

COUNTY OF MENDOCINO
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017



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YEAR ENDED JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

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, 2017, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit Mendocino County Employees' Retirement Association (MCERA) which represents 100 percent of the assets, liabilities, and revenues of the pension trust fund a fiduciary fund type component unit. These financial statements were audited by other auditors, whose report thereon has been furnished to us. Our opinion as it relates to the amounts included for the MCERA is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, 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.

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 the County's proportionate share of the net pension liability and the schedule of the County's contributions, 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

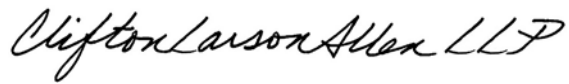
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements are the responsibility of management and were derived from and relate 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.

Board of Supervisors and Grand Jury
County of Mendocino

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's 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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Roseville, California
December 14, 2017

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(REQUIRED SUPPLEMENTARY INFORMATION)**

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

As management of the County of Mendocino (the County) we offer readers of the County's financial statement this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here.

Financial Highlights

- ❖ The County's liabilities and deferred inflows exceeded its assets and deferred outflows at the close of the most recent fiscal year by \$(35,389,794) (net position). There was a deficit of \$(163,486,575) in unrestricted net position.
- ❖ The County's total net position increased by \$4,313,938. Reasons for this increase include higher deferred outflows due to changes in difference between projected and actual earnings on pension plan investments and lower deferred inflows due to the difference between expected and actual experience
- ❖ At the close of the current fiscal year, the County's combined (all governmental funds) ending fund balance was \$71,465,271. This was an increase of \$8,838,288 in comparison with the prior year.
- ❖ Unassigned fund balance for the General Fund at the close of the current fiscal year was \$8,930,745.
- ❖ Total debt decreased by \$5,470,000 (6%) during the 2016/17 fiscal year.

Overview of the Financial Statements. This discussion and analysis is intended to serve as an introduction to the County'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's finances, in a manner similar to a private-sector business. It is comprised of a statement of net position and statement of activities.

The statement of net position presents information on all County assets, liabilities and deferred outflows/inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 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 position 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).

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Both of the government-wide financial statements distinguish functions of the County 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 itself (known as the primary government), but also several legally separate lighting districts, a sanitation district, a water agency, an air quality management district, and a public facilities corporation for which the County is financially accountable. Financial information for these component units, with the exception of the Water Agency and Air Quality Management District, is reported separately from the financial information presented for the primary government itself. The Water Agency and Air Quality Management District, although also legally separate, function for all practical purposes as departments of the County, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-14 of this report.

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

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

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

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The County maintains 18 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 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule (page 53) has been provided for the general fund to demonstrate compliance with this budget.

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

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

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

The basic proprietary fund financial statements can be found on pages 21-23 of this report.

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

The basic Fiduciary Fund Financial Statement can be found on pages 24-25 of this report.

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 26-51 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 52-57 of this report.

The combining statements referred to earlier in connection with nonmajor 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 58-72 of this report.

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, liabilities and deferred inflows exceeded assets and deferred outflows by \$(35,389,794) at the close of the 2016/17 fiscal year.

	Governmental Activities*	
	2017	2016
ASSETS		
Current and Other Assets	\$ 108,637,578	\$ 96,820,427
Capital Assets	113,677,055	110,068,086
Total Assets	222,314,633	206,888,513
DEFERRED OUTFLOWS OF RESOURCES	54,671,471	40,544,422
LIABILITIES		
Other Liabilities	17,521,052	11,544,241
Long-Term Liabilities	290,994,697	265,711,242
Total Liabilities	308,515,749	277,255,483
DEFERRED INFLOWS OF RESOURCES	3,860,149	9,881,184
NET POSITION		
Net Investment in Capital Assets	94,282,055	89,588,086
Restricted	33,814,726	30,683,675
Unrestricted	(163,486,575)	(159,975,493)
Total Net Position	\$ (35,389,794)	\$ (39,703,732)

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'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.

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

Restricted net position is subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net position in the amount of \$(163,486,575) cannot be used to meet the County's ongoing obligations to citizens and creditors.

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Governmental Activities. Governmental activities increased the County's net position by \$4,313,938. Key elements of this increase are higher deferred outflows due to changes in difference between projected and actual earnings on pension plan investments and lower deferred inflows due to the difference between expected and actual experience.

