liability by \$2,662,421 during the fiscal year.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 10: NET ASSETS/FUND BALANCES

#### Net Assets

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

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

#### Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds consist of the following categories:

- *Nonspendable Fund Balance* – includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact (such as inventories or prepaid amounts).
- *Restricted Fund Balance* – includes amounts that can be spent only for specific purposes stipulated by external parties (such as creditors, grant providers, or contributors) or by law.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purpose determined by the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action. The formal action must occur prior to the end of the reporting period. The amount which will be subject to the constraint may be determined in the subsequent period.
- *Assigned Fund Balance* – is comprised of amounts intended to be used by the government entity for specific purposes that are neither restricted nor committed. Intent can be expressed by the Board of Supervisors or by an official or body to which the Board delegates the authority. Assigned fund balance can be used to eliminate a projected budgetary deficit in the subsequent year's budget.
- *Unassigned Fund Balance* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purposes.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 10: **NET ASSETS/FUND BALANCES** (continued)

The following is a summary of fund balances at June 30, 2012:

	<u>General Fund</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>	<u>Mental Health Services</u>	<u>Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Nonspendable:							
Prepays and inventory	\$ 101,768	\$ --	\$ --	\$ --	\$ 596,827	\$ --	\$ 698,595
Total Nonspendable	<u>101,768</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>596,827</u>	<u>--</u>	<u>698,595</u>
Restricted for:							
Road Projects	--	--	--	--	3,621,273	--	3,621,273
Mental Health	--	--	--	2,268,614	--	--	2,268,614
Special Districts	--	--	--	--	--	1,364,819	1,364,819
Various Grant Programs	--	--	--	--	--	1,182,333	1,182,333
Debt Service	--	2,022,397	5,278,100	--	--	1,077,904	8,378,401
Total Restricted	<u>--</u>	<u>2,022,397</u>	<u>5,278,100</u>	<u>2,268,614</u>	<u>3,621,273</u>	<u>3,625,056</u>	<u>16,815,440</u>
Assigned:							
Contracted Services	<u>221,556</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>221,556</u>
Unassigned	<u>12,146,891</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(9,513)</u>	<u>12,137,378</u>
Total Fund Balance	<u>\$ 12,470,215</u>	<u>\$ 2,022,397</u>	<u>\$ 5,278,100</u>	<u>\$ 2,268,614</u>	<u>\$ 4,218,100</u>	<u>\$ 3,615,543</u>	<u>\$ 29,872,969</u>

NOTE 11: **COUNTY EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN)**

Plan Description

The Mendocino County Employees' 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, two members are elected by county retirees, one alternate, 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, 2012, were \$11,811,076; contributions by the employees of the County, special districts, and the Courts were \$4,840,275.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

**NOTE 11: COUNTY EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (CONTINUED)**

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 0.00 percent per year attributable to merit/longevity, and c) additional projected salary increases of 4.00 percent per year attributable to inflation.

A complete financial statement of the Association is available at the Retirement Office of the County of Mendocino, and is also posted at [www.co.mendocino.ca.us/retirement/reports.htm](http://www.co.mendocino.ca.us/retirement/reports.htm).

The County's annual pension cost and prepaid pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2012, were as follows (in thousands):

Annual required contribution (County fiscal year basis)	\$ 11,811
Interest on beginning pension asset	(4,555)
Adjustment to the annual required contribution	<u>11,389</u>
Annual pension cost	18,645
Contributions made	<u>11,811</u>
Increase (decrease) in pension asset	(6,834)
Net pension asset, beginning of year	<u>56,945</u>
Net pension asset, end of year	<u><u>\$ 50,111</u></u>

The following table shows the County's annual pension cost and the percentage contributed for the fiscal year 2011-2012 and each of the two preceding fiscal years (in thousands):

<u>Fiscal Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Contributions</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
2010	\$ 13,811	\$ 8,710	63%	\$ 62,348
2011	14,958	9,554	64%	56,945
2012	18,645	11,811	63%	50,111

The difference between the annual required contribution (ARC) and the APC is due to the amortization of the Net Pension Asset.

The following is the funded status information for the plan as of June 30, 2012, the most recent actuarial valuation date (dollar amounts in thousands):

<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
\$ 489,014	\$ 362,487	\$ 126,527	74.1%	\$ 56,596	223.6%

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 11: COUNTY EMPLOYEES RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (CONTINUED)

#### Annual Pension Cost (continued)

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

### NOTE 12: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

#### Plan Description

The Mendocino County Employees Retirement Health Plan is a defined benefit healthcare plan administered by the County. The Plan provides medical insurance benefits to eligible retirees.

Eligible retirees consist of employees hired before September 1998 who retire from active employment with the County and meet the following requirements 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. A contribution of \$819 per month is required for dependent coverage. A payment reserve of \$288 for each non-medicare eligible retiree and \$104 for each medicare eligible retiree is set aside each month for health care costs.

In August 2010, the County implemented substantial changes to Retiree Health Insurance that limit the County's Other Post Employment Benefit (OPEB) liability. Medicare eligible retirees were transitioned from the County's plan and provided with a Health Reimbursement Account (HRA) of \$104 per month, intended to assist the retiree in offsetting the cost of a Medicare supplemental policy. The HRA contribution will continue until funds from the retiree health reserves are depleted, estimated to be sometime during 2011/12.

In January 2009, non-Medicare eligible retirees were required to pay a premium if they chose to remain in the plan. The premium was increased in January 2010, then subsidized by a \$200 per month contribution from the retiree health reserves in August 2010. This subsidy will continue until the reserves are depleted. Retiree dependent coverage is available at the full premium cost. From January 2011 through December 2011, the subsidized amount was increased to a \$288 per month contribution from the retiree healthcare reserve.

