

COUNTY OF MENDOCINO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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COUNTY OF MENDOCINO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, 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, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Supervisors and Grand Jury
County of Mendocino

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress for the County Employees' retirement plan, and budgetary comparison schedules, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County's internal control over financial reporting and compliance.



Roseville, California
December 30, 2013

MENDOCINO COUNTY

Management's Discussion and Analysis For the Year Ended June 30, 2013

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, 2013. 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 \$78,704,264 (net position). There was a deficit of (\$26,506,424) in unrestricted net position.
- ❖ The County's total net position increased by \$11,944,062. Reasons for this increase include increases to the cash and investments asset balance and the 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 \$40,114,473. This was an increase of \$10,241,504 in comparison with the prior year.
- ❖ Unassigned fund balance for the General Fund at the close of the current fiscal year was \$18,682,200.
- ❖ Total debt decreased by \$5,421,773 (5.16%) during the 2012/13 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 Position presents information on all County assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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, 2013

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 52) has been provided for the general fund to demonstrate compliance with this budget.

The basic Governmental Fund Financial Statements can be found on pages 13-18 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 19-21 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 22-23 of this report.

MENDOCINO COUNTY

**Management's Discussion and Analysis
For the Year Ended June 30, 2013**

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 25-51 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 53-58 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 59-73 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 \$78,704,264 at the close of the 2012/13 Fiscal Year.

By far the largest portion of the County's net position 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 Position

	Governmental Activities*	
	2013	2012
Current and other assets	\$ 119,980,418	\$ 115,454,283
Capital assets	99,058,762	100,140,041
Total Assets	219,039,180	215,594,324
Long-term liabilities	121,304,199	128,495,764
Other liabilities	19,030,717	20,338,358
Total Liabilities	140,334,916	148,834,122
Net Position:		
Net investment in capital assets	75,464,234	74,698,740
Restricted	29,746,454	23,252,652
Unrestricted	(26,506,424)	(31,191,190)
Total Net Position	\$ 78,704,264	\$ 66,760,202

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

Investment in capital assets is subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net assets in the amount of (\$26,506,424) 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, 2013**

Governmental Activities. Governmental activities increased the County's net position by \$11,944,062. Key elements of this increase are the increases in cash and investments asset balance and the change in the net pension asset balance.

Revenues	2013	2012
Program Revenues:		
Fees, fines and charges for services	\$ 15,632,677	\$ 16,978,991
Operating grants & contributions	101,038,836	93,885,542
Capital grants & contributions	3,484,428	2,666,040
General Revenues:		
Property taxes	41,489,770	40,621,657
Sales & use taxes	12,752,013	10,723,295
Other taxes	3,951,331	3,842,861
Unrestricted interest & investment earnings	780,334	1,026,203
Miscellaneous	1,939,034	2,427,781
Extraordinary Item - RDA dissolution	--	(1,405,328)
Total Revenues and Extraordinary Item	181,068,423	170,767,042
Expenses		
Expenses:		
General government	12,977,492	17,899,927
Public protection	49,523,671	48,623,849
Public ways & facilities	13,696,845	12,784,390
Health & sanitation	30,083,546	35,317,480
Public assistance	54,621,785	55,458,554
Education	2,115,089	1,753,995
Recreation and cultural services	410,654	318,234
Interest on long-term debt	6,147,856	6,808,180
Total Expenses	169,576,938	178,964,609
Change in Net Position	11,491,485	(8,197,567)
Beginning Net Position, Restated	67,212,779	74,957,769
Ending Net Position	\$ 78,704,264	\$ 66,760,202

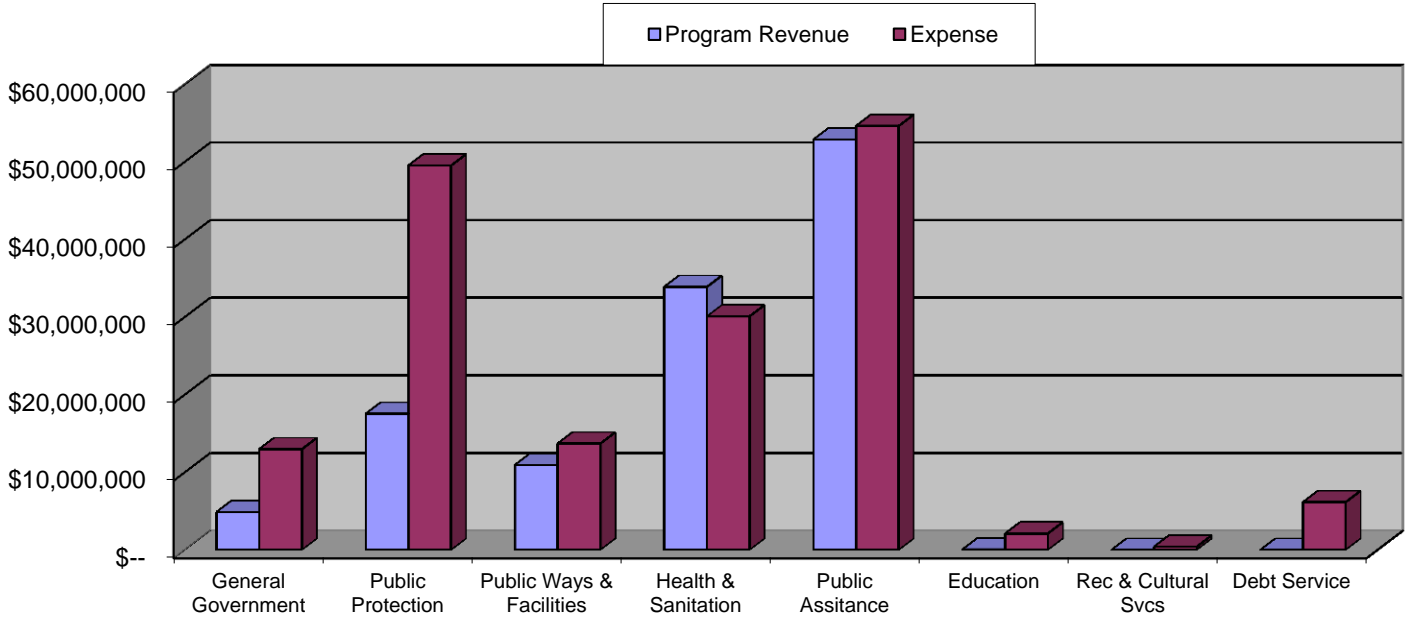
MENDOCINO COUNTY

**Management's Discussion and Analysis
For the Year Ended June 30, 2013**

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

- ❖ Property taxes increased by \$868,113 (2.14%) during the year. Most of this increase is attributable to a 0.11% increase in assessed valuations.

Expenses and Program Revenue - Governmental Activities

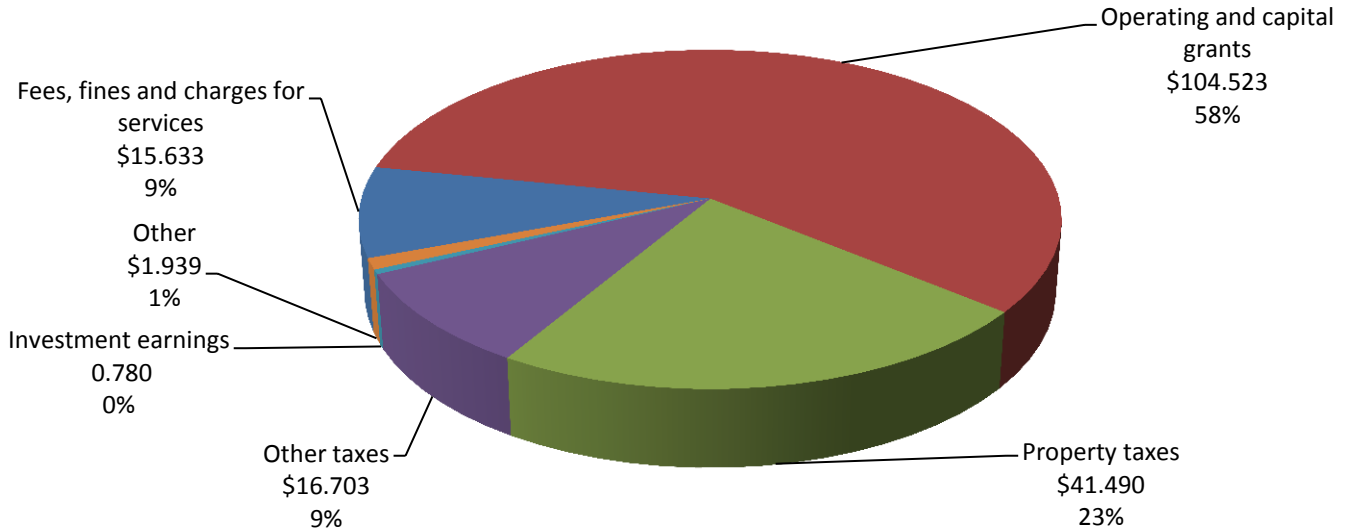


Expenses and Program Revenue		
Governmental Functions	Program	
	Revenue	Expense
General Government	\$ 4,880,023	\$ 12,977,492
Public Protection	17,532,463	49,523,671
Public Ways & Facilities	10,942,001	13,696,845
Health & Sanitation	33,879,094	30,083,546
Public Assistance	52,859,341	54,621,785
Education	63,019	2,115,089
Rec & Cultural Svcs	--	410,654
Debt Service	--	6,147,856

MENDOCINO COUNTY

Management's Discussion and Analysis
For the Year Ended June 30, 2013

Revenues by Source (in millions) - Governmental Activities



The largest portion of revenue received by the County comes from Federal and State sources (approximately 58%). The second largest source comes from property taxes (23%). 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 \$40,114,473, an increase of \$10,241,504 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 (\$665,542); 2) to pay debt service (\$8,074,001); 3) for specific road infrastructure projects (\$3,689,329); 4) for mental health programs (\$4,549,155); 5) for a variety of other restricted purposes (\$4,463,823).