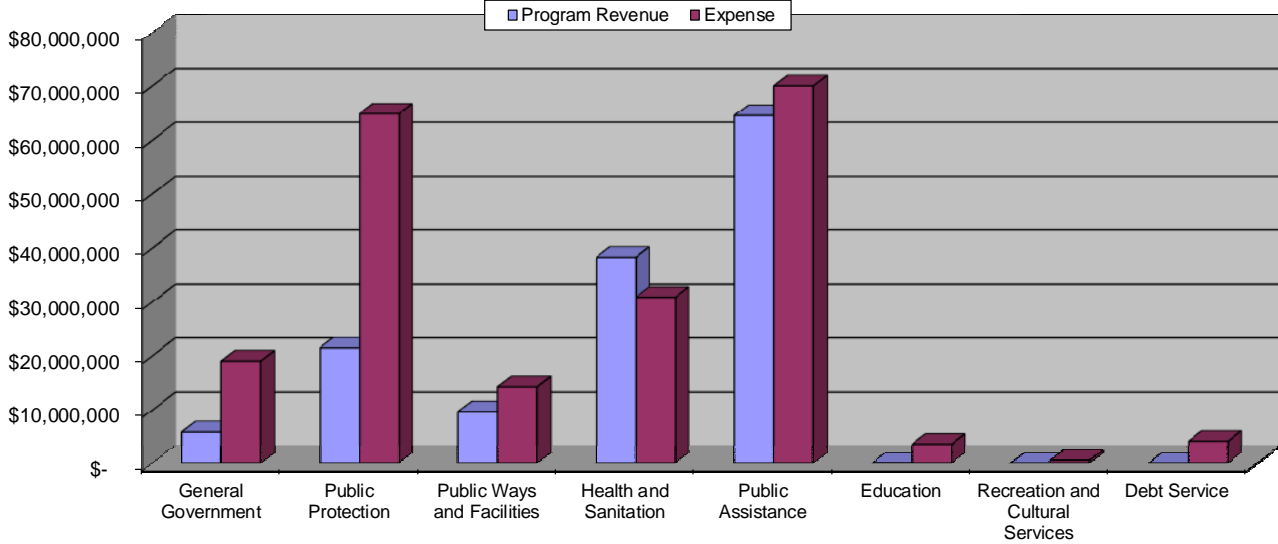
	<u>2017</u>	<u>2016</u>
REVENUES		
Program Revenues:		
Fees, Fines, and Charges for Services	\$ 19,428,791	\$ 17,837,425
Operating Grants and Contributions	115,676,978	110,986,117
Capital Grants and Contributions	4,974,165	6,391,468
General Revenues		
Property Taxes	48,171,243	46,801,274
Sales and Use Taxes	14,912,062	14,506,812
Other Taxes	5,655,736	5,373,600
Unrestricted Interest and Investment Earnings	718,960	431,137
Miscellaneous	2,294,003	2,167,990
Total Revenues	<u>211,831,938</u>	<u>204,495,823</u>
EXPENSES		
General Government	19,054,243	17,558,495
Public Protection	64,848,606	56,687,453
Public Ways and Facilities	14,232,506	12,393,993
Health and Sanitation	30,903,527	32,292,018
Public Assistance	70,005,660	67,852,888
Education	3,684,889	3,539,518
Recreation and Cultural Services	536,437	599,023
Interest on Long-Term Debt	4,252,132	4,484,424
Total Expenses	<u>207,518,000</u>	<u>195,407,812</u>
CHANGE IN NET POSITION	4,313,938	9,088,011
Net Position - Beginning of Year	<u>(39,703,732)</u>	<u>(48,791,743)</u>
NET POSITION - END OF YEAR	<u>\$ (35,389,794)</u>	<u>\$ (39,703,732)</u>

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

- ❖ Property taxes increased by \$1,369,969 (2.93%) during the year. Most of this increase is attributable to the growth in the County's Assessed Valuation.

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

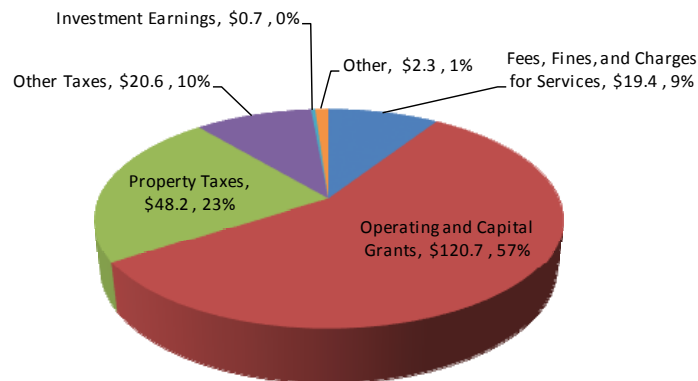
Expenses and Program Revenue - Governmental Activities



Expenses and Program Revenue

<u>Governmental Functions</u>	Program Revenue	Expense
General Government	\$ 5,949,608	\$ 19,054,243
Public Protection	21,454,959	64,848,606
Public Ways and Facilities	9,732,948	14,232,506
Health and Sanitation	38,330,757	30,903,527
Public Assistance	64,553,753	70,005,660
Education	57,909	3,684,889
Recreation and Cultural Services	-	536,437
Debt Service	-	4,252,132

Revenues by Source (in millions) - Governmental Activities



**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The largest portion of revenue received by the County comes from federal and state sources (approximately 57%). 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 the County's funds are classified as business-type activities.

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

Governmental Funds. The focus of the County'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's governmental funds reported combined ending fund balances of \$71,465,271, an increase of \$8,838,288 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 pay debt service \$(9,177,987); 2) for specific road infrastructure projects \$(6,630,060); 3) for mental health programs \$(11,411,952); 4) for a variety of other restricted purposes \$(6,137,046).

The general fund is the chief operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the general fund was \$8,930,745, while total fund balance was \$36,587,017. The fund balance of the County's general fund decreased by \$(873,207) during the 2016/17 fiscal year.

The debt service fund had a total fund balance of \$1,990,058, 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 \$25,897. Interest expenditures for the debt service fund decreased during the current period by \$31,618.

The pension obligation fund had a total fund balance of \$7,187,929, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$376,086.

The mental health services fund had a total fund balance of \$11,411,952. The net increase in fund balance during the current year was \$6,711,332.

The road fund had a total fund balance of \$7,155,475. The net increase for the year was \$2,098,002.