Once the retiree health reserve is depleted, retirees will bear the full cost of their health coverage, whether through a Medicare supplemental program or the County's retiree plan. Should the County receive funding from Health Care Reform, those funds will be applied to the retiree health program for non-medicare eligible retirees only.

#### 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 and is determined based on historical and estimated costs and is paid annually. For fiscal year 2011-12, the County contributed \$1,534,446 to the Retiree Health Plan.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 12: **OTHER POSTEMPLOYMENT BENEFITS (OPEB)** (CONTINUED)

Funding Policy (continued)

The annual required contribution (ARC) is an amount determined in accordance with the parameters of GASB Statement 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. The County elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The County’s ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost until the anticipated ending of the plan. 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	\$ 1,681
Annual OPEB cost (expense)	<u>1,681</u>
Contributions made	(1,534)
Change in liability estimate	<u>1,748</u>
Increase in net OPEB obligation	1,895
Net OPEB obligation - beginning of year	159
Net OPEB obligation - end of year	<u><u>\$ 2,054</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 years 2009-10 through 2011-12 is as follows (dollar amounts in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10 <sup>1</sup>	Not available			
6/30/11	903	744	82.40%	159
6/30/12	1,681	1,534	91.26%	2,054

<sup>1</sup> An actuarial was not prepared for June 30, 2010 and June 30, 2012.

NOTE 13: **CONTINGENCIES**

**A. Litigation**

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

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 13: CONTINGENCIES (CONTINUED)

#### B. Grants

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. The County has received notice of audit findings related to its state-funded mental health program that call into question approximately \$1,000,000 of expenditures from the 2004-2005 and 2005-2006 fiscal years. However, the County is actively disputing this amount and the outcome is uncertain. As of June 30, 2012, 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.

#### C. Teeter Obligation

At the time Mendocino County opted into the Teeter Plan, the property tax delinquency amounted to \$5.4 million. This amount was paid to all taxing jurisdictions with funds borrowed from the County Treasury. The payments on this note were to be made from collections of the delinquent taxes, along with penalties and interest thereon. Instead, a portion of the delinquent tax revenues were applied to the County's general fund, with periodic payments made when funds were available. This practice caused the balance owing on the Teeter obligation to increase over the years with the addition of each year's tax delinquency, although the interest on the balance has been paid annually. To reflect the Teeter obligation of the County in the financial statements in prior years, the County reported an advance between the General Fund and the Tax Resources Fund equal to the net balance of deficit cash in the Teeter Funds less the receivable for tax delinquencies.

In recent years, the County has attempted to make accelerated payments on the Teeter obligation causing the receivable for tax delinquencies to exceed the net balance of deficit cash in the Teeter funds as shown below, thus, eliminating the advance between the General Fund and the Tax Resources Fund.

	<u>June 30, 2012</u>
Negative cash in tax resources fund	\$ (8,401,293)
Less:	
Positive cash in tax loss reserve fund	1,262,715
Receivable: Secured taxes	11,607,112
Receivable: Penalties and interest	<u>1,326,468</u>
Excess receivables over net cash deficit	<u>\$ 5,795,002</u>

The County has determined (1) the net deficit cash of \$7,138,578 reported in the Teeter Funds (Teeter obligation) at June 30, 2012 is currently an obligation of the property owners and not of the General Fund based on the property taxes receivable balance of \$12,933,580 reported in the Agency Funds and 2) the County did not formally adopt a note of repayment for the balance of the Teeter obligation at June 30, 2012 though the County continues to annually appropriate funds in excess of the tax delinquencies collected to pay down the Teeter obligation.

In an effort to reduce the teeter obligation, the County has adopted a budget unit within the General Fund to budget for accelerated payments on the Teeter obligation each year. During the year ended June 30, 2012, the County paid \$2,097,648 over tax delinquencies collected from the General Fund to the Tax Resources Fund.

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 13: **CONTINGENCIES** (CONTINUED)

C. **Teeter Obligation** (continued)

The County's tentative payment schedule for the next 5 years, with each individual payment pending annual approval by the Board of Supervisors, is as follows:

Year Ending June 30,	Principal
2013	\$ 769,205
2014	769,205
2015	769,205
2016	769,205
2017	769,205
	<u>\$ 3,846,025</u>

NOTE 14: **RISK MANAGEMENT**

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

A. **Unemployment Insurance**

The County is fully self-insured for this program. The estimated claims liability at fiscal year end was \$609,515.

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, 2012, 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 \$465,557 includes incurred but not reported claims.

C. **Workers' Compensation**

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

**COUNTY OF MENDOCINO**

**Notes to the Basic Financial Statements  
For the Year Ended June 30, 2012**

NOTE 14: **RISK MANAGEMENT** (CONTINUED)

**D. Health Insurance**

The County is fully self-insured and administers the program. The County has hired Keenan Associates as a health plan consultant/actuary to review the health plan on an annual basis, and determine by how much County and employee share in premiums should be increased. The estimated claims liability at fiscal year end was \$2,237,669.