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 \$18,682,200, while total fund balance reached \$18,758,723. The fund balance of the County of Mendocino's general fund increased by \$6,288,508 during the 2012/13 Fiscal Year.

MENDOCINO COUNTY

**Management's Discussion and Analysis
For the Year Ended June 30, 2013**

The debt service fund had a total fund balance of \$2,122,551, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$100,154. Interest expenditures for the debt service fund decreased during the current period by (\$525,376).

The pension obligation fund had a total fund balance of \$5,951,450, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$673,350.

The mental health services fund had a total fund balance of 4,549,155. The net increase in fund balance during the current year was \$2,280,541.

The road fund had a total fund balance of \$4,278,348. The net increase for the year was \$60,248.

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 \$6,796,990.

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 \$158,184 for fixed asset purchases from; Asset Forfeiture funds, Restitution 11470.2 funds, and E911 professional services from State E-9-1-1 funds.
- ❖ Increased Jail's budgeted expenditures and corresponding revenues by \$33,000 for Modular Building purchased from Inmate Welfare funds.
- ❖ Increased Emergency Service's budgeted expenditures and corresponding revenues by \$25,800 for fixed asset purchases; MDT for SWAT vehicle, Clemars base station antenna, portable repeaters, and side tracking sonar system.
- ❖ Increased Agriculture's budgeted expenditures and corresponding revenues by \$9,999 for European Grapevine Moth (EGVM) trapping program.

Capital Asset and Debt Administration

Capital assets. The County of Mendocino's investment in capital assets for its governmental activities as of June 30, 2013, amounts to \$99,058,762 (net of accumulated depreciation).

This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the County of Mendocino's investment in capital assets for the current fiscal year was 1.08%. Additional details of capital assets are in Note 7 on Page 40.

County of Mendocino's Capital Assets

	2013	2012
Land	\$ 3,002,620	\$ 3,002,620
Structures and improvements	37,013,852	38,390,321
Improvements other than buildings	2,276,572	2,488,578
Equipment	6,258,848	6,955,241
Infrastructure	43,243,491	44,251,121
Construction in progress	7,263,379	5,052,160
Total	\$ 99,058,762	\$ 100,140,041

MENDOCINO COUNTY

Management's Discussion and Analysis
For the Year Ended June 30, 2013

Long-term debt. At the end of the current fiscal year, the County of Mendocino has long-term debt outstanding of \$99,594,528.

County of Mendocino's Outstanding Debt

	2013	2012
General obligation bonds	\$ 76,000,000	\$ 79,575,000
Certificates of Participation	23,530,000	24,505,000
Capital leases & loans	64,528	936,301
Total	<u>\$ 99,594,528</u>	<u>\$ 105,016,301</u>

The County of Mendocino's total debt decreased by \$5,421,773 (5.16%) 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 \$955,679,111, 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 41-42 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 2013/14 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**

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COUNTY OF MENDOCINO

Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and investments	\$ 49,250,217
Cash with fiscal agent	7,862,645
Other cash	117,780
Accounts receivable	723,208
Due from other governments	18,278,488
Taxes receivable	1,490,182
Inventories	665,542
Net pension asset	41,592,356
Capital assets:	
Nondepreciable	10,265,999
Depreciable, net	88,792,763
Total Assets	<u>219,039,180</u>
<u>LIABILITIES</u>	
Accounts payable	5,935,641
Salaries and benefits payable	1,710,258
Interest payable	2,229,062
Unearned revenue	9,155,756
Long-Term Liabilities:	
Portion due or payable within one year:	
Certificates of participation	985,000
Bonds payable	3,755,000
Loans payable	25,057
Liability for compensated absences	4,258,189
Claims liability	3,000,466
Portion due or payable after one year:	
Certificates of participation	22,545,000
Bonds payable	72,245,000
Loans payable	39,471
Other postemployment benefits (OPEB) liability	686,041
Closure/post-closure liability	13,764,975
Total Liabilities	<u>140,334,916</u>
<u>NET POSITION</u>	
Net Investment in capital assets	75,464,234
Restricted for:	
Legally segregated taxes, grants and fees	16,223,924
Debt service and capital projects	13,522,530
Unrestricted	(26,506,424)
Total Net Position	<u>\$ 78,704,264</u>

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

COUNTY OF MENDOCINO

Statement of Activities
For the Year Ended June 30, 2013

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 Position
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 12,977,492	\$ 2,946,570	\$ 1,608,378	\$ 325,075	\$ (8,097,469)
Public protection	49,523,671	8,105,050	9,427,413	--	(31,991,208)
Public ways and facilities	13,696,845	302,766	7,479,882	3,159,353	(2,754,844)
Health and sanitation	30,083,546	4,129,522	29,749,572	--	3,795,548
Public assistance	54,621,785	99,550	52,759,791	--	(1,762,444)
Education	2,115,089	49,219	13,800	--	(2,052,070)
Recreation and culture	410,654	--	--	--	(410,654)
Debt Service:					
Interest	6,147,856	--	--	--	(6,147,856)
Total Governmental Activities	\$ 169,576,938	\$ 15,632,677	\$ 101,038,836	\$ 3,484,428	(49,420,997)
General Revenues:					
Taxes:					
Property taxes					41,489,770
Sales and use taxes					12,752,013
Transient occupancy tax					3,617,553
Other					333,778
Unrestricted interest and investment earnings					780,334
Miscellaneous					1,939,034
Total General Revenues					<u>60,912,482</u>
Change in Net Position					11,491,485
Net Position - Beginning of Year, restated					<u>67,212,779</u>
Net Position - End of Year					<u>\$ 78,704,264</u>

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

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COUNTY OF MENDOCINO

Balance Sheet
Governmental Funds
June 30, 2013

	<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	\$27,054,113	\$ 478,916	\$ 60,494	\$ 4,879,801
Restricted Assets:				
Cash with fiscal agent	--	1,971,689	5,890,956	--
Imprest cash	9,699	--	--	--
Accounts receivable	452,302	--	--	139,356
Taxes receivable	1,237,239	--	--	--
Due from other governments	5,602,227	--	--	7,710,692
Inventory	76,523	--	--	--
Total Assets	<u>\$34,432,103</u>	<u>\$ 2,450,605</u>	<u>\$ 5,951,450</u>	<u>\$ 12,729,849</u>
 <u>Liabilities</u>				
Accounts payable	\$ 2,393,821	\$ 294,795	\$ --	\$ 1,656,945
Accrued salaries and benefits	1,468,178	--	--	62,716
Due to other funds	--	--	--	--
Matured principal and interest payable	--	33,259	--	--
Unearned revenue	9,155,756	--	--	--
Total Liabilities	<u>13,017,755</u>	<u>328,054</u>	<u>--</u>	<u>1,719,661</u>
 <u>Deferred Inflows of Resources</u>				
Unavailable revenue	<u>2,655,625</u>	<u>--</u>	<u>--</u>	<u>6,461,033</u>
Total Deferred Inflows of Resources	<u>2,655,625</u>	<u>--</u>	<u>--</u>	<u>6,461,033</u>
 <u>Fund Balances</u>				
Nonspendable	76,523	--	--	--
Restricted	--	2,122,551	5,951,450	4,549,155
Unassigned	<u>18,682,200</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Fund Balances	<u>18,758,723</u>	<u>2,122,551</u>	<u>5,951,450</u>	<u>4,549,155</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$34,432,103</u>	 <u>\$ 2,450,605</u>	 <u>\$ 5,951,450</u>	 <u>\$ 12,729,849</u>

continued

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

COUNTY OF MENDOCINO

Balance Sheet (continued)
 Governmental Funds
 June 30, 2013

	<u>Road</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Pooled cash and investments in treasury	\$3,703,629	\$ 3,582,347	\$39,759,300
Restricted Assets:			
Cash with fiscal agent	--	--	7,862,645
Imprest cash	50	380	10,129
Accounts receivable	1,888	52,553	646,099
Taxes receivable	--	252,943	1,490,182
Due from other governments	3,178,088	1,785,569	18,276,576
Inventory	589,019	--	665,542
Total Assets	<u>\$7,472,674</u>	<u>\$ 5,673,792</u>	<u>\$68,710,473</u>
 <u>Liabilities</u>			
Accounts payable	\$1,337,220	\$ 203,715	\$ 5,886,496
Accrued salaries and benefits	97,906	67,481	1,696,281
Due to other funds	--	198,437	198,437
Matured principal and interest payable	--	--	33,259
Unearned revenue	--	--	9,155,756
Total Liabilities	<u>1,435,126</u>	<u>469,633</u>	<u>16,970,229</u>
 <u>Deferred Inflows of Resources</u>			
Unavailable revenue	<u>1,759,200</u>	<u>749,913</u>	<u>11,625,771</u>
Total Deferred Inflows of Resources	<u>1,759,200</u>	<u>749,913</u>	<u>11,625,771</u>
 <u>Fund Balances</u>			
Nonspendable	589,019	--	665,542
Restricted	3,689,329	4,463,823	20,776,308
Unassigned	--	(9,577)	18,672,623
Total Fund Balances	<u>4,278,348</u>	<u>4,454,246</u>	<u>40,114,473</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$7,472,674</u>	 <u>\$ 5,673,792</u>	 <u>\$68,710,473</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 Position - Governmental Activities
For the Year Ended June 30, 2013