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

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Unrestricted net position of the internal service funds at the end of the year amounted to \$12,133,313.

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

- ❖ Increase to Sheriff budgeted revenue by \$820,001 for unanticipated income related to medical marijuana during 2016/17.
- ❖ Increase to County Medical Services Program budgeted revenue by \$415,000 for vehicle purchase and mental health funding during 2016/17.
- ❖ Increase in Sheriff budgeted expenses by \$346,258 for equipment and vehicle purchases during 2016/17.
- ❖ Increase in Jail budgeted expenses by \$189,261 for jail medical and transportation costs during 2016/17.

Capital Asset and Debt Administration

Capital Assets. The County's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$113,677,055 (net of accumulated depreciation).

This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the County's investment in capital assets for the current fiscal year was \$3,608,969 (3.28%). Additional details of capital assets are in Note 5 on Page 40.

	2017	2016
CAPITAL ASSETS		
Land	\$ 2,928,621	\$ 2,928,621
Structures and Improvements	35,715,378	34,908,765
Improvements Other than Buildings	1,427,854	1,634,495
Equipment	8,570,419	8,064,211
Infrastructure	51,742,468	41,767,725
Construction in Progress	13,292,315	20,764,269
Total Capital Assets	\$ 113,677,055	\$ 110,068,086

Long-Term Debt. At the end of the current fiscal year, the County has long-term debt outstanding of \$79,160,000.

	2017	2016
OUTSTANDING DEBT		
General Obligation Bonds	\$ 59,765,000	\$ 64,150,000
Certificates of Participation	19,395,000	20,480,000
Total	\$ 79,160,000	\$ 84,630,000

The County's total debt decreased by \$5,470,000 (6.46%) during the current fiscal year. The key factor in this decrease was an increase in principal payment on the general obligation bonds.

**COUNTY OF MENDOCINO
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 is \$1,058,901,593, which is significantly in excess of the County's outstanding general obligation debt.

Additional information on the County's long-term debt can be found in Note 6 on pages 41-42 of this report.

Economic Factors that Impacted Budget. All of the factors listed below were considered in preparing the County's budget for the 2016/17 fiscal year.

- ❖ Evidence of slow but improving national, state, and local economies.
- ❖ Increased expenses to employee benefits due to increases in retirement costs.
- ❖ Increased expenses to employee salaries due to negotiated salary increases.

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

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

**COUNTY OF MENDOCINO
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 83,211,764
Cash with Fiscal Agent	8,275,314
Other Cash	41,895
Accounts Receivable	568,266
Due from Other Governments	14,027,477
Taxes Receivable	1,872,031
Inventories	640,831
Capital Assets:	
Nondepreciable	16,220,936
Depreciable, Net	97,456,119
Total Assets	<u>222,314,633</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Pensions	<u>54,671,471</u>
LIABILITIES	
Accounts Payable	8,413,737
Salaries and Benefits Payable	3,946,957
Interest Payable	1,747,142
Unearned Revenue	3,413,216
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Certificates of Participation	1,115,000
Bonds Payable	4,630,000
Liability for Compensated Absences	4,491,618
Claims Liability	3,558,215
Portion Due or Payable After One Year:	
Certificates of Participation	18,280,000
Bonds Payable	55,135,000
Closure/Post-Closure Liability	10,687,356
Net Pension Liability	193,097,508
Total Liabilities	<u>308,515,749</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred Pensions	<u>3,860,149</u>
NET POSITION	
Net Investment in Capital Assets	94,282,055
Restricted for:	
Legally Segregated Taxes, Grants, and Fees	26,383,881
Debt Service and Capital Projects	7,430,845
Unrestricted	<u>(163,486,575)</u>
Total Net Position	<u>\$ (35,389,794)</u>

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
PRIMARY GOVERNMENT					
Governmental Activities:					
General Government	\$ 19,054,243	\$ 3,731,189	\$ 1,659,770	\$ 558,649	\$ (13,104,635)
Public Protection	64,848,606	11,090,466	10,364,493	-	(43,393,647)
Public Ways and Facilities	14,232,506	262,951	5,054,481	4,415,516	(4,499,558)
Health and Sanitation	30,903,527	3,842,881	34,487,876	-	7,427,230
Public Assistance	70,005,660	444,395	64,109,358	-	(5,451,907)
Education	3,684,889	56,909	1,000	-	(3,626,980)
Recreation and Culture	536,437	-	-	-	(536,437)
Debt Service:					
Interest	4,252,132	-	-	-	(4,252,132)
Total Governmental Activities	<u>\$ 207,518,000</u>	<u>\$ 19,428,791</u>	<u>\$ 115,676,978</u>	<u>\$ 4,974,165</u>	(67,438,066)
GENERAL REVENUES					
Taxes:					
Property Taxes					48,171,243
Sales and Use Taxes					14,912,062
Transient Occupancy Tax					5,152,109
Other					503,627
Unrestricted Interest and Investment Earnings					718,960
Miscellaneous					2,294,003
Total General Revenues					<u>71,752,004</u>
CHANGE IN NET POSITION					
Net Position - Beginning of Year					<u>(39,703,732)</u>
NET POSITION - END OF YEAR					
					<u>\$ (35,389,794)</u>

See accompanying Notes to Financial Statements.