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

	<u>Unemployment Insurance</u>	<u>General Liability</u>	<u>Health Insurance</u>	<u>Total</u>
Claims liability, July 1, 2010	\$ 764,567	\$ 488,927	\$ 1,481,045	\$ 2,734,539
Current year claims and changes in estimates	422,600	358,827	10,438,821	11,220,248
Claims payments	<u>(448,130)</u>	<u>(249,207)</u>	<u>(10,353,219)</u>	<u>(11,050,556)</u>
Claims liability, June 30, 2011	<u>\$ 739,037</u>	<u>\$ 598,547</u>	<u>\$ 1,566,647</u>	<u>\$ 2,904,231</u>
Claims liability, July 1, 2011	\$ 739,037	\$ 598,547	\$ 1,566,647	\$ 2,904,231
Current year claims and changes in estimates	307,735	(10,208)	14,291,008	14,588,535
Claims payments	<u>(437,257)</u>	<u>(122,782)</u>	<u>(13,619,986)</u>	<u>(14,180,025)</u>
Claims liability, June 30, 2012	<u>\$ 609,515</u>	<u>\$ 465,557</u>	<u>\$ 2,237,669</u>	<u>\$ 3,312,741</u>

NOTE 15: **EXTRAORDINARY ITEM**

Successor Agency Trust for Assets of Former Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the County that previously had reported a redevelopment agency blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the County or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the County Board of Supervisors elected to become the Successor Agency for the former Redevelopment Agency (RDA) in accordance with the Bill as part of County resolution number 12-006.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

# COUNTY OF MENDOCINO

## Notes to the Basic Financial Statements For the Year Ended June 30, 2012

### NOTE 15: **EXTRAORDINARY ITEM** (CONTINUED)

#### Successor Agency Trust for Assets of Former Redevelopment Agency (continued)

The Bill directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final seven months of the activity of the RDA are reported in the governmental funds of the County. After the date of dissolution, as allowed under Section 34176(a) of the Bill, the County elected not to retain the housing assets and functions previously performed by the former RDA. Those assets and functions have been transferred to the Community Development Commission of the County of Mendocino. The remaining assets, liabilities, and activities of the dissolved RDA, are reported in the Successor Agency fiduciary fund (private purpose trust fund) in the financial statements of the County.

The transfer of the assets and liabilities of the former RDA as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the County to fiduciary funds was reported as an extraordinary loss in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 was reported in the private-purpose trust fund financial statements as an extraordinary gain.

### NOTE 16: **SUBSEQUENT EVENTS**

On July 12, 2012, the County issued a \$17 million tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable June 28, 2013, and carries a 2.0% interest rate.

**THIS PAGE INTENTIONALLY LEFT BLANK**

## **REQUIRED SUPPLEMENTARY INFORMATION**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**COUNTY OF MENDOCINO**

Required Supplementary Information  
For the Year Ended June 30, 2012

**SCHEDULE OF FUNDING PROGRESS – RETIREMENT PLAN**

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

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll<sup>(1)</sup></u>	<u>UAAL as a % of Payroll</u>
6/30/10	\$ 434,987	\$ 343,202	\$ 91,785	78.9%	\$ 69,004	133.0%
6/30/11	472,644	347,732	124,912	73.6%	64,144	194.7%
6/30/12	489,014	362,487	126,527	74.1%	56,596	223.6%

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

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

The table below shows an analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30 (in thousands):

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
7/01/07	\$ 129,377	\$ --	\$ 129,377	0.00%	\$ 25,261	512.2%
7/01/09 <sup>1</sup>	Not available					
7/01/11	797	--	797	0.00%	N/A	N/A

(1) Actuarial was not prepared for June 30, 2010 and June 30, 2012.

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 59,892,172	\$ 59,892,172	\$ 60,982,676	\$ 1,090,504
Licenses and permits	2,522,982	2,522,982	2,378,594	(144,388)
Fines, forfeits and penalties	2,320,338	2,651,528	2,052,897	(598,631)
Revenue from use of money and property	419,826	419,826	697,282	277,456
Intergovernmental	73,746,642	74,257,979	65,080,570	(9,177,409)
Charges for services	10,613,808	10,691,507	9,912,808	(778,699)
Other revenue	1,285,962	1,285,962	1,797,710	511,748
Total Revenues	<u>150,801,730</u>	<u>151,721,956</u>	<u>142,902,537</u>	<u>(8,819,419)</u>
Expenditures:				
Current:				
General government	14,944,499	15,035,878	13,926,043	1,109,835
Public protection	45,610,819	46,087,403	44,406,019	1,681,384
Public way and facilities	290,613	291,679	(125,722)	417,401
Health and sanitation	12,745,898	12,765,093	10,165,430	2,599,663
Public assistance	63,788,046	63,788,046	52,110,786	11,677,260
Education	235,750	235,750	210,361	25,389
Recreation and cultural services	235,248	235,248	234,472	776
Debt service - principal	6,883,870	6,883,870	6,128,924	754,946
Debt service - interest	583,523	583,523	571,206	12,317
Capital outlay	365,777	958,122	530,312	427,810
Total Expenditures	<u>145,684,043</u>	<u>146,864,612</u>	<u>128,157,831</u>	<u>18,706,781</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,117,687</u>	<u>4,857,344</u>	<u>14,744,706</u>	<u>9,887,362</u>
Other Financing Sources (Uses):				
Transfers in	964,995	996,995	599,967	(397,028)
Transfers out	(7,393,593)	(7,393,593)	(8,136,289)	(742,696)
Total Other Financing Sources (Uses)	<u>(6,428,598)</u>	<u>(6,396,598)</u>	<u>(7,536,322)</u>	<u>(1,139,724)</u>
Net Change in Fund Balances	(1,310,911)	(1,539,254)	7,208,384	8,747,638
Budgetary Fund Balances - Beginning of Year	<u>911,013</u>	<u>911,013</u>	<u>911,013</u>	<u>--</u>
Budgetary Fund Balances - End of Year	<u>\$ (399,898)</u>	<u>\$ (628,241)</u>	<u>\$ 8,119,397</u>	<u>\$ 8,747,638</u>

continued

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule (continued)  
General Fund  
For the Year Ended June 30, 2012