Fund Balance - total governmental funds (page 14)	\$ 40,114,473
Amounts reported for governmental activities in the statement of net position are different because:	
The pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefore not reported in the funds.	41,592,356
Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	11,625,771
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	99,058,762
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 position. Internal service fund net position is:	6,796,990
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 position.	
Loans payable	(64,528)
Bonds payable	(76,000,000)
Certificates of participation	(23,530,000)
Accrued interest on long-term debt	(2,195,803)
Compensated absences	(4,242,741)
Landfill closure/post closure care costs	(13,764,975)
OPEB liability	(686,041)
	(88,383,088)
Net position of governmental activities (page 11)	\$ 78,704,264

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General	Debt Service	Pension Obligation Bonds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 56,379,535	\$ --	\$ --
Licenses, permits and franchises	2,459,395	--	--
Intergovernmental	67,084,805	--	--
Revenue from use of money and property	690,988	29,858	(24,813)
Fines, forfeitures and penalties	1,552,687	15,700	--
Charges for services	9,425,421	--	--
Other revenues	1,727,617	--	81,337
Total Revenues	<u>139,320,448</u>	<u>45,558</u>	<u>56,524</u>
Expenditures:			
Current:			
General government	12,630,760	27,657	2,600
Public protection	43,585,996	--	--
Public ways and facilities	121,882	--	--
Health and sanitation	10,011,427	--	--
Public assistance	51,339,528	--	--
Education	143,393	--	--
Recreation and culture	386,330	--	--
Debt service:			
Principal	--	1,846,768	3,575,000
Interest	413,986	937,165	4,334,700
Capital outlay	1,044,621	--	--
Total Expenditures	<u>119,677,923</u>	<u>2,811,590</u>	<u>7,912,300</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>19,642,525</u>	<u>(2,766,032)</u>	<u>(7,855,776)</u>
Other Financing Sources (Uses):			
Transfers in	680,119	2,866,186	8,529,126
Transfers out	(13,563,212)	--	--
Total Other Financing Sources (Uses)	<u>(12,883,093)</u>	<u>2,866,186</u>	<u>8,529,126</u>
Net Changes in Fund Balances	6,759,432	100,154	673,350
Fund Balances, Beginning of Year	12,470,215	2,022,397	5,278,100
Prior period adjustment	(470,924)	--	--
Fund Balances, End of Year	<u>\$ 18,758,723</u>	<u>\$ 2,122,551</u>	<u>\$ 5,951,450</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, 2013

	Mental Health Services	Road	Other Governmental Funds	Total
Revenues:				
Taxes	\$ --	\$ 70,401	\$ 1,743,178	\$ 58,193,114
Licenses, permits and franchises	--	60,606	278,606	2,798,607
Intergovernmental	17,997,844	11,012,514	5,352,197	101,447,360
Revenue from use of money and property	(7,521)	25,998	20,041	734,551
Fines, forfeitures and penalties	--	51,025	119,037	1,738,449
Charges for services	1,083,286	191,135	172,656	10,872,498
Other revenues	59,703	4,915	65,462	1,939,034
Total Revenues	<u>19,133,312</u>	<u>11,416,594</u>	<u>7,751,177</u>	<u>177,723,613</u>
Expenditures:				
Current:				
General government	--	--	124,775	12,785,792
Public protection	--	--	1,095,167	44,681,163
Public ways and facilities	--	12,829,071	48,384	12,999,337
Health and sanitation	16,090,756	--	2,978,069	29,080,252
Public assistance	--	--	1,393,385	52,732,913
Education	--	--	1,853,143	1,996,536
Recreation and culture	--	--	--	386,330
Debt service:				
Principal	--	--	--	5,421,768
Interest	--	--	--	5,685,851
Capital outlay	--	--	8	1,044,629
Total Expenditures	<u>16,090,756</u>	<u>12,829,071</u>	<u>7,492,931</u>	<u>166,814,571</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,042,556</u>	<u>(1,412,477)</u>	<u>258,246</u>	<u>10,909,042</u>
Other Financing Sources (Uses):				
Transfers in	--	1,896,291	1,727,598	15,699,320
Transfers out	(762,015)	(423,566)	(1,147,141)	(15,895,934)
Total Other Financing Sources (Uses)	<u>(762,015)</u>	<u>1,472,725</u>	<u>580,457</u>	<u>(196,614)</u>
Net Changes in Fund Balances	2,280,541	60,248	838,703	10,712,428
Fund Balances, Beginning of Year	2,268,614	4,218,100	3,615,543	29,872,969
Prior period adjustment	--	--	--	(470,924)
Fund Balances, End of Year	<u>\$ 4,549,155</u>	<u>\$ 4,278,348</u>	<u>\$ 4,454,246</u>	<u>\$ 40,114,473</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, 2013

Net change to fund balance - total governmental funds (page 17) \$ 10,712,428

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

Governmental funds report capital asset additions 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	\$ 4,323,583	
Less current year depreciation	<u>(5,404,862)</u>	(1,081,279)

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.		3,299,027
--	--	-----------

Repayment of debt principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position.

Principal and refunded debt repayments:		
Bonds payable	3,575,000	
Loans payable	871,773	
Certificates of participation	<u>975,000</u>	5,421,773

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	(462,010)	
Change in net pension asset	(8,518,916)	
Change in net OPEB obligation	1,368,254	
Change in compensated absences	157,019	
Change in liability for closure/post closure care	<u>(68,075)</u>	(7,523,728)

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>663,264</u>
--	--	----------------

Change in net position of governmental activities (page 12) \$ 11,491,485

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

COUNTY OF MENDOCINO

Statement of Net Position
Proprietary Funds
June 30, 2013

	<u>Governmental Activities Internal Service Funds</u>
<u>ASSETS</u>	
Current Assets:	
Pooled cash and investments in treasury	\$ 9,480,788
Other cash	117,780
Accounts receivable	77,109
Due from other governments	1,912
Due from other funds	<u>210,349</u>
Total Assets	<u>9,887,938</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	49,145
Accrued salaries and benefits	13,977
Due to other funds	11,912
Compensated absences	15,448
Liability for unpaid claims	<u>3,000,466</u>
Total Liabilities	<u>3,090,948</u>
<u>NET POSITION</u>	
Unrestricted	6,796,990
Total Net Position	<u><u>\$ 6,796,990</u></u>

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Governmental Activities <u>Internal Service Funds</u>
Operating Revenues:	
Charges for services	\$ 17,225,304
Total Operating Revenues	<u>17,225,304</u>
Operating Expenses:	
Salaries and employee benefits	604,121
Services and supplies	11,105,450
Insurance	5,269,189
Claims and judgments	(174,323)
Total Operating Expenses	<u>16,804,437</u>
Operating Income (Loss)	<u>420,867</u>
Non-Operating Revenues (Expenses):	
Interest income	45,783
Total non-operating revenues (expenses)	<u>45,783</u>
Income (Loss) Before Transfers	466,650
Transfers in	500,000
Transfers out	<u>(303,386)</u>
Change in Net Position	663,264
Net Position - Beginning of Year	<u>6,133,726</u>
Net Position - End of Year	<u><u>\$ 6,796,990</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, 2013

	Governmental Activities
	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from interfund services provided	\$ 18,372,338
Cash paid to employees for services	(603,674)
Cash paid to suppliers for goods and services	<u>(16,588,898)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,179,766</u>
CASH FLOWS FROM NONCAPITAL FINANCING	
Interfund loans	2,136,173
Transfers in	500,000
Transfers out	<u>(303,386)</u>
Net Cash Provided (Used) by Investing Activities	<u>2,332,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received (paid)	<u>45,783</u>
Net Cash Provided (Used) by Investing Activities	<u>45,783</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,558,336
Cash and Cash Equivalents, Beginning of Year	<u>6,040,232</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,598,568</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 420,867
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	1,147,034
Increase (decrease) in:	
Accounts payable	(76,307)
Accrued salaries	766
Compensated absences	(319)
Claims liability	<u>(312,275)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,179,766</u></u>

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

COUNTY OF MENDOCINO

Statement of Net Position
Fiduciary Funds
June 30, 2013

	Investment Trust	Agency Funds	Pension Trust Fund	Private Purpose Trust Fund
<u>Assets</u>				
Cash and investments in treasury	\$ 119,338,403	\$ 9,193,055	\$ 2,144,879	\$ 35,859
Other investments	--	--	381,062,667	--
Accounts receivable	--	--	314,362	--
Taxes receivable	--	12,989,116	--	--
Other assets	--	--	13,162	9,798
Total Assets	<u>119,338,403</u>	<u>22,182,171</u>	<u>383,535,070</u>	<u>45,657</u>
<u>Liabilities</u>				
Accounts payable and accrued expenses	--	--	338,253	--
Agency funds held for others	--	22,182,171	--	--
Total Liabilities	<u>--</u>	<u>22,182,171</u>	<u>338,253</u>	<u>--</u>
<u>Net position</u>				
Net position held in trust for:				
Other entities	--	--	--	45,657
Retirement system	--	--	383,196,817	--
Investment pool participants	119,338,403	--	--	--
Total Net Position	<u>\$ 119,338,403</u>	<u>\$ -</u>	<u>\$ 383,196,817</u>	<u>\$ 45,657</u>

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

COUNTY OF MENDOCINO

Statement of Changes in Net Assets
Fiduciary Funds
For the Year Ended June 30, 2013

	<u>Investment Trust</u>	<u>Pension Trust Fund</u>	<u>Private Purpose Trust Fund</u>
<u>Additions</u>			
Contributions:			
Employer contributions	\$ --	\$ 14,260,473	\$ --
Member contributions	--	4,712,593	--
Contributions on pooled investments	326,380,324	--	--
Taxes	--	--	137,100
Interest and investment income - net	721,844	48,890,492	1,465
Total Additions	<u>327,102,168</u>	<u>67,863,558</u>	<u>138,565</u>
<u>Deductions</u>			
Benefit payments	--	26,573,554	--
Distributions from investment pool	349,032,139	--	--
Payments to taxing entities	--	--	903,443
Administrative expense	--	829,999	17,305
Total Deductions	<u>349,032,139</u>	<u>27,403,553</u>	<u>920,748</u>
Change in net position	(21,929,971)	40,460,005	(782,183)
Net Position, beginning	<u>141,268,374</u>	<u>342,736,812</u>	<u>827,840</u>
Net Position, ending	<u>\$ 119,338,403</u>	<u>\$ 383,196,817</u>	<u>\$ 45,657</u>

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

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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, 2013**

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 position 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, 2013, 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 position is 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, 2013

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, 2013

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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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 at year end.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows or resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: intergovernmental revenue and charges for services. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. Interfund Transactions

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

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

L. **Interfund Transactions** (continued)

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

M. **Estimates**

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

N. **New Accounting Pronouncements – Current Year**

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements.