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

**COUNTY OF MENDOCINO
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>	<u>Mental Health Services</u>
ASSETS				
Pooled Cash and Investments in Treasury	\$ 43,006,051	\$ 5,189	\$ 872,055	\$ 9,865,300
Restricted Assets:				
Cash with Fiscal Agent	-	1,959,190	6,316,124	-
Imprest Cash	4,245	-	-	-
Accounts Receivable	462,176	-	-	-
Taxes Receivable	1,585,031	-	-	-
Due from Other Governments	6,366,407	28,179	-	4,884,704
Due from Other Funds	43,442	-	-	-
Inventory	115,416	-	-	-
	<u>115,416</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 51,582,768</u>	<u>\$ 1,992,558</u>	<u>\$ 7,188,179</u>	<u>\$ 14,750,004</u>
LIABILITIES				
Accounts Payable	\$ 4,712,329	\$ 2,500	\$ 250	\$ 2,716,848
Accrued Salaries and Benefits	3,475,357	-	-	97,993
Due to Other Funds	-	-	-	-
Unearned Revenue	3,413,216	-	-	-
Total Liabilities	<u>11,600,902</u>	<u>2,500</u>	<u>250</u>	<u>2,814,841</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	3,394,849	-	-	523,211
Total Deferred Inflows of Resources	<u>3,394,849</u>	<u>-</u>	<u>-</u>	<u>523,211</u>
FUND BALANCES				
Nonspendable	115,416	-	-	-
Restricted	-	1,990,058	7,187,929	11,411,952
Assigned	27,540,856	-	-	-
Unassigned	8,930,745	-	-	-
Total Fund Balances	<u>36,587,017</u>	<u>1,990,058</u>	<u>7,187,929</u>	<u>11,411,952</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 51,582,768</u>	<u>\$ 1,992,558</u>	<u>\$ 7,188,179</u>	<u>\$ 14,750,004</u>

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
BALANCE SHEET (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>Road</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS			
Pooled Cash and Investments in Treasury	\$ 6,649,355	\$ 6,820,114	\$ 67,218,064
Restricted Assets:			
Cash with Fiscal Agent	-	-	8,275,314
Imprest Cash	50	475	4,770
Accounts Receivable	20,126	84,599	566,901
Taxes Receivable	-	287,000	1,872,031
Due from Other Governments	1,744,424	1,003,763	14,027,477
Due from Other Funds	-	-	43,442
Inventory	525,415	-	640,831
	<u>525,415</u>	<u>-</u>	<u>640,831</u>
Total Assets	<u>\$ 8,939,370</u>	<u>\$ 8,195,951</u>	<u>\$ 92,648,830</u>
LIABILITIES			
Accounts Payable	\$ 426,478	\$ 311,977	\$ 8,170,382
Accrued Salaries and Benefits	192,984	148,960	3,915,294
Due to Other Funds	-	956	956
Unearned Revenue	-	-	3,413,216
Total Liabilities	<u>619,462</u>	<u>461,893</u>	<u>15,499,848</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	1,164,433	601,218	5,683,711
Total Deferred Inflows of Resources	<u>1,164,433</u>	<u>601,218</u>	<u>5,683,711</u>
FUND BALANCES			
Nonspendable	525,415	-	640,831
Restricted	6,630,060	6,137,046	33,357,045
Assigned	-	996,750	28,537,606
Unassigned	-	(956)	8,929,789
Total Fund Balances	<u>7,155,475</u>	<u>7,132,840</u>	<u>71,465,271</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 8,939,370</u>	<u>\$ 8,195,951</u>	<u>\$ 92,648,830</u>

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Fund Balance - Total Governmental Funds (Page 16) \$ 71,465,271

Amounts reported for governmental activities in the Statement of Net Position are different because:

Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds. 5,683,711

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. 113,208,104

Deferred outflows of resources reported in the Statement of Net Position. 54,671,471

Internal service funds are used by the County to charge the cost of insurance, software acquisition and vehicle replacement 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: 12,602,264

Deferred inflows of resources reported in the statement of net position. (3,860,149)

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.

Bonds Payable	(59,765,000)
Certificates of Participation	(19,395,000)
Accrued Interest on Long-Term Debt	(1,747,142)
Compensated Absences	(4,468,460)
Pension Liability	(193,097,508)
Landfill Closure/Post Closure Care Costs	<u>(10,687,356)</u>

Net Position of Governmental Activities (Page 13) \$ (35,389,794)

COUNTY OF MENDOCINO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General	Debt Service	Pension Obligation Bonds	Mental Health Services
REVENUES				
Taxes	\$ 66,615,258	\$ -	\$ -	\$ -
Licenses, Permits, and Franchises	2,973,005	-	-	-
Intergovernmental	83,100,143	35,478	-	27,827,636
Revenue from Use of Money and Property	546,386	11,833	(20,457)	3,940
Fines, Forfeitures, and Penalties	1,499,894	10,650	-	-
Charges for Services	13,768,623	-	-	499,003
Other Revenues	1,267,686	-	469,189	35,652
Total Revenues	<u>169,770,995</u>	<u>57,961</u>	<u>448,732</u>	<u>28,366,231</u>
EXPENDITURES				
Current:				
General Government	15,414,972	6,052	16,125	-
Public Protection	54,229,484	-	-	-
Public Ways and Facilities	260,101	-	-	-
Health and Sanitation	11,840,183	-	-	22,456,420
Public Assistance	64,771,622	-	-	-
Education	214,944	-	-	-
Recreation and Culture	459,889	-	-	-
Debt Service:				
Principal	-	1,085,000	4,385,000	-
Interest	99,981	786,185	3,489,704	-
Capital Outlay	3,659,791	-	-	-
Total Expenditures	<u>150,950,967</u>	<u>1,877,237</u>	<u>7,890,829</u>	<u>22,456,420</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	18,820,028	(1,819,276)	(7,442,097)	5,909,811
OTHER FINANCING SOURCES (USES)				
Transfers in	519,289	1,845,173	7,818,183	1,138,073
Transfers out	(20,212,524)	-	-	(336,552)
Total Other Financing Sources (Uses)	<u>(19,693,235)</u>	<u>1,845,173</u>	<u>7,818,183</u>	<u>801,521</u>
NET CHANGES IN FUND BALANCES	(873,207)	25,897	376,086	6,711,332
Fund Balances - Beginning of Year	<u>37,460,224</u>	<u>1,964,161</u>	<u>6,811,843</u>	<u>4,700,620</u>
FUND BALANCES - END OF YEAR	<u>\$ 36,587,017</u>	<u>\$ 1,990,058</u>	<u>\$ 7,187,929</u>	<u>\$ 11,411,952</u>