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

Total revenues from the budgetary comparison schedule:	\$ 142,902,537
Revenues from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,021,635
The County budgets transfers to the Tax Resources Fund as a debt service expenditure, but reports a portion of the disbursement as a reduction of the taxes revenue.	<u>(6,128,924)</u>
Total revenues from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 137,795,248</u>
Total expenditures from the budgetary comparison schedule:	\$ 128,157,831
The County budgets transfers to the Pension Obligation Fund as functional expenditures.	(6,220,632)
Expenditures from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,938,057
The County budgets transfers to the Tax Resources Fund as a debt service expenditure, but reports the disbursement as a reduction of taxes revenue.	<u>(6,128,924)</u>
Total expenditures from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 117,746,332</u>

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
Mental Health Services Fund  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Revenue from use of money and property	\$ (80,000)	\$ (80,000)	\$ 1,497	\$ 81,497
Intergovernmental	20,442,072	20,442,072	16,262,758	(4,179,314)
Charges for services	1,185,100	1,185,100	1,098,430	(86,670)
Other revenues	72,000	72,000	64,397	(7,603)
Total Revenues	<u>21,619,172</u>	<u>21,619,172</u>	<u>17,427,082</u>	<u>(4,192,090)</u>
Expenditures:				
Current:				
Health and sanitation	<u>20,791,459</u>	<u>20,791,458</u>	<u>16,005,950</u>	<u>4,785,508</u>
Total Expenditures	<u>20,791,459</u>	<u>20,791,458</u>	<u>16,005,950</u>	<u>4,785,508</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>827,713</u>	<u>827,714</u>	<u>1,421,132</u>	<u>593,418</u>
Other Financing Sources (Uses):				
Transfers in	1,837,820	1,837,820	--	(1,837,820)
Transfers out	<u>(2,424,890)</u>	<u>(2,424,890)</u>	<u>(464,137)</u>	<u>1,960,753</u>
Total Other Financing Sources (Uses)	<u>(587,070)</u>	<u>(587,070)</u>	<u>(464,137)</u>	<u>122,933</u>
Net Change in Fund Balances	240,643	240,644	956,995	716,351
Fund Balances - Beginning of Year	<u>1,311,619</u>	<u>1,311,619</u>	<u>1,311,619</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 1,552,262</u>	<u>\$ 1,552,263</u>	<u>\$ 2,268,614</u>	<u>\$ 716,351</u>

**COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
Road Fund  
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 95,000	\$ 95,000	\$ 35,397	(59,603)
Licenses, permits and franchises	49,900	49,900	56,724	6,824
Revenue from use of money and property	12,000	12,000	28,688	16,688
Fines, forfeitures and penalties	66,200	66,200	54,750	(11,450)
Intergovernmental	13,268,004	13,268,004	8,487,049	(4,780,955)
Charges for services	162,311	162,311	217,640	55,329
Other revenues	53,365	53,365	46,613	(6,752)
Total Revenues	<u>13,706,780</u>	<u>13,706,780</u>	<u>8,926,861</u>	<u>(4,779,919)</u>
Expenditures:				
Current:				
Public ways and facilities	10,489,391	10,555,195	9,745,457	809,738
Capital Outlay	9,679,055	9,823,877	4,197,558	5,626,319
Total Expenditures	<u>20,168,446</u>	<u>20,379,072</u>	<u>13,943,015</u>	<u>6,436,057</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,461,666)</u>	<u>(6,672,292)</u>	<u>(5,016,154)</u>	<u>1,656,138</u>
Other Financing Sources (Uses):				
Transfers in	3,295,000	3,295,000	3,321,985	26,985
Transfers out	(117,000)	(117,000)	(485,062)	(368,062)
Total Other Financing Sources (Uses)	<u>3,178,000</u>	<u>3,178,000</u>	<u>2,836,923</u>	<u>(341,077)</u>
Net Change in Fund Balances	(3,283,666)	(3,494,292)	(2,179,231)	1,315,061
Fund Balances - Beginning of Year	<u>6,397,331</u>	<u>6,397,331</u>	<u>6,397,331</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 3,113,665</u>	<u>\$ 2,903,039</u>	<u>\$ 4,218,100</u>	<u>\$ 1,315,061</u>

**COUNTY OF MENDOCINO**

Required Supplementary Information  
For the Year Ended June 30, 2012

**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.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2012, expenditures exceeded appropriations in the following budget units:

<u>Fund</u>	<u>Budget Unit</u>	<u>Excess of Expenditures Over Appropriations</u>
Miscellaneous Grants	Recovery Act Rural Law	\$ 384,488
General Fund	Nondepartmental Revenue	553,179
	Sheriff	1,159,209

## **SUPPLEMENTAL INFORMATION**

**THIS PAGE INTENTIONALLY LEFT BLANK**

**COUNTY OF MENDOCINO**

Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2012

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
<u>Assets</u>				
Cash and investments in County Treasury	\$ 149,966	\$ 87,543	\$ 130,060	\$ 96,382
Imprest Cash	180	--	--	--
Accounts receivable	1,998	--	--	--
Taxes receivable	210,000	--	--	--
Due from other governmental agencies	134,000	--	--	--
Total Assets	<u>\$ 496,144</u>	<u>\$ 87,543</u>	<u>\$ 130,060</u>	<u>\$ 96,382</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 39,271	\$ --	\$ --	\$ 812
Accrued salaries and benefits	24,254	--	--	2,380
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	--
Total Liabilities	<u>63,525</u>	<u>--</u>	<u>--</u>	<u>3,192</u>
Fund Balance				
Restricted	432,619	87,543	130,060	93,190
Unassigned	--	--	--	--
Total Fund Balances	<u>432,619</u>	<u>87,543</u>	<u>130,060</u>	<u>93,190</u>
Total Liabilities and Fund Balances	<u>\$ 496,144</u>	<u>\$ 87,543</u>	<u>\$ 130,060</u>	<u>\$ 96,382</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2012