Governmental Accounting Standards Board Statement No. 63

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previously, GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB Statement No. 63 amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position.

Governmental Accounting Standards Board Statement No. 65

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for periods beginning after December 15, 2012. It improves the financial reporting for state and local governments by reclassifying, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

O. **New Accounting Pronouncements – Future Years**

Government Accounting Standards Board Statement No. 66

GASB Statement No. 66, *Technical Corrections – 2012*, is effective for periods beginning after December 15, 2012. It improves financial reporting for state and local governments by resolving conflicting guidance that resulted from the Issuance of GASB Statement Nos. 54 and 62.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

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

O. New Accounting Pronouncements – Future Years (continued)

Government Accounting Standards Board Statement No.67

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for periods beginning after June 15, 2013. It improves financial reporting for state and local governments by improving the usefulness of pension information included in the general purpose external financial reports of state and local governmental pension plans for making decisions and assessing accountability.

Government Accounting Standards Board Statement No. 68

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for periods beginning after June 15, 2014. The principal objective of this statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports of governments whose employees – both active employees and inactive employees – are provided with pensions. An additional objective is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities.

NOTE 2: **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Deficit Fund Equity

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

<u>Fund</u>	<u>Deficit</u>
Capital Project Funds:	
Capital Projects	\$ 9,577
Internal Service Funds:	
Workers' Compensation	22,086

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

The Internal Service Funds for insurance had a deficit fund equity at fiscal year ending June 30, 2013, 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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

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.

At June 30, 2013, total County cash and investments were as follows:

<i>Cash:</i>	
Cash on hand	787,494
Imprest cash	10,129
Deposits less outstanding warrants	17,524,595
Total cash	18,322,218
 <i>Investments:</i>	
In Treasurer's pool	161,757,975
With fiscal agents	7,862,645
With fiscal agents, Pension Trust Fund	381,062,667
Total investments	550,683,287
Total cash and investments	\$ 569,005,505

Total cash and investments at June 30, 2013, were presented on the County's financial statements as follows:

Primary government	\$ 57,230,642
Investment trust fund	119,338,403
Pension trust fund	383,207,546
Agency funds	9,193,055
Other fiduciary	35,859
Total cash and investments	\$ 569,005,505

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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Deposits – Custodial Risk (continued)

At June 30, 2013, the carrying value of the County’s deposits was \$17,079,220 and the bank balance was \$24,921,620. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the bank balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County’s investment policy, where more restrictive. The table also identifies certain provisions of the County’s investment policy that address interest rate risk, credit risk, and concentration risk. The County annually adopts a “Statement of Investment Policy.” The policy is based on criteria established by government code and adds further restrictions as to the types of investments allowed, concentration limits and maximum terms.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds and Obligations	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit /CD Placement Service	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%
Non-Negotiable Certificates of Deposit (collateralized bank deposits)	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Bank/Time Deposits	5 years	None	None
Joint Powers Authority Pool (includes CAMP)	N/A	None	None
Local Agency Investment Fund	N/A	None	None

At June 30, 2013, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not made (fair value was 99.94% of carrying value).

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

At June 30, 2013, the County had the following investments:

Investment Pool	<u>Interest Rates</u>	<u>Maturities</u>	<u>Par</u>	<u>Fair Value</u>	<u>Book/Carrying Value</u>	<u>WAM (Years)</u>
Investment Pool						
Federal Agency Obligations	0.13% - 1.12%	8/1/2013 - 9/21/2017	\$ 50,353,000	\$ 50,701,758	\$ 50,775,671	1.77
Treasury Obligations	0.24% - 0.51%	11/30/2013 - 8/31/2013	18,475,000	18,565,873	18,567,124	1.60
Medium Term Corporate Notes	0.42% - 1.66%	7/25/11 - 4/25/14	33,795,000	34,252,237	34,276,174	1.52
Negotiable Certificate of Deposits	0.84% - 1.27%	7/12/11 - 5/6/14	10,000,000	10,000,000	10,000,000	1.03
Commercial paper	0.43% - 2.12%	10/15/2013 - 12/16/2013	6,020,000	6,014,520	6,014,520	0.39
Bank of New York Mellon Sweep	Variable	On Demand	124,486	124,486	124,486	0.00
California Local Agency Investment Fund (LAIF)	Variable	On Demand	41,000,000	41,000,000	41,000,000	0.00
California Asset Management Program	Variable	On Demand	1,000,000	1,000,000	1,000,000	0.00
			<u>160,767,486</u>	<u>161,658,874</u>	<u>161,757,975</u>	
Investments Outside Investment Pool						
<i>Cash held with fiscal agent</i>						
Commercial paper	0.15% - 0.39%	7/2/13 - 12/5/13	\$ 1,958,850	\$ 1,956,169	\$ 1,958,850	0.11
Money market mutual funds	0.01%	On Demand	5,903,795	5,903,795	5,903,795	0.00
			<u>\$ 7,862,645</u>	<u>\$ 7,859,964</u>	<u>\$ 7,862,645</u>	
Total Investments			<u>\$ 168,630,131</u>	<u>\$ 169,518,838</u>	<u>\$ 169,620,620</u>	

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 \$44,276,174 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, 2013, the County held the following percentages and amounts by issuer of its net investment in Federal Agency Obligations: 8.18% (\$13,287,986), Federal Home Loan Banks; 7.79% (\$12,663,094), Federal National Mortgage Association; 7.62% (\$12,375,982), Federal Home Loan Mortgage Corporation; and 6.44% (\$10,459,938), Federal Farm Credit Bank.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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, 2013.

Investments In Investment Pool	<u>S&P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Federal agency obligations	Aaa	AA+	29.97%
Federal agency obligations	P-1	A-1+	1.39%
Treasury obligations	Aaa	AA+	11.49%
Medium term notes	A1	A+	2.17%
Medium term notes	A1	AA+	0.77%
Medium term notes	A1	A	0.60%
Medium term notes	A1	A-	0.62%
Medium term notes	A2	A+	0.90%
Medium term notes	A2	AA-	1.86%
Medium term notes	A2	A	2.29%
Medium term notes	Aaa	AAA	0.85%
Medium term notes	Aa1	AA+	0.75%
Medium term notes	Aa2	AA	2.19%
Medium term notes	Aa3	A+	3.72%
Medium term notes	Aa3	AA-	4.48%
Commercial paper	P-1	A-1	2.73%
Commercial paper	P-1	A-1+	0.99%
Negotiable Certificates of Deposit	Aa2	NR	3.09%
Negotiable Certificates of Deposit	Unrated	Unrated	3.09%
Bank of New York Mellon Sweep	Unrated	Unrated	0.08%
California Local Agency Investment Fund State Pool	Unrated	Unrated	25.36%
Public Financial Management CAMP	Unrated	Unrated	0.62%
			<u>100.00%</u>

Custodial Credit Risk

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

Local Agency Investment Fund

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (continued)

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, 2013, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$41 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 \$58.8 billion. Of that amount, 1.96% was invested in structured notes and asset-backed securities with the remaining 98.04% 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>\$ 44,276,174</u>

County Investment Pool Condensed Financial Statements

The following represents a condensed statement of net position and changes in net position for the investment pool as of June 30, 2013:

Statement of Net Position

Net position held for pool participants	<u>\$ 179,952,284</u>
Equity of internal pool participants	\$ 60,578,022
Equity of external pool participants	<u>119,374,262</u>
Total net position	<u>\$ 179,952,284</u>

Statement of Changes in Net Position

Net position for pool participants at July 1, 2012	\$ 192,208,665
Net change in investments by pool participants	<u>(12,256,381)</u>
Net position at June 30, 2013	<u>\$ 179,952,284</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 4: ENDOWMENTS

For the year ended June 30, 2013, the net appreciation on investments of donor-restricted endowments was \$6,275. 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 12, 2012, the County issued a \$17,000,000 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, 2013, and was repaid with taxes and other revenues by June 28, 2013. The County incurred and paid interest of approximately \$326,778.