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Road	Other Governmental Funds	Total
REVENUES			
Taxes	\$ 78,487	\$ 2,045,296	\$ 68,739,041
Licenses, Permits, and Franchises	58,869	345,021	3,376,895
Intergovernmental	8,920,879	4,488,136	124,372,272
Revenue from Use of Money and Property	39,316	40,692	621,710
Fines, Forfeitures, and Penalties	43,046	65,051	1,618,641
Charges for Services	161,036	200,430	14,629,092
Other Revenues	21,761	55,179	1,849,467
Total Revenues	<u>9,323,394</u>	<u>7,239,805</u>	<u>215,207,118</u>
EXPENDITURES			
Current:			
General Government	-	116,878	15,554,027
Public Protection	-	1,790,685	56,020,169
Public Ways and Facilities	14,672,715	44,812	14,977,628
Health and Sanitation	-	2,517,763	36,814,366
Public Assistance	-	852,035	65,623,657
Education	-	3,193,647	3,408,591
Recreation and Culture	-	2,489	462,378
Debt Service:			
Principal	-	-	5,470,000
Interest	-	-	4,375,870
Capital Outlay	-	46,740	3,706,531
Total Expenditures	<u>14,672,715</u>	<u>8,565,049</u>	<u>206,413,217</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,349,321)	(1,325,244)	8,793,901
OTHER FINANCING SOURCES (USES)			
Transfers in	7,827,255	2,131,676	21,279,649
Transfers out	(379,932)	(306,254)	(21,235,262)
Total Other Financing Sources (Uses)	<u>7,447,323</u>	<u>1,825,422</u>	<u>44,387</u>
NET CHANGES IN FUND BALANCES	2,098,002	500,178	8,838,288
Fund Balances - Beginning of Year	<u>5,057,473</u>	<u>6,632,662</u>	<u>62,626,983</u>
FUND BALANCES - END OF YEAR	<u>\$ 7,155,475</u>	<u>\$ 7,132,840</u>	<u>\$ 71,465,271</u>

See accompanying Notes to 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
YEAR ENDED JUNE 30, 2017

Net Change to Fund Balance - Total Governmental Funds (Page 19) \$ 8,838,288

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		\$ 9,692,833	
Related Capital Assets Adjustments		(6,261,396)	
Less: Current Year Depreciation		3,431,437	3,431,437

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.			(3,916,966)
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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		4,385,000	
Certificates of Participation		1,085,000	5,470,000

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		123,738	
Change in Compensated Absences		(197,993)	
Change in Net Pension Liability and Related Deferred Inflows/Outflows		(18,025,063)	
Change in Liability for Closure/Post Closure Care		7,391,614	(10,707,704)

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.			1,198,883
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Change in Net Position of Governmental Activities (Page 14) **\$ 4,313,938**

**COUNTY OF MENDOCINO
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017**

	<u>Governmental Activities Internal Service Funds</u>
ASSETS	
CURRENT ASSETS	
Pooled Cash and Investments in Treasury	\$ 15,988,930
Other Cash	41,895
Accounts Receivable	1,365
Total Current Assets	<u>16,032,190</u>
NONCURRENT ASSETS	
Capital Assets:	
Depreciable, Net	468,951
Total Noncurrent Assets	<u>468,951</u>
Total Assets	16,501,141
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	243,355
Accrued Salaries and Benefits	31,663
Compensated Absences	23,158
Due to Other Funds	42,486
Liability for Unpaid Claims	3,558,215
Total Current Liabilities	<u>3,898,877</u>
Total Liabilities	3,898,877
NET POSITION	
Net Investment in Capital Assets	468,951
Unrestricted	<u>12,133,313</u>
Total Net Position	<u>\$ 12,602,264</u>

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>Governmental Activities Internal Service Funds</u>
OPERATING REVENUES	
Charges for Services	\$ 19,793,015
Other Revenues	<u>462,929</u>
Total Operating Revenues	<u>20,255,944</u>
OPERATING EXPENSES	
Salaries and Employee Benefits	717,231
Services and Supplies	1,115,153
Insurance	5,721,505
Depreciation	134,516
Claims and Judgments	<u>11,421,519</u>
Total Operating Expenses	<u>19,109,924</u>
OPERATING INCOME (LOSS)	1,146,020
NONOPERATING REVENUES (EXPENSES)	
Interest Income	<u>97,250</u>
Total Nonoperating Revenues (Expenses)	<u>97,250</u>
INCOME (LOSS) BEFORE TRANSFERS	1,243,270
TRANSFERS IN	395,000
TRANSFERS OUT	<u>(439,387)</u>
CHANGE IN NET POSITION	1,198,883
Net Position - Beginning of Year	<u>11,403,381</u>
NET POSITION - END OF YEAR	<u><u>\$ 12,602,264</u></u>