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Reorder Modernization	Micrographics
<u>Assets</u>				
Cash and investments in County Treasury	\$ 119,660	\$ 66,490	\$ 86,180	\$ 5,403
Imprest Cash	--	--	--	--
Accounts receivable	--	--	346	90
Taxes receivable	--	--	--	--
Due from other governmental agencies	64,917	--	--	--
Total Assets	<u>\$ 184,577</u>	<u>\$ 66,490</u>	<u>\$ 86,526</u>	<u>\$ 5,493</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ 45	\$ 445
Accrued salaries and benefits	--	--	--	1,984
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>45</u>	<u>2,429</u>
Fund Balance				
Restricted	184,577	66,490	86,481	3,064
Unassigned	--	--	--	--
Total Fund Balances	<u>184,577</u>	<u>66,490</u>	<u>86,481</u>	<u>3,064</u>
 Total Liabilities and Fund Balances	 <u>\$ 184,577</u>	 <u>\$ 66,490</u>	 <u>\$ 86,526</u>	 <u>\$ 5,493</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2012

	Special Revenue			Total Special Revenue
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other	
<u>Assets</u>				
Cash and investments in County Treasury	\$ --	\$ 279,794	\$ 1,051,106	\$ 2,072,584
Imprest Cash	--	--	600	780
Accounts receivable	166	--	200	2,800
Taxes receivable	--	--	--	210,000
Due from other governmental agencies	2,327,937	--	50,670	2,577,524
Total Assets	<u>\$ 2,328,103</u>	<u>\$ 279,794</u>	<u>\$ 1,102,576</u>	<u>\$ 4,863,688</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 172,126	\$ --	\$ 2,390	\$ 215,089
Accrued salaries and benefits	34,957	--	15,161	78,736
Due to other funds	1,802,866	--	--	1,802,866
Deferred revenue	219,845	--	--	219,845
Total Liabilities	<u>2,229,794</u>	<u>--</u>	<u>17,551</u>	<u>2,316,536</u>
Fund Balance				
Restricted	98,309	279,794	1,085,025	2,547,152
Unassigned	--	--	--	--
Total Fund Balances	<u>98,309</u>	<u>279,794</u>	<u>1,085,025</u>	<u>2,547,152</u>
Total Liabilities and Fund Balances	<u>\$ 2,328,103</u>	<u>\$ 279,794</u>	<u>\$ 1,102,576</u>	<u>\$ 4,863,688</u>

continued

**COUNTY OF MENDOCINO**

Combining Balance Sheet (continued)  
 Nonmajor Governmental Funds  
 June 30, 2012

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Redevelopment Agency</u>	<u>Endowment Funds</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments in County Treasury	\$ --	\$ --	\$ 1,077,904	\$ 3,150,488
Imprest Cash	--	--	--	780
Accounts receivable	--	--	--	2,800
Taxes receivable	--	--	--	210,000
Due from other governmental agencies	--	--	--	2,577,524
Total Assets	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,077,904</u>	<u>\$ 5,941,592</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ 215,089
Accrued salaries and benefits	--	--	--	78,736
Due to other funds	9,513	--	--	1,812,379
Deferred revenue	--	--	--	219,845
Total Liabilities	<u>9,513</u>	<u>--</u>	<u>--</u>	<u>2,326,049</u>
Fund Balance				
Restricted	--	--	1,077,904	3,625,056
Unassigned	(9,513)	--	--	(9,513)
Total Fund Balances	<u>(9,513)</u>	<u>--</u>	<u>1,077,904</u>	<u>3,615,543</u>
Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,077,904</u>	<u>\$ 5,941,592</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2012

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
Revenues:				
Taxes	\$ 271,561	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	291,514	--	20,000	143,831
Revenue from use of money and property	2,786	483	--	461
Fines, forfeitures and penalties	--	32,436	--	--
Charges for services	36,110	--	--	--
Other revenue	6,561	--	--	--
Total Revenues	<u>608,532</u>	<u>32,919</u>	<u>20,000</u>	<u>144,292</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	--	31,269	--	89,943
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	1,361,449	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	207,572	--	--	20,125
Total Expenditures	<u>1,569,021</u>	<u>31,269</u>	<u>--</u>	<u>110,068</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(960,489)</u>	<u>1,650</u>	<u>20,000</u>	<u>34,224</u>
Other Financing Sources (Uses):				
Transfers in	1,228,222	--	--	--
Transfers out	(142,011)	--	(29,942)	(9,564)
Total Other Financing Sources (Uses)	<u>1,086,211</u>	<u>--</u>	<u>(29,942)</u>	<u>(9,564)</u>
Extraordinary Item - RDA dissolution	--	--	--	--
Net Change in Fund Balances	125,722	1,650	(9,942)	24,660
Fund Balances - Beginning of Year	<u>306,897</u>	<u>85,893</u>	<u>140,002</u>	<u>68,530</u>
Fund Balances - End of Year	<u>\$ 432,619</u>	<u>\$ 87,543</u>	<u>\$ 130,060</u>	<u>\$ 93,190</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (continued)  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2012