Short-term note payable activity for the year ended June 30, 2013, was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>
Short-term note payable	\$ --	\$ 17,000,000	\$ 17,000,000	\$ --

NOTE 6: INTERFUND TRANSACTIONS

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2013, are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Funds	Internal Service Funds	\$ 11,912
	Nonmajor Governmental Funds	198,437
		<u>\$ 210,349</u>

The above balances reflect temporary cash advances.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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	\$ 2,672,859
	Road Fund	1,896,291
	Pension Obligation Fund	6,766,464
	Internal Service Funds	500,000
	Nonmajor Governmental Funds	<u>1,727,598</u>
		<u>13,563,212</u>
Mental Health Services Fund	General Fund	291,767
	Debt Service	193,327
	Pension Obligation Fund	<u>276,921</u>
		<u>762,015</u>
Road Fund	Pension Obligation Fund	<u>423,566</u>
		<u>423,566</u>
Internal Service Funds	General Fund	250,640
	Pension Obligation Fund	<u>52,746</u>
		<u>303,386</u>
Nonmajor Governmental Funds	General Fund	137,712
	Pension Obligation Fund	<u>1,009,429</u>
		<u>1,147,141</u>
		<u>\$ 16,199,320</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 7: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	<u>Balance June 30, 2013</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,002,620	\$ -	\$ -	\$ -	\$ 3,002,620
Construction in progress	5,052,160	3,294,528	-	(1,083,309)	7,263,379
Total capital assets, not being depreciated	8,054,780	3,294,528	-	(1,083,309)	10,265,999
Capital assets, being depreciated:					
Infrastructure	74,885,389	1,969	-	1,077,110	75,964,468
Structures and improvements	71,099,367	536,131	-	6,199	71,641,697
Equipment	27,606,067	490,955	(658,246)	-	27,438,776
Improvements other than buildings	5,657,836	-	-	-	5,657,836
Total capital assets, being depreciated	179,248,659	1,029,055	(658,246)	1,083,309	180,702,777
Less accumulated depreciation for:					
Infrastructure	(30,634,268)	(2,086,709)	-	-	(32,720,977)
Structures and improvements	(32,709,046)	(1,918,799)	-	-	(34,627,845)
Equipment	(20,650,826)	(1,187,348)	658,246	-	(21,179,928)
Improvements other than buildings	(3,169,258)	(212,006)	-	-	(3,381,264)
Total accumulated depreciation	(87,163,398)	(5,404,862)	658,246	-	(91,910,014)
Total capital assets, being depreciated, net	92,085,261	(4,375,807)	-	1,083,309	88,792,763
Governmental activities capital assets, net	\$ 100,140,041	\$ (1,081,279)	\$ -	\$ -	\$ 99,058,762

Depreciation expense was charged to governmental functions as follows:

General government	\$ 859,434
Public protection	1,258,122
Public ways and facilities	2,586,760
Health and sanitation	330,412
Public assistance	261,716
Education	95,730
Recreation and culture	12,688
Total Depreciation Expense - Governmental Functions	\$ 5,404,862

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 8: LONG-TERM LIABILITIES

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2013, 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, 2013</u>
Loans Payable					
California Energy Commission Loan - 2004	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	\$ 250,000	\$ 64,528
Total Loans Payable				<u>\$ 250,000</u>	<u>\$ 64,528</u>
Taxable Pension Obligation Bonds					
2002 Series (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	\$ 76,000,000
Total Taxable Pension Obligation Bonds				<u>\$ 91,945,000</u>	<u>\$ 76,000,000</u>
Refunding Certificates of Participation					
2012 Series (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	\$ 23,530,000
Total Certificates of Participation				<u>\$ 25,810,000</u>	<u>\$ 23,530,000</u>

A. Summary of Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2013:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Refunding certificates of participation	\$ 24,505,000	\$ --	\$ (975,000)	\$ 23,530,000	\$ 985,000
Bonds payable	79,575,000	--	(3,575,000)	76,000,000	3,755,000
Loans payable	936,301	--	(871,773)	64,528	25,057
Compensated absences	4,415,527	3,550,400	(3,707,738)	4,258,189	4,258,189
Liability for self-insurance	3,312,741	9,188,168	(9,500,443)	3,000,466	3,000,466
Landfill postclosure costs	13,696,900	--	68,075	13,764,975	--
Total Governmental Activities	<u>\$ 126,441,469</u>	<u>\$ 12,738,568</u>	<u>\$ (18,561,879)</u>	<u>\$ 120,618,158</u>	<u>\$ 12,023,712</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 8: LONG-TERM LIABILITIES (CONTINUED)

A. Summary of Long-Term Liabilities (continued)

As of June 30, 2013, 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
2014	\$ 985,000	\$ 877,686	\$ 3,755,000	\$ 4,151,449	\$ 25,057	\$ 2,305
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	1,115,000	753,636	4,630,000	3,240,890	--	--
2019-2023	6,175,000	3,163,988	27,275,000	11,963,020	--	--
2024-2028	8,520,000	1,760,024	27,860,000	3,327,559	--	--
2029-2033	3,585,000	231,090	--	--	--	--
	<u>\$ 23,530,000</u>	<u>\$ 9,238,278</u>	<u>\$ 76,000,000</u>	<u>\$ 33,846,860</u>	<u>\$ 64,528</u>	<u>\$ 3,876</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.

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.

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 \$4,258,189. The entire amount was considered current, based on experience.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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 \$13,764,975 reported as landfill closure/postclosure liability at June 30, 2013, 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 2013. 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, 2013</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 2,638,338
South Coast Landfill	Mendocino County	100%	Closed	6,987,417
Laytonville Landfill	Mendocino County	100%	Closed	<u>4,139,220</u>
				<u>\$ 13,764,975</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, 2013, investments of \$2,845,469 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.

The County has capped all three locations. Casper Landfill is officially closed. The County is in the process of officially closing the South Coast and Laytonville landfills; however, they are no longer accepting any waste from the public.

NOTE 10: NET POSITION/FUND BALANCES

Net Position

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

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. 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 Position* – 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.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2013

NOTE 10: **NET POSITION/FUND BALANCES** (CONTINUED)

- *Unrestricted Net Position* – This category represents net position 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, 2013**

NOTE 10: NET POSITION/FUND BALANCES (continued)

The following is a summary of fund balances at June 30, 2013:

	<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	\$ 76,523	\$ --	\$ --	\$ --	\$ 589,019	\$ --	\$ 665,542
Total Nonspendable	<u>76,523</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>589,019</u>	<u>--</u>	<u>665,542</u>
Restricted for:							
Road Projects	--	--	--	--	3,689,329	--	3,689,329
Mental Health	--	--	--	4,549,155	-	--	4,549,155
Special Districts	--	--	--	--	--	1,140,906	1,140,906
Various Grant Programs	--	--	--	--	--	2,246,739	2,246,739
Endowments	--	--	--	--	--	1,076,178	1,076,178
Debt Service	--	2,122,551	5,951,450	--	--	--	8,074,001
Total Restricted	<u>--</u>	<u>2,122,551</u>	<u>5,951,450</u>	<u>4,549,155</u>	<u>3,689,329</u>	<u>4,463,823</u>	<u>20,776,308</u>
Unassigned	<u>18,682,200</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(9,577)</u>	<u>18,672,623</u>
Total Fund Balance	<u>\$ 18,758,723</u>	<u>\$ 2,122,551</u>	<u>\$ 5,951,450</u>	<u>\$ 4,549,155</u>	<u>\$ 4,278,348</u>	<u>\$ 4,454,246</u>	<u>\$ 40,114,473</u>

Restatement of Fund Balance/Net Position

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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

Restatement of Fund Balance/Net Position (continued)

	<u>Government-Wide Statements</u> Governmental Activities	<u>Governmental Fund Statements</u> General Fund
Net position/fund balance as of June 30, 2012, as previously reported	<u>\$ 66,760,202</u>	<u>\$ 12,470,215</u>
 <u>Implementation of New Accounting Standard</u> The County implemented GASB Statement No. 65, <i>(Items Previously Reported as Assets and Liabilities)</i> , which requires debt issuance costs to be recognized as an expense in the period incurred. Prior to GASB No. 65, the County was recognizing the debt issuance costs related to its pension obligation bonds as an expense in a systematic manner over the duration of the related debt.	 (2,005,235)	 -
 <u>Restatement</u> Unearned revenue related to the advances was restated	 (470,924)	 (470,924)
 In December 2002, the County entered into an agreement with the fiscal agent related to the 2002 pension obligation bonds to receive \$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 was previously recognized as revenue in the General Fund in the fund statements, were being deferred over the life of the bonds in the government-wide statements. These bonds were refunded during the previous fiscal year	 <u>2,928,736</u>	 <u>-</u>
Total restatement	<u>452,577</u>	<u>(470,924)</u>
Net position/fund balance as of July 1, 2012, restated	<u>\$ 67,212,779</u>	<u>\$ 11,999,291</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, 2013, were \$14,260,473; contributions by the employees of the County, special districts, and the Courts were \$4,712,593.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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 7.75 percent compounded annually, b) projected salary increases of 0.50 percent per year attributable to merit/longevity, and c) additional projected salary increases of 3.5 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.

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, 2013, were as follows (in thousands):

Annual required contribution (County fiscal year basis)	\$ 14,260
Interest on beginning pension asset	(4,009)
Adjustment to the annual required contribution	<u>12,528</u>
Annual pension cost	22,779
Contributions made	<u>14,260</u>
Increase (decrease) in pension asset	(8,519)
Net pension asset, beginning of year	50,111
Net pension asset, end of year	<u><u>\$ 41,592</u></u>

The following table shows the County's annual pension cost and the percentage contributed for the fiscal year 2012-2013 and each of the two preceding fiscal years (in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Contributions	Percentage of APC Contributed	Net Pension Asset
2011	\$ 14,958	\$ 9,554	64%	\$ 56,945
2012	18,645	11,811	63%	50,111
2013	22,779	14,260	63%	41,592

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, 2013, the most recent actuarial valuation date (dollar amounts in thousands):

Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
\$ 510,461	\$ 378,777	\$ 131,684	74.2%	\$ 56,464	233.2%

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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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 2012-13, the County contributed \$778,483 to the Retiree Health Plan.

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	\$ 1,370
Annual OPEB cost (expense)	1,370
Contributions made	(778)
Change in liability estimate	(1,960)
Decrease in net OPEB obligation	(1,368)
Net OPEB obligation - beginning of year	2,054
Net OPEB obligation - end of year	<u>\$ 686</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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

Funding Policy (continued)

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 2010-11 through 2012-13 is as follows (dollar amounts in thousands):

Fiscal Year Ended	Annual OPEB Cost	Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	\$ 903	\$ 744	82.40%	\$ 159
6/30/12	1,681	1,534	91.26%	2,054
6/30/13	1,370	778	56.84%	686

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.