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>Governmental Activities Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Receipts from Interfund Services Provided	\$ 20,266,563
Cash Paid to Employees for Services	(705,195)
Cash Paid to Suppliers for Goods and Services	(18,541,104)
Net Cash Provided (Used) by Operating Activities	<u>1,020,264</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advances from Other Funds	42,486
Transfers in	395,000
Transfers out	(439,387)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,901)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(312,048)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(312,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	97,250
Net Cash Provided (Used) by Investing Activities	<u>97,250</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	
	803,565
Cash and Cash Equivalents - Beginning of Year	<u>15,227,260</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 16,030,825</u></u>
Pooled Cash and Investments in Treasury	\$ 15,988,930
Other Cash	41,895
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 16,030,825</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 1,146,020
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	134,516
Changes in Assets and Liabilities:	
(Increase) decrease in:	
Accounts Receivable	10,619
Increase (Decrease) in:	
Accounts Payable	(52,827)
Accrued Salaries	8,007
Compensated Absences	4,029
Claims Liability	(230,100)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 1,020,264</u></u>

See accompanying Notes to Financial Statements.

COUNTY OF MENDOCINO
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Investment Trust	Agency Funds	Pension Trust Fund
ASSETS			
Cash and Investments in Treasury	\$ 138,658,907	\$ 19,054,803	\$ 1,681,842
Other Investments	-	-	482,152,322
Accounts Receivable	-	-	1,081,313
Taxes Receivable	-	11,522,018	-
Other Assets	-	-	555,682
Total Assets	138,658,907	30,576,821	485,471,159
LIABILITIES			
Accounts Payable and Accrued Expenses	-	-	1,444,442
Agency Funds Held for Others	-	30,576,821	-
Due to Other Funds	-	-	-
Total Liabilities	-	30,576,821	1,444,442
NET POSITION			
Net Position Held in Trust for:			
Retirement System	-	-	484,026,717
Investment Pool Participants	138,658,907	-	-
Total Net Position	\$ 138,658,907	\$ -	\$ 484,026,717

See accompanying Notes to Financial Statements.

**COUNTY OF MENDOCINO
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Investment Trust	Pension Trust Fund
	<u> </u>	<u> </u>
ADDITIONS		
Contributions:		
Employer Contributions	\$ -	\$ 19,116,426
Member Contributions	-	5,753,907
Contributions on Pooled Investments	402,600,013	-
Interest and Investment Income - Net	<u>815,499</u>	<u>66,669,864</u>
Total Additions	403,415,512	91,540,197
 DEDUCTIONS		
Benefit Payments	-	31,616,956
Distributions from Investment Pool	<u>400,866,903</u>	<u>2,234,535</u>
Total Deductions	<u>400,866,903</u>	<u>33,851,491</u>
 CHANGE IN NET POSITION	2,548,609	57,688,706
 Net Position - Beginning of Year	<u>136,110,298</u>	<u>426,338,011</u>
 NET POSITION - END OF YEAR	<u><u>\$ 138,658,907</u></u>	<u><u>\$ 484,026,717</u></u>

See accompanying Notes to Financial Statements.

NOTES TO 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 BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

The County of Mendocino (the 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 nonexchange revenues. At June 30, 2017, the County had no business-type activities.

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

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

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Mental Health Department were formerly an integral part of the County General Fund prior to fiscal year 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, workers' compensation, and health insurance benefits, on a cost-reimbursement basis.
- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County treasurer. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand.
- The *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.

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 is 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 60 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

COUNTY OF MENDOCINO
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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.

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 \$8,275,314 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).

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
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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.

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 \$5,000 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

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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has one item, pension, which qualifies for reporting in this category.

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 and so will not be recognized as an inflow of resources (revenue) until that time. The government has two types of item which qualify for reporting in this category: pensions and unavailable revenue. The item, *unavailable revenue*, which arises only under a modified accrual basis of accounting, 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

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
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amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

L. Pensions

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the County recognizes a net pension liability, which represents the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the Mendocino County Employees' Retirement Association (MCERA).

The net pension liability is measured as of the County's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the County's pension plan with MCERA and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by MCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

M. Interfund Transactions

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

COUNTY OF MENDOCINO
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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.

N. Estimates

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

NOTE 2 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. Funds not immediately required for daily operations are invested in an attempt to earn a yield commensurate to current conditions. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds using a formula based on the average daily cash balance of each fund.

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

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

The County investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the treasurer are regulated by the California Government Code and by the County's investment policy. The objectives of the policy are in order of priority: safety, liquidity, yield, and public trust.

The Board of Supervisors reviews and approves the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the investment pool participants every quarter. The report covers the types of investments in the pool, maturity dates, par value, actual costs, and fair value.