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	262,249	--	--	--
Revenue from use of money and property	850	372	517	(90)
Fines, forfeitures and penalties	--	--	--	--
Charges for services	--	1,038	40,614	56,945
Other revenue	--	49,187	--	20,517
Total Revenues	<u>263,099</u>	<u>50,597</u>	<u>41,131</u>	<u>77,372</u>
Expenditures:				
Current:				
General government	--	--	35,510	70,764
Public protection	190,877	47,037	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>190,877</u>	<u>47,037</u>	<u>35,510</u>	<u>70,764</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>72,222</u>	<u>3,560</u>	<u>5,621</u>	<u>6,608</u>
Other Financing Sources (Uses):				
Transfers in	--	--	--	--
Transfers out	(17,287)	--	--	(3,998)
Total Other Financing Sources (Uses)	<u>(17,287)</u>	<u>--</u>	<u>--</u>	<u>(3,998)</u>
Extraordinary Item - RDA dissolution	--	--	--	--
Net Change in Fund Balances	54,935	3,560	5,621	2,610
Fund Balances - Beginning of Year	<u>129,642</u>	<u>62,930</u>	<u>80,860</u>	<u>454</u>
Fund Balances - End of Year	<u>\$ 184,577</u>	<u>\$ 66,490</u>	<u>\$ 86,481</u>	<u>\$ 3,064</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (continued)  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2012

	Special Revenue			Total Special Revenue
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other	
Revenues:				
Taxes	\$ --	\$ 66,343	\$ 127,363	\$ 465,267
Licenses, permits and franchises	--	--	287,469	287,469
Aid from other governmental agencies	6,067,439	1,629	654,862	7,441,524
Revenue from use of money and property	--	10	5,875	11,264
Fines, forfeitures and penalties	130,876	--	50,683	213,995
Charges for services	--	--	106,784	241,491
Other revenue	19,516	--	2,484	98,265
Total Revenues	<u>6,217,831</u>	<u>67,982</u>	<u>1,235,520</u>	<u>8,759,275</u>
Expenditures:				
Current:				
General government	--	--	--	106,274
Public protection	1,456,441	--	62,737	1,878,304
Public ways and facilities	--	41,502	--	41,502
Health and sanitation	1,944,857	--	727,159	2,672,016
Public assistance	2,357,294	--	--	2,357,294
Education	--	--	--	1,361,449
Recreation and culture services	3,727	--	--	3,727
Capital outlay	37,158	--	54,367	319,222
Total Expenditures	<u>5,799,477</u>	<u>41,502</u>	<u>844,263</u>	<u>8,739,788</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>418,354</u>	<u>26,480</u>	<u>391,257</u>	<u>19,487</u>
Other Financing Sources (Uses):				
Transfers in	25,000	--	--	1,253,222
Transfers out	(130,224)	--	(120,007)	(453,033)
Total Other Financing Sources (Uses)	<u>(105,224)</u>	<u>--</u>	<u>(120,007)</u>	<u>800,189</u>
Extraordinary Item - RDA dissolution	--	--	--	--
Net Change in Fund Balances	313,130	26,480	271,250	819,676
Fund Balances - Beginning of Year	<u>(214,821)</u>	<u>253,314</u>	<u>813,775</u>	<u>1,727,476</u>
Fund Balances - End of Year	<u>\$ 98,309</u>	<u>\$ 279,794</u>	<u>\$ 1,085,025</u>	<u>\$ 2,547,152</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances (continued)  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2012

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Redevelopment Agency</u>	<u>Endowment Funds</u>	<u>Total</u>
Revenues:				
Taxes	\$ --	\$ 605,324	\$ --	\$ 1,070,591
Licenses, permits and franchises	--	--	--	287,469
Aid from other governmental agencies	180,085	--	--	7,621,609
Revenue from use of money and property	(510)	3,068	6,175	19,997
Fines, forfeitures and penalties	--	--	--	213,995
Charges for services	--	--	--	241,491
Other revenue	--	--	2,000	100,265
Total Revenues	<u>179,575</u>	<u>608,392</u>	<u>8,175</u>	<u>9,555,417</u>
Expenditures:				
Current:				
General government	--	36,358	--	142,632
Public protection	--	--	--	1,878,304
Public ways and facilities	--	--	--	41,502
Health and sanitation	--	--	--	2,672,016
Public assistance	--	--	--	2,357,294
Education	--	--	--	1,361,449
Recreation and culture services	--	--	--	3,727
Capital outlay	--	--	--	319,222
Total Expenditures	<u>--</u>	<u>36,358</u>	<u>--</u>	<u>8,776,146</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>179,575</u>	<u>572,034</u>	<u>8,175</u>	<u>779,271</u>
Other Financing Sources (Uses):				
Transfers in	--	--	--	1,253,222
Transfers out	--	--	--	(453,033)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>800,189</u>
Extraordinary Item - RDA dissolution	<u>--</u>	<u>(1,405,328)</u>	<u>--</u>	<u>(1,405,328)</u>
Net Change in Fund Balances	179,575	(833,294)	8,175	174,132
Fund Balances - Beginning of Year	<u>(189,088)</u>	<u>833,294</u>	<u>1,069,729</u>	<u>3,441,411</u>
Fund Balances - End of Year	<u><u>\$ (9,513)</u></u>	<u><u>\$ --</u></u>	<u><u>\$ 1,077,904</u></u>	<u><u>\$ 3,615,543</u></u>

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets  
Internal Service Funds  
June 30, 2012