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, 2013, 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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

NOTE 13: **CONTINGENCIES** (CONTINUED)

C. **Teeter Obligation** (continued)

	June 30, 2013
Negative cash in tax resources fund	\$ (5,594,083)
Less:	
Positive cash in tax loss reserve fund	1,262,715
Receivable: Secured taxes	11,651,074
Receivable: Penalties and interest	1,338,042
Excess receivables over net cash deficit	\$ 8,657,748

The County has determined (1) the net deficit cash of \$4,331,368 reported in the Teeter Funds (Teeter obligation) at June 30, 2013 is currently an obligation of the property owners and not of the General Fund based on the property taxes receivable balance of \$12,989,116 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, 2013 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, 2013, the County paid \$769,205 over tax delinquencies collected from the General Fund to the Tax Resources Fund.

The County's tentative payment schedule for the next 4 years, with each individual payment pending annual approval by the Board of Supervisors, is as follows:

Year Ending June 30,	Principal
2014	\$ 769,205
2015	769,205
2016	769,205
2017	299,672
	\$ 2,607,287

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:

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2013**

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

A. Unemployment Insurance

The County is fully self-insured for this program. The estimated claims liability at fiscal year-end was \$390,181.

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, 2013, plus an amount for "incurred but not reported claims." The liability is based on the estimated ultimate cost of settling the claims within the program's self-insured retention. The liability of \$1,049,716 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.

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 \$1,560,569.

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, 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>
Claims liability, July 1, 2012	\$ 609,515	\$ 465,557	\$ 2,237,669	\$ 3,312,741
Current year claims and changes in estimates	(33,763)	722,110	8,499,821	9,188,168
Claims payments	<u>(185,571)</u>	<u>(137,951)</u>	<u>(9,176,921)</u>	<u>(9,500,443)</u>
Claims liability, June 30, 2013	<u>\$ 390,181</u>	<u>\$ 1,049,716</u>	<u>\$ 1,560,569</u>	<u>\$ 3,000,466</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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COUNTY OF MENDOCINO

Required Supplementary Information
For the Year Ended June 30, 2013

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⁽¹⁾</u>	<u>UAAL as a % of Payroll</u>
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%
6/30/13	510,461	378,777	131,684	74.2%	\$ 56,464	233.2%

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 ¹	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, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 60,680,681	\$ 60,680,681	\$ 61,853,199	\$ 1,172,518
Licenses and permits	2,417,990	2,417,990	2,459,395	41,405
Fines, forfeits and penalties	2,098,442	2,128,975	1,552,687	(576,288)
Revenue from use of money and property	689,849	689,849	669,027	(20,822)
Intergovernmental	74,963,351	75,147,350	66,709,730	(8,437,620)
Charges for services	7,966,871	8,024,684	8,925,373	900,689
Other revenue	1,235,398	1,235,398	1,587,740	352,342
Total Revenues	<u>150,052,582</u>	<u>150,324,927</u>	<u>143,757,151</u>	<u>(6,567,776)</u>
Expenditures:				
Current:				
General government	14,872,180	14,883,253	13,486,545	1,396,708
Public protection	48,730,491	49,057,106	47,255,883	1,801,223
Public way and facilities	330,707	330,707	121,882	208,825
Health and sanitation	12,210,055	12,217,709	9,877,638	2,340,071
Public assistance	63,696,324	63,777,932	53,101,392	10,676,540
Education	222,286	222,286	150,505	71,781
Recreation and cultural services	236,392	236,392	253,217	(16,825)
Debt service - principal	5,589,205	5,589,205	5,473,664	115,541
Debt service - interest	550,000	550,000	413,986	136,014
Total Expenditures	<u>146,437,640</u>	<u>146,864,590</u>	<u>130,134,712</u>	<u>16,729,878</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,614,942</u>	<u>3,460,337</u>	<u>13,622,439</u>	<u>10,162,102</u>
Other Financing Sources (Uses):				
Transfers in	921,380	921,380	654,147	(267,233)
Transfers out	(7,520,618)	(7,569,618)	(7,412,009)	157,609
Total Other Financing Sources (Uses)	<u>(6,599,238)</u>	<u>(6,648,238)</u>	<u>(6,757,862)</u>	<u>(109,624)</u>
Net Change in Fund Balances	(2,984,296)	(3,187,901)	6,864,577	10,052,478
Budgetary Fund Balances - Beginning of Year	<u>8,119,397</u>	<u>8,119,397</u>	<u>8,119,397</u>	<u>--</u>
Budgetary Fund Balances - End of Year	<u>\$ 5,135,101</u>	<u>\$ 4,931,496</u>	<u>\$ 14,983,974</u>	<u>\$ 10,052,478</u>

continued

COUNTY OF MENDOCINO

Budgetary Comparison Schedule (continued)
General Fund
For the Year Ended June 30, 2013

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

Total revenues from the budgetary comparison schedule:	\$ 143,757,151
Revenues from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,036,961
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>(5,473,664)</u>
Total revenues from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 139,320,448</u>
Total expenditures from the budgetary comparison schedule:	\$ 130,134,712
The County budgets transfers to the Pension Obligation Fund as functional expenditures.	(6,766,464)
Expenditures from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,783,339
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>(5,473,664)</u>
Total expenditures from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 119,677,923</u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Mental Health Services Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Revenue from use of money and property	\$ (80,000)	\$ (80,000)	\$ (7,521)	\$ 72,479
Intergovernmental	18,478,972	18,478,972	17,997,844	(481,128)
Charges for services	1,104,760	1,104,760	1,083,286	(21,474)
Other revenues	70,000	70,000	59,703	(10,297)
Total Revenues	<u>19,573,732</u>	<u>19,573,732</u>	<u>19,133,312</u>	<u>(440,420)</u>
Expenditures:				
Current:				
Health and sanitation	<u>21,530,627</u>	<u>21,530,627</u>	<u>16,090,756</u>	<u>5,439,871</u>
Total Expenditures	<u>21,530,627</u>	<u>21,530,627</u>	<u>16,090,756</u>	<u>5,439,871</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,956,895)</u>	<u>(1,956,895)</u>	<u>3,042,556</u>	<u>4,999,451</u>
Other Financing Sources (Uses):				
Transfers in	1,658,111	1,658,111	--	(1,658,111)
Transfers out	<u>(2,021,403)</u>	<u>(2,021,403)</u>	<u>(762,015)</u>	<u>1,259,388</u>
Total Other Financing Sources (Uses)	<u>(363,292)</u>	<u>(363,292)</u>	<u>(762,015)</u>	<u>(398,723)</u>
Net Change in Fund Balances	(2,320,187)	(2,320,187)	2,280,541	4,600,728
Fund Balances - Beginning of Year	<u>1,311,619</u>	<u>1,311,619</u>	<u>2,268,614</u>	<u>956,995</u>
Fund Balances - End of Year	<u><u>\$ (1,008,568)</u></u>	<u><u>\$ (1,008,568)</u></u>	<u><u>\$ 4,549,155</u></u>	<u><u>\$ 5,557,723</u></u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Road Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 90,000	\$ 90,000	\$ 70,401	(19,599)
Licenses, permits and franchises	57,300	57,300	60,606	3,306
Revenue from use of money and property	12,000	12,000	25,998	13,998
Fines, forfeitures and penalties	50,000	50,000	51,025	1,025
Intergovernmental	17,694,250	17,694,250	11,012,514	(6,681,736)
Charges for services	212,274	212,274	191,135	(21,139)
Other revenues	1,000	1,000	4,915	3,915
Total Revenues	<u>18,116,824</u>	<u>18,116,824</u>	<u>11,416,594</u>	<u>(6,700,230)</u>
Expenditures:				
Current:				
Public ways and facilities	<u>24,116,679</u>	<u>24,284,914</u>	<u>12,829,071</u>	<u>11,455,843</u>
Total Expenditures	<u>24,116,679</u>	<u>24,284,914</u>	<u>12,829,071</u>	<u>11,455,843</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,999,855)</u>	<u>(6,168,090)</u>	<u>(1,412,477)</u>	<u>4,755,613</u>
Other Financing Sources (Uses):				
Transfers in	1,896,291	1,896,291	1,896,291	--
Transfers out	<u>(105,000)</u>	<u>(105,000)</u>	<u>(423,566)</u>	<u>(318,566)</u>
Total Other Financing Sources (Uses)	<u>1,791,291</u>	<u>1,791,291</u>	<u>1,472,725</u>	<u>(318,566)</u>
Net Change in Fund Balances	(4,208,564)	(4,376,799)	60,248	4,437,047
Fund Balances - Beginning of Year	<u>6,397,331</u>	<u>6,397,331</u>	<u>4,218,100</u>	<u>(2,179,231)</u>
Fund Balances - End of Year	<u>\$ 2,188,767</u>	<u>\$ 2,020,532</u>	<u>\$ 4,278,348</u>	<u>\$ 2,257,816</u>

COUNTY OF MENDOCINO

Required Supplementary Information
For the Year Ended June 30, 2013

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, 2013, expenditures exceeded appropriations in the following budget units:

Fund	Budget Unit	Excess of Expenditures Over Appropriations
General Fund	Recreation and Cultural Services: Museum	\$ 16,825

SUPPLEMENTAL INFORMATION

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COUNTY OF MENDOCINO

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
<u>Assets</u>				
Cash and investments in County Treasury	\$ 834,633	\$ 112,571	\$ 130,060	\$ 42,875
Imprest Cash	180	--	--	--
Accounts receivable	2,663	--	--	--
Taxes receivable	252,943	--	--	--
Due from other governmental agencies	136,300	--	--	--
Total Assets	\$ 1,226,719	\$ 112,571	\$ 130,060	\$ 42,875
<u>Liabilities</u>				
Accounts payable	\$ 43,238	\$ 1,250	\$ --	\$ --
Accrued salaries and benefits	27,600	--	--	1,511
Due to other funds	--	--	--	--
Total Liabilities	70,838	1,250	--	1,511
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	--	--	--	--
<u>Fund Balance</u>				
Restricted	1,155,881	111,321	130,060	41,364
Unassigned	--	--	--	--
Total Fund Balances	1,155,881	111,321	130,060	41,364
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 \$ 1,226,719	 \$ 112,571	 \$ 130,060	 \$ 42,875