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<u>Assets</u>				
Current Assets:				
Pooled cash and investments in county treasury	\$ 288,229	\$ 82,959	\$ 338,496	\$ 2,267,532
Other cash	--	--	--	--
Accounts receivable	--	--	--	--
Due from other governments	--	--	--	--
Due from other funds	--	--	--	--
Total Current Assets	<u>288,229</u>	<u>82,959</u>	<u>338,496</u>	<u>2,267,532</u>
 Total Assets	 <u>288,229</u>	 <u>82,959</u>	 <u>338,496</u>	 <u>2,267,532</u>
 <u>Liabilities</u>				
Current Liabilities:				
Accounts payable	--	--	--	23,053
Accrued salaries and benefits	--	--	--	4,099
Due to other funds	--	--	--	--
Compensated absences payable	--	--	--	6,091
Liability for unpaid claims	--	--	609,515	465,557
Total current liabilities	<u>--</u>	<u>--</u>	<u>609,515</u>	<u>498,800</u>
 Total Liabilities	 <u>--</u>	 <u>--</u>	 <u>609,515</u>	 <u>498,800</u>
 <u>Net Assets</u>				
Unrestricted	<u>288,229</u>	<u>82,959</u>	<u>(271,019)</u>	<u>1,768,732</u>
 Total Net Assets	 <u>\$ 288,229</u>	 <u>\$ 82,959</u>	 <u>\$ (271,019)</u>	 <u>\$ 1,768,732</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Fund Net Assets (continued)  
Internal Service Funds  
June 30, 2012

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<u>Assets</u>				
Current Assets:				
Pooled cash and investments in county treasury	\$ --	\$ 2,812,989	\$ --	\$ 5,790,205
Other cash	--	190,068	59,959	250,027
Accounts receivable	--	57,911	16,171	74,082
Due from other governments	1,151,973	--	--	1,151,973
Due from other funds	--	2,358,360	--	2,358,360
Total Current Assets	<u>1,151,973</u>	<u>5,419,328</u>	<u>76,130</u>	<u>9,624,647</u>
 Total Assets	 <u>1,151,973</u>	 <u>5,419,328</u>	 <u>76,130</u>	 <u>9,624,647</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	1,772	59,626	41,001	125,452
Accrued salaries and benefits	3,411	4,250	1,451	13,211
Due to other funds	23,750	--	--	23,750
Compensated absences payable	7,677	1,481	518	15,767
Liability for unpaid claims	--	2,237,669	--	3,312,741
Total current liabilities	<u>36,610</u>	<u>2,303,026</u>	<u>42,970</u>	<u>3,490,921</u>
 Total Liabilities	 <u>36,610</u>	 <u>2,303,026</u>	 <u>42,970</u>	 <u>3,490,921</u>
<u>Net Assets</u>				
Unrestricted	<u>1,115,363</u>	<u>3,116,302</u>	<u>33,160</u>	<u>6,133,726</u>
 Total Net Assets	 <u>\$ 1,115,363</u>	 <u>\$ 3,116,302</u>	 <u>\$ 33,160</u>	 <u>\$ 6,133,726</u>

**COUNTY OF MENDOCINO**

Combining Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
Internal Service Funds  
For the Year Ended June 30, 2012

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	\$ 140,622	\$ --	\$ 400,000	\$ 1,049,805
Total Operating Revenues	<u>140,622</u>	<u>--</u>	<u>400,000</u>	<u>1,049,805</u>
Operating Expenses:				
Salaries and benefits	--	--	--	135,283
Services and supplies	--	--	905	299,265
Insurance	--	--	437,257	708,684
Depreciation	16,732	--	--	--
Claims and judgments	--	--	(129,522)	(10,208)
Total Operating Expenses	<u>16,732</u>	<u>--</u>	<u>308,640</u>	<u>1,133,024</u>
Operating Income (Loss)	<u>123,890</u>	<u>--</u>	<u>91,360</u>	<u>(83,219)</u>
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	922	482	2,472	13,145
Intergovernmental revenue	--	--	--	--
Total Non-Operating Revenues	<u>922</u>	<u>482</u>	<u>2,472</u>	<u>13,145</u>
Income (Loss) Before Transfers:	124,812	482	93,832	(70,074)
Transfers in	--	--	--	--
Transfers out	--	--	--	(10,308)
Change in Net Assets	124,812	482	93,832	(80,382)
Net Assets - Beginning of Year	<u>163,417</u>	<u>82,477</u>	<u>(364,851)</u>	<u>1,849,114</u>
Net Assets - End of Year	<u>\$ 288,229</u>	<u>\$ 82,959</u>	<u>\$ (271,019)</u>	<u>\$ 1,768,732</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, 2012