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2013

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
<u>Assets</u>				
Cash and investments in County Treasury	\$ 115,040	\$ 67,274	\$ 99,410	\$ 1,740
Imprest Cash	--	--	--	--
Accounts receivable	--	300	446	119
Taxes receivable	--	--	--	--
Due from other governmental agencies	35,623	--	--	--
Total Assets	<u>\$ 150,663</u>	<u>\$ 67,574</u>	<u>\$ 99,856</u>	<u>\$ 1,859</u>
<u>Liabilities</u>				
Accounts payable	\$ --	\$ 175	\$ --	\$ 641
Accrued salaries and benefits	--	--	--	1,218
Due to other funds	--	--	--	--
Total Liabilities	<u>--</u>	<u>175</u>	<u>--</u>	<u>1,859</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Fund Balance</u>				
Restricted	150,663	67,399	99,856	--
Unassigned	--	--	--	--
Total Fund Balances	<u>150,663</u>	<u>67,399</u>	<u>99,856</u>	<u>--</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 150,663</u>	<u>\$ 67,574</u>	<u>\$ 99,856</u>	<u>\$ 1,859</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2013

	Special Revenue		
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other
<u>Assets</u>			
Cash and investments in County Treasury	\$ --	\$ 309,450	\$ 793,116
Imprest Cash	--	--	200
Accounts receivable	49,025	--	--
Taxes receivable	--	--	--
Due from other governmental agencies	1,563,282	--	50,364
Total Assets	\$ 1,612,307	\$ 309,450	\$ 843,680
<u>Liabilities</u>			
Accounts payable	\$ 155,278	\$ --	\$ 3,133
Accrued salaries and benefits	28,061	--	9,091
Due to other funds	188,860	--	--
Total Liabilities	372,199	--	12,224
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	749,913	--	--
<u>Fund Balance</u>			
Restricted	490,195	309,450	831,456
Unassigned	--	--	--
Total Fund Balances	490,195	309,450	831,456
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,612,307	\$ 309,450	\$ 843,680

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2013

	<u>Capital Projects</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Endowment Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments in County Treasury	\$ --	\$ 1,076,178	\$ 3,582,347
Imprest Cash	--	--	380
Accounts receivable	--	--	52,553
Taxes receivable	--	--	252,943
Due from other governmental agencies	--	--	1,785,569
Total Assets	<u>\$ --</u>	<u>\$ 1,076,178</u>	<u>\$ 5,673,792</u>
<u>Liabilities</u>			
Accounts payable	\$ --	\$ --	\$ 203,715
Accrued salaries and benefits	--	--	67,481
Due to other funds	9,577	--	198,437
Total Liabilities	<u>9,577</u>	<u>--</u>	<u>469,633</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	--	--	749,913
<u>Fund Balance</u>			
Restricted	--	1,076,178	4,463,823
Unassigned	(9,577)	--	(9,577)
Total Fund Balances	<u>(9,577)</u>	<u>1,076,178</u>	<u>4,454,246</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ --</u>	 <u>\$ 1,076,178</u>	 <u>\$ 5,673,792</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
Revenues:				
Taxes	\$ 1,538,357	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	13,800	--	--	83,302
Revenue from use of money and property	5,389	594	--	285
Fines, forfeitures and penalties	--	26,629	--	--
Charges for services	49,219	--	--	--
Other revenue	7,317	--	--	--
Total Revenues	<u>1,614,082</u>	<u>27,223</u>	<u>--</u>	<u>83,587</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	--	3,445	--	127,849
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	1,853,143	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>1,853,143</u>	<u>3,445</u>	<u>--</u>	<u>127,849</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(239,061)</u>	<u>23,778</u>	<u>--</u>	<u>(44,262)</u>
Other Financing Sources (Uses):				
Transfers in	1,190,553	--	--	--
Transfers out	(228,230)	--	--	(7,564)
Total Other Financing Sources (Uses)	<u>962,323</u>	<u>--</u>	<u>--</u>	<u>(7,564)</u>
Net Change in Fund Balances	723,262	23,778	--	(51,826)
Fund Balances - Beginning of Year	<u>432,619</u>	<u>87,543</u>	<u>130,060</u>	<u>93,190</u>
Fund Balances - End of Year	<u>\$ 1,155,881</u>	<u>\$ 111,321</u>	<u>\$ 130,060</u>	<u>\$ 41,364</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, 2013

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	233,987	--	--	--
Revenue from use of money and property	942	409	581	(100)
Fines, forfeitures and penalties	--	--	--	--
Charges for services	--	--	52,354	58,295
Other revenue	--	17,339	--	20,717
Total Revenues	<u>234,929</u>	<u>17,748</u>	<u>52,935</u>	<u>78,912</u>
Expenditures:				
Current:				
General government	--	--	39,560	77,214
Public protection	268,843	16,839	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>268,843</u>	<u>16,839</u>	<u>39,560</u>	<u>77,214</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(33,914)</u>	<u>909</u>	<u>13,375</u>	<u>1,698</u>
Other Financing Sources (Uses):				
Transfers in	--	--	--	--
Transfers out	--	--	--	(4,762)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(4,762)</u>
Net Change in Fund Balances	(33,914)	909	13,375	(3,064)
Fund Balances - Beginning of Year	<u>184,577</u>	<u>66,490</u>	<u>86,481</u>	<u>3,064</u>
Fund Balances - End of Year	<u>\$ 150,663</u>	<u>\$ 67,399</u>	<u>\$ 99,856</u>	<u>\$ --</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, 2013

	Special Revenue		
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other
Revenues:			
Taxes	\$ --	\$ 71,340	\$ 133,481
Licenses, permits and franchises	--	--	278,606
Aid from other governmental agencies	4,382,207	1,184	637,717
Revenue from use of money and property	--	8	5,714
Fines, forfeitures and penalties	49,691	--	42,717
Charges for services	--	--	12,788
Other revenue	1,928	5,508	12,653
Total Revenues	4,433,826	78,040	1,123,676
Expenditures:			
Current:			
General government	--	--	--
Public protection	602,279	--	75,912
Public ways and facilities	--	48,384	--
Health and sanitation	1,721,269	--	1,256,800
Public assistance	1,393,385	--	--
Education	--	--	--
Capital outlay	--	--	--
Total Expenditures	3,716,933	48,384	1,332,712
Excess (Deficiency) of Revenues Over (Under) Expenditures	716,893	29,656	(209,036)
Other Financing Sources (Uses):			
Transfers in	537,045	--	--
Transfers out	(862,052)	--	(44,533)
Total Other Financing Sources (Uses)	(325,007)	--	(44,533)
Net Change in Fund Balances	391,886	29,656	(253,569)
Fund Balances - Beginning of Year	98,309	279,794	1,085,025
Fund Balances - End of Year	\$ 490,195	\$ 309,450	\$ 831,456

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances (continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>Capital Projects</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Endowment Funds</u>	<u>Total</u>
Revenues:			
Taxes	\$ --	\$ --	\$ 1,743,178
Licenses, permits and franchises	--	--	278,606
Aid from other governmental agencies	--	--	5,352,197
Revenue from use of money and property	(56)	6,275	20,041
Fines, forfeitures and penalties	--	--	119,037
Charges for services	--	--	172,656
Other revenue	--	--	65,462
Total Revenues	<u>(56)</u>	<u>6,275</u>	<u>7,751,177</u>
Expenditures:			
Current:			
General government	--	8,001	124,775
Public protection	--	--	1,095,167
Public ways and facilities	--	--	48,384
Health and sanitation	--	--	2,978,069
Public assistance	--	--	1,393,385
Education	--	--	1,853,143
Capital outlay	8	--	8
Total Expenditures	<u>8</u>	<u>8,001</u>	<u>7,492,931</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(64)</u>	<u>(1,726)</u>	<u>258,246</u>
Other Financing Sources (Uses):			
Transfers in	--	--	1,727,598
Transfers out	--	--	(1,147,141)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>580,457</u>
Net Change in Fund Balances	(64)	(1,726)	838,703
Fund Balances - Beginning of Year	<u>(9,513)</u>	<u>1,077,904</u>	<u>3,615,543</u>
Fund Balances - End of Year	<u>\$ (9,577)</u>	<u>\$ 1,076,178</u>	<u>\$ 4,454,246</u>

COUNTY OF MENDOCINO

Combining Statement of Net Position
Internal Service Funds
June 30, 2013

	<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	\$ 196,352	\$ 83,445	\$ 550,589	\$ 2,193,363
Other cash	--	--	--	--
Accounts receivable	--	--	--	--
Due from other governments	--	--	--	1,912
Due from other funds	--	--	--	--
Total Current Assets	<u>196,352</u>	<u>83,445</u>	<u>550,589</u>	<u>2,195,275</u>
 Total Assets	 <u>196,352</u>	 <u>83,445</u>	 <u>550,589</u>	 <u>2,195,275</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	--	--	--	13,595
Accrued salaries and benefits	--	--	--	3,441
Due to other funds	--	--	--	--
Compensated absences payable	--	--	--	9,888
Liability for unpaid claims	--	--	390,181	1,049,716
Total current liabilities	<u>--</u>	<u>--</u>	<u>390,181</u>	<u>1,076,640</u>
 Total Liabilities	 <u>--</u>	 <u>--</u>	 <u>390,181</u>	 <u>1,076,640</u>
<u>Net Position</u>				
Unrestricted	<u>196,352</u>	<u>83,445</u>	<u>160,408</u>	<u>1,118,635</u>
 Total Net Position	 <u>\$ 196,352</u>	 <u>\$ 83,445</u>	 <u>\$ 160,408</u>	 <u>\$ 1,118,635</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Net Position (continued)
Internal Service Funds
June 30, 2013