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Operating Revenues:				
Charges and fees	<u>\$ 2,462,850</u>	<u>\$ 13,467,341</u>	<u>\$ 722,914</u>	<u>\$ 18,243,532</u>
Total Operating Revenues	<u>2,462,850</u>	<u>13,467,341</u>	<u>722,914</u>	<u>18,243,532</u>
Operating Expenses:				
Salaries and benefits	155,239	123,679	90,343	504,544
Services and supplies	7,556	14,145,257	1,350,365	15,803,348
Insurance	2,440,417	859,628	229,835	4,675,821
Depreciation	--	--	--	16,732
Claims and judgments	--	671,022	--	531,292
Total Operating Expenses	<u>2,603,212</u>	<u>15,799,586</u>	<u>1,670,543</u>	<u>21,531,737</u>
Operating Income (Loss)	<u>(140,362)</u>	<u>(2,332,245)</u>	<u>(947,629)</u>	<u>(3,288,205)</u>
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	(3,898)	33,793	(1,431)	45,485
Intergovernmental revenue	<u>1,151,973</u>	<u>--</u>	<u>263,135</u>	<u>1,415,108</u>
Total Non-Operating Revenues	<u>1,148,075</u>	<u>33,793</u>	<u>261,704</u>	<u>1,460,593</u>
Income (Loss) Before Transfers:	1,007,713	(2,298,452)	(685,925)	(1,827,612)
Transfers in	--	--	499,956	499,956
Transfers out	<u>(61,676)</u>	<u>(194,995)</u>	<u>(6,317)</u>	<u>(273,296)</u>
Change in Net Assets	946,037	(2,493,447)	(192,286)	(1,600,952)
Net Assets - Beginning of Year	<u>169,326</u>	<u>5,609,749</u>	<u>225,446</u>	<u>7,734,678</u>
Net Assets - End of Year	<u><u>\$ 1,115,363</u></u>	<u><u>\$ 3,116,302</u></u>	<u><u>\$ 33,160</u></u>	<u><u>\$ 6,133,726</u></u>

**COUNTY OF MENDOCINO**

Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended June 30, 2012

	Software Acquisition	Vehicle Replacement	Unemployment Insurance	General Liability Insurance
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from interfund services provided	\$ 140,622	\$ --	\$ 400,000	\$ 1,051,927
Cash paid to employees for services	--	--	--	(137,634)
Cash paid to suppliers for goods and services	--	--	(438,162)	(1,179,492)
	<u>140,622</u>	<u>--</u>	<u>(38,162)</u>	<u>(265,199)</u>
Net Cash Provided (Used) by Operating Activities				
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund loans	--	--	--	--
Transfers in	--	--	--	--
Transfers out	--	--	--	(10,308)
Intergovernmental revenues	--	--	--	--
Net Cash Provided (Used) by Investing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(10,308)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid)	922	482	2,472	13,145
Net Cash Provided (Used) by Investing Activities	<u>922</u>	<u>482</u>	<u>2,472</u>	<u>13,145</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	141,544	482	(35,690)	(262,362)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>146,685</u>	<u>82,477</u>	<u>374,186</u>	<u>2,529,894</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 288,229</u>	<u>\$ 82,959</u>	<u>\$ 338,496</u>	<u>\$ 2,267,532</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	123,890	--	91,360	(83,219)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	16,732	--	--	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	2,122
Increase (decrease) in:				
Accounts payable	--	--	--	(48,761)
Accrued salaries	--	--	--	(3,765)
Compensated absences	--	--	--	1,414
Claims liability	--	--	(129,522)	(132,990)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 140,622</u>	<u>\$ --</u>	<u>\$ (38,162)</u>	<u>\$ (265,199)</u>

continued

**COUNTY OF MENDOCINO**

Combining Statement of Cash Flows (continued)  
Internal Service Funds  
For the Year Ended June 30, 2012

	<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	\$ 1,310,877	\$ 13,562,447	\$ 715,579	\$ 17,181,452
Cash paid to employees for services	(158,129)	(125,405)	(91,120)	(512,288)
Cash paid to suppliers for goods and services	<u>(2,446,341)</u>	<u>(14,978,151)</u>	<u>(1,548,511)</u>	<u>(20,590,657)</u>
Net Cash Provided (Used) by Operating Activities	<u>(1,293,593)</u>	<u>(1,541,109)</u>	<u>(924,052)</u>	<u>(3,921,493)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Interfund loans	23,750	(1,168,360)	--	(1,144,610)
Transfers in	--	--	499,956	499,956
Transfers out	(61,676)	(194,995)	(6,317)	(273,296)
Intergovernmental revenues	<u>1,151,973</u>	<u>--</u>	<u>263,135</u>	<u>1,415,108</u>
Net Cash Provided (Used) by Investing Activities	<u>1,114,047</u>	<u>(1,363,355)</u>	<u>756,774</u>	<u>497,158</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received (paid)	<u>(3,898)</u>	<u>33,793</u>	<u>(1,431)</u>	<u>45,485</u>
Net Cash Provided (Used) by Investing Activities	<u>(3,898)</u>	<u>33,793</u>	<u>(1,431)</u>	<u>45,485</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(183,444)	(2,870,671)	(168,709)	(3,378,850)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>183,444</u>	<u>5,873,728</u>	<u>228,668</u>	<u>9,419,082</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ --</u>	<u>\$ 3,003,057</u>	<u>\$ 59,959</u>	<u>\$ 6,040,232</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	(140,362)	(2,332,245)	(947,629)	(3,288,205)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	--	--	--	16,732
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(1,151,973)	95,106	(7,335)	(1,062,080)
Increase (decrease) in:				
Accounts payable	1,632	26,734	31,689	11,294
Accrued salaries	(4,869)	(1,269)	(1,267)	(11,170)
Compensated absences	1,979	(457)	490	3,426
Claims liability	--	671,022	--	408,510
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (1,293,593)</u>	<u>\$ (1,541,109)</u>	<u>\$ (924,052)</u>	<u>\$ (3,921,493)</u>

**COUNTY OF MENDOCINO**

Combining Statement of Fiduciary Net Assets  
Investment Trust Fund  
June 30, 2012

	Special Districts Local Boards	School Districts	Total
<u>Assets</u>			
Cash and investments in County Treasury	<u>\$ 8,697,956</u>	<u>\$ 132,570,418</u>	<u>\$ 141,268,374</u>
<u>Net Assets</u>			
Reserved for pool participants	<u>\$ 8,697,956</u>	<u>\$ 132,570,418</u>	<u>\$ 141,268,374</u>