	<u>Worker's</u> <u>Compensation</u>	<u>Health</u> <u>Insurance</u>	<u>Retiree</u> <u>Health</u> <u>Insurance</u>	<u>Total</u>
<u>Assets</u>				
Current Assets:				
Pooled cash and investments in county treasury	\$ --	\$ 6,319,390	\$ 137,649	\$ 9,480,788
Other cash	--	64,435	53,345	117,780
Accounts receivable	--	72,491	4,618	77,109
Due from other governments	--	--	--	1,912
Due from other funds	--	210,349	--	210,349
Total Current Assets	<u>--</u>	<u>6,666,665</u>	<u>195,612</u>	<u>9,887,938</u>
 Total Assets	 <u>--</u>	 <u>6,666,665</u>	 <u>195,612</u>	 <u>9,887,938</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	2,289	33,158	103	49,145
Accrued salaries and benefits	3,645	5,524	1,367	13,977
Due to other funds	11,912	--	--	11,912
Compensated absences payable	4,240	357	963	15,448
Liability for unpaid claims	--	1,560,569	--	3,000,466
Total current liabilities	<u>22,086</u>	<u>1,599,608</u>	<u>2,433</u>	<u>3,090,948</u>
 Total Liabilities	 <u>22,086</u>	 <u>1,599,608</u>	 <u>2,433</u>	 <u>3,090,948</u>
<u>Net Position</u>				
Unrestricted	<u>(22,086)</u>	<u>5,067,057</u>	<u>193,179</u>	<u>6,796,990</u>
 Total Net Position	 <u>\$ (22,086)</u>	 <u>\$ 5,067,057</u>	 <u>\$ 193,179</u>	 <u>\$ 6,796,990</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses and
Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2013

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	<u>\$ 52,000</u>	<u>\$ --</u>	<u>\$ 395,225</u>	<u>\$ 1,179,319</u>
Total Operating Revenues	<u>52,000</u>	<u>--</u>	<u>395,225</u>	<u>1,179,319</u>
Operating Expenses:				
Salaries and benefits	--	--	--	149,608
Services and supplies	145,450	--	813	296,105
Insurance	--	--	185,571	661,920
Claims and judgments	--	--	<u>(219,334)</u>	<u>722,111</u>
Total Operating Expenses	<u>145,450</u>	<u>--</u>	<u>(32,950)</u>	<u>1,829,744</u>
Operating Income (Loss)	<u>(93,450)</u>	<u>--</u>	<u>428,175</u>	<u>(650,425)</u>
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	<u>1,573</u>	<u>486</u>	<u>3,252</u>	<u>13,303</u>
Total Non-Operating Revenues	<u>1,573</u>	<u>486</u>	<u>3,252</u>	<u>13,303</u>
Income (Loss) Before Transfers:	<u>(91,877)</u>	<u>486</u>	<u>431,427</u>	<u>(637,122)</u>
Transfers in	--	--	--	--
Transfers out	<u>--</u>	<u>--</u>	<u>--</u>	<u>(12,975)</u>
Change in Net Position	<u>(91,877)</u>	<u>486</u>	<u>431,427</u>	<u>(650,097)</u>
Net Position - Beginning of Year	<u>288,229</u>	<u>82,959</u>	<u>(271,019)</u>	<u>1,768,732</u>
Net Position - End of Year	<u><u>\$ 196,352</u></u>	<u><u>\$ 83,445</u></u>	<u><u>\$ 160,408</u></u>	<u><u>\$ 1,118,635</u></u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses and
Changes in Net Position (continued)
Internal Service Funds
For the Year Ended June 30, 2013

	Worker's Compensation	Health Insurance	Retiree Health Insurance	Total
Operating Revenues:				
Charges and fees	\$ 2,551,283	\$ 12,461,479	\$ 585,998	\$ 17,225,304
Total Operating Revenues	2,551,283	12,461,479	585,998	17,225,304
Operating Expenses:				
Salaries and benefits	176,617	209,290	68,606	604,121
Services and supplies	9,698	9,915,693	737,691	11,105,450
Insurance	3,434,456	872,589	114,653	5,269,189
Claims and judgments	--	(677,100)	--	(174,323)
Total Operating Expenses	3,620,771	10,320,472	920,950	16,804,437
Operating Income (Loss)	(1,069,488)	2,141,007	(334,952)	420,867
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	(2,196)	28,625	740	45,783
Total Non-Operating Revenues	(2,196)	28,625	740	45,783
Income (Loss) Before Transfers:	(1,071,684)	2,169,632	(334,212)	466,650
Transfers in	--	--	500,000	500,000
Transfers out	(65,765)	(218,877)	(5,769)	(303,386)
Change in Net Position	(1,137,449)	1,950,755	160,019	663,264
Net Position - Beginning of Year	1,115,363	3,116,302	33,160	6,133,726
Net Position - End of Year	\$ (22,086)	\$ 5,067,057	\$ 193,179	\$ 6,796,990

COUNTY OF MENDOCINO

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2013

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from interfund services provided	\$ 52,000	\$ --	\$ 395,225	\$ 1,177,407
Cash paid to employees for services	--	--	--	(146,469)
Cash paid to suppliers for goods and services	<u>(145,450)</u>	<u>--</u>	<u>(186,384)</u>	<u>(1,105,435)</u>
Net Cash Provided (Used) by Operating Activities	<u>(93,450)</u>	<u>--</u>	<u>208,841</u>	<u>(74,497)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans	--	--	--	--
Transfers in	--	--	--	--
Transfers out	--	--	--	(12,975)
Net Cash Provided (Used) by Investing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>(12,975)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	<u>1,573</u>	<u>486</u>	<u>3,252</u>	<u>13,303</u>
Net Cash Provided (Used) by Investing Activities	<u>1,573</u>	<u>486</u>	<u>3,252</u>	<u>13,303</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(91,877)</u>	<u>486</u>	<u>212,093</u>	<u>(74,169)</u>
Cash and Cash Equivalents, Beginning of Year	<u>288,229</u>	<u>82,959</u>	<u>338,496</u>	<u>2,267,532</u>
Cash and Cash Equivalents, End of Year	<u>\$ 196,352</u>	<u>\$ 83,445</u>	<u>\$ 550,589</u>	<u>\$ 2,193,363</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	(93,450)	--	428,175	(650,425)
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	(1,912)
Increase (decrease) in:				
Accounts payable	--	--	--	(9,458)
Accrued salaries	--	--	--	(658)
Compensated absences	--	--	--	3,797
Claims liability	--	--	(219,334)	584,159
Net Cash Provided (Used) by Operating Activities	<u>\$ (93,450)</u>	<u>\$ --</u>	<u>\$ 208,841</u>	<u>\$ (74,497)</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Cash Flows (continued)
Internal Service Funds
For the Year Ended June 30, 2013

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from interfund services provided	\$ 3,703,256	\$ 12,446,899	\$ 597,551	\$ 18,372,338
Cash paid to employees for services	(179,820)	(209,140)	(68,245)	(603,674)
Cash paid to suppliers for goods and services	<u>(3,443,637)</u>	<u>(10,814,750)</u>	<u>(893,242)</u>	<u>(16,588,898)</u>
Net Cash Provided (Used) by Operating Activities	<u>79,799</u>	<u>1,423,009</u>	<u>(363,936)</u>	<u>1,179,766</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans	(11,838)	2,148,011	--	2,136,173
Transfers in	--	--	500,000	500,000
Transfers out	<u>(65,765)</u>	<u>(218,877)</u>	<u>(5,769)</u>	<u>(303,386)</u>
Net Cash Provided (Used) by Investing Activities	<u>(77,603)</u>	<u>1,929,134</u>	<u>494,231</u>	<u>2,332,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	<u>(2,196)</u>	<u>28,625</u>	<u>740</u>	<u>45,783</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,196)</u>	<u>28,625</u>	<u>740</u>	<u>45,783</u>
Net Increase (Decrease) in Cash and Cash Equivalents	--	3,380,768	131,035	3,558,336
Cash and Cash Equivalents, Beginning of Year	<u>--</u>	<u>3,003,057</u>	<u>59,959</u>	<u>6,040,232</u>
Cash and Cash Equivalents, End of Year	<u>\$ --</u>	<u>\$ 6,383,825</u>	<u>\$ 190,994</u>	<u>\$ 9,598,568</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	(1,069,488)	2,141,007	(334,952)	420,867
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	1,151,973	(14,580)	11,553	1,147,034
Increase (decrease) in:				
Accounts payable	517	(26,468)	(40,898)	(76,307)
Accrued salaries	234	1,274	(84)	766
Compensated absences	(3,437)	(1,124)	445	(319)
Claims liability	--	(677,100)	--	(312,275)
Net Cash Provided (Used) by Operating Activities	<u>\$ 79,799</u>	<u>\$ 1,423,009</u>	<u>\$ (363,936)</u>	<u>\$ 1,179,766</u>

COUNTY OF MENDOCINO

Combining Statement of Fiduciary Net Assets
Investment Trust Fund
June 30, 2013

	Special Districts Local Boards	School Districts	Total
<u>Assets</u>			
Cash and investments in County Treasury	<u>\$ 8,571,721</u>	<u>\$ 110,766,682</u>	<u>\$ 119,338,403</u>
<u>Net Position</u>			
Reserved for pool participants	<u>\$ 8,571,721</u>	<u>\$ 110,766,682</u>	<u>\$ 119,338,403</u>