COUNTY OF MENDOCINO
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At June 30, 2017, total County cash and investments were as follows:

Cash:	
Cash on Hand	\$ 824,079
Imprest Cash	4,770
Other Cash	41,895
Deposits Less Outstanding Warrants	<u>4,804,926</u>
Total Cash	5,675,670
Investments:	
In Treasurer's Pool	236,973,541
With Fiscal Agents	8,275,314
With Fiscal Agents, Pension Trust Fund (Held by MCERA)	<u>482,152,322</u>
Total Investments	<u>727,401,177</u>
Total Cash and Investments	<u><u>\$ 733,076,847</u></u>

Total cash and investments at June 30, 2017, were presented on the County's financial statements as follows:

Primary Government	\$ 91,528,973
Investment Trust Fund	138,658,907
Pension Trust Fund	483,834,164
Agency Funds	<u>19,054,803</u>
Total Cash and Investments	<u><u>\$ 733,076,847</u></u>

Deposits – Custodial Risk

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

At June 30, 2017, the carrying value of the County's deposits was \$4,804,926 and the bank balance was \$4,431,069. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the bank balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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
California Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	25%
Banker's Acceptances	180 Days	40%	5%
Commercial Paper	270 Days	40%	5%
Negotiable Certificates of Deposit/CD Placement Service	5 Years	30%	5%
Repurchase Agreements	1 Year	None	None
Reverse Repurchase Agreements		Prohibited	
Medium-Term Corporate Notes	5 Years	30%	5%
Money Market Mutual Funds	N/A	20%	10%
Collateralized Bank Deposits	5 Years	None	None
Mortgage Pass-Through Securities	5 Years	20%	5%
Bank/Time Deposits	5 Years	20%	5%
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool (includes CAMP)	N/A	None	None
Local Agency Investment Fund	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None
Supranational Obligations	5 Years	30%	10%

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
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At June 30, 2017, the County had the following investments:

	Interest Rates	Maturities	Par	Fair Value	WAM (Years)
Investment Pool:					
Asset-Backed Securities	0.77% - 1.12%	3/19/2018 - 2/15/2019	\$ 825,501	\$ 825,480	1.45
Federal Agency Obligations	0.75% - 1.95%	7/28/2017 - 4/5/2022	70,850,000	70,834,341	1.79
Bond Mutual Fund	0.91%	On Demand	10,000,000	10,000,000	-
Commercial Paper	1.01% - 1.30%	7/7/2017 - 10/6/2017	7,000,000	6,985,192	0.18
Treasury Obligations	0.625% - 2.00%	9/30/2017 - 8/31/2021	32,900,000	32,799,283	2.12
Medium Term Corporate Notes	1.05% - 2.625%	10/15/2017 - 1/24/2022	26,195,000	26,226,479	2.32
Negotiable CD	1.24% - 1.5%	9/27/2017 - 4/5/2018	3,480,000	3,480,923	0.44
Supranational	1.625% - 1.875%	10/7/2019 - 5/12/2020	3,125,000	3,132,670	2.53
Time Deposit	0.30%	3/3/2018 - 3/20/2018	500,000	500,000	0.70
Money Market Mutual Funds	Variable	On Demand	189,173	189,173	-
California Local Agency Investment Fund (LAIF)	Variable	On Demand	65,000,000	65,000,000	-
California Asset Management Program	Variable	On Demand	17,000,000	17,000,000	-
			<u>237,064,674</u>	<u>236,973,541</u>	
Investments Outside					
Investment Pool:					
Cash Held with Fiscal Agent					
Pension Trust Fund (Held by MCERA)	Variable	N/A	482,152,322	482,152,322	
Money Market Mutual Funds	Variable	On Demand	8,275,314	8,275,314	
Total Investments			<u>\$ 727,492,310</u>	<u>\$ 727,401,177</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.

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 or better by *Standard & Poor's* and *Moody's Investors Service* for a maturity of up to five years.

Concentration of Credit Risk

At June 30, 2017, the County held the following percentages and amounts by issuer of its net investment in Federal Agency Obligations: 9.33% \$(22,842,023), Federal National Mortgage Association; 9.58% \$(23,446,836), Federal Home Loan Banks; and 7.20% \$(17,623,448), Federal Home Loan Mortgage Corporation.

**COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

Fair Value Measurement

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1 - Investments reflect prices quoted in active markets;

Level 2 - Investments reflect prices that are based on similar observable assets either directly or indirectly, which may include inputs in markets that are not considered to be active; and,

Level 3 - Investments reflect prices based upon unobservable sources.

The pool has the following recurring fair value measurements as of June 30, 2017:

	Total	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Asset-Backed Securities	\$ 825,480	\$ -	\$ 825,480	\$ -
Federal Agency Obligations	70,834,341	-	70,834,341	-
Bond Mutual Fund	10,000,000	10,000,000	-	-
Commercial Paper	6,985,192	-	6,985,192	-
Treasury Obligations	32,799,283	-	32,799,283	-
Medium Term Corporate Notes	26,226,479	-	26,226,479	-
Negotiable CD	3,480,923	-	3,480,923	-
Supranational	3,132,670	-	3,132,670	-
Time Deposit	500,000	500,000	-	-
Money Market Mutual Funds	189,173	189,173	-	-
Total Investments Measured at Fair Value	154,973,541	\$ 10,689,173	\$ 144,284,368	\$ -
Investments Measured at Amortized Cost:				
California Local Agency Investment Fund (LAIF)	65,000,000			
California Asset Management Program	17,000,000			
Total Pooled and Directed Investments	\$ 236,973,541			

**COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

Concentration of Credit Risk

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, 2017:

	<u>Moody's</u>	<u>S & P</u>	<u>% of Portfolio</u>
Investments in Investment Pool:			
Asset-Backed Securities	Aaa	AAA	0.21%
Asset-Backed Securities	Unrated	AAA	0.04%
Federal Agency Obligations	AAA	Unrated	0.10%
Federal Agency Obligations	Unrated	AAA	4.23%
Treasury Obligations	Aaa	AA+	29.82%
Medium Term Notes	P-1	A-1	1.48%
Medium Term Notes	P-1	A-1+	1.48%
Medium Term Notes	Aaa	AA+	13.83%
Medium Term Notes	A1	AA-	1.35%
Medium Term Notes	A1	A+	3.97%
Medium Term Notes	Aa2	AA	0.64%
Medium Term Notes	Aaa	AAA	0.85%
Medium Term Notes	A2	A	2.06%
Medium Term Notes	A1	A	1.44%
Commercial Paper	Aa1	AA+	0.78%
Commercial Paper	P-1	A-1	0.69%
Time Deposit	P-1	A-1+	0.78%
Money Market Mutual Funds	Aaa	AAA	0.08%
Supranational	Aaa	AAA	1.32%
Time Deposit	Unrated	Unrated	0.21%
California Local Agency Investment Fund			
State Pool	Unrated	Unrated	27.47%
Public Financial Management CAMP	Unrated	Unrated	7.19%
			<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 BASIC FINANCIAL STATEMENTS
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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, 2017, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$65 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 \$77.56 billion. Of that amount, 2.89% was invested in structured notes and asset-backed securities with the remaining 97.11% invested in other nonderivative financial products.

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, 2017:

Statement of Net Position

Net Position Held for Pool Participants	<u>\$ 242,602,546</u>
Equity of Internal Pool Participants	\$ 103,943,639
Equity of External Pool Participants	<u>138,658,907</u>
Total Net Position	<u>\$ 242,602,546</u>

Statement of Changes in Net Position

Net Position for Pool Participants at July 1, 2016	\$ 223,827,016
Net Change in Investments by Pool Participants	<u>18,775,530</u>
Net Position at June 30, 2017	<u>\$ 242,602,546</u>

NOTE 3 ENDOWMENTS

For the year ended June 30, 2017, the net appreciation on investments of donor-restricted endowments was \$5,249. 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. During the course of the year, the County disbursed \$206,786 out of the endowment fund.

**COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 INTERFUND TRANSACTIONS

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2017 are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General Fund	Vehicle Replacement Fund	\$ 42,486
	Sheriff Special Projects Fund	956
Total		<u>\$ 43,442</u>

The above balances reflect temporary cash advances.

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>	Amount
General Fund	Debt Service Fund	\$ 1,783,640
	Pension Obligation Bonds Fund	6,936,880
	Mental Health Services Fund	1,138,073
	Road Fund	7,827,255
	Internal Service Funds	395,000
	Other Governmental Funds	<u>2,131,676</u>
		20,212,524
Mental Health Services Fund	General Fund	79,550
	Pension Obligation Bonds Fund	195,469
	Debt Service Fund	<u>61,533</u>
		336,552
Roads Fund	Pension Obligation Bonds Fund	<u>379,932</u>
		379,932
Nonmajor Governmental Funds	General Fund	52,635
	Pension Obligation Bonds Fund	<u>253,619</u>
		306,254
Internal Service Funds	General Fund	387,104
	Pension Obligation Bonds Fund	<u>52,283</u>
		439,387
Total		<u>\$ 21,674,649</u>

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Retirements	Transfers and Adjustments	Balance June 30, 2017
Governmental Activities					
Capital Assets, Not Being Depreciated:					
Land	\$ 2,928,621	\$ -	\$ -	\$ -	\$ 2,928,621
Construction in Progress	20,764,269	4,968,852	-	(12,440,806)	13,292,315
Total Capital Assets, Not Being Depreciated	<u>23,692,890</u>	<u>4,968,852</u>	<u>-</u>	<u>(12,440,806)</u>	<u>16,220,936</u>
Capital Assets, Being Depreciated:					
Infrastructure	81,036,855	-	-	12,440,806	93,477,661
Structures and Improvements	75,411,122	2,846,979	-	-	78,258,101
Equipment	30,871,218	2,189,050	(61,444)	-	32,998,824
Improvements Other than Buildings	5,622,285	-	-	-	5,622,285
Total Capital Assets, Being Depreciated	<u>192,941,480</u>	<u>5,036,029</u>	<u>(61,444)</u>	<u>12,440,806</u>	<u>210,356,871</u>
Less Accumulated Depreciation for:					
Infrastructure	(39,269,130)	(2,466,063)	-	-	(41,735,193)
Structures and Improvements	(40,502,357)	(2,040,366)	-	-	(42,542,723)
Equipment	(22,807,007)	(1,682,842)	61,444	-	(24,428,405)
Improvements Other than Buildings	(3,987,790)	(206,641)	-	-	(4,194,431)
Total Accumulated Depreciation	<u>(106,566,284)</u>	<u>(6,395,912)</u>	<u>61,444</u>	<u>-</u>	<u>(112,900,752)</u>
Total Capital Assets, Being Depreciated, Net	<u>86,375,196</u>	<u>(1,359,883)</u>	<u>-</u>	<u>12,440,806</u>	<u>97,456,119</u>
Governmental Activities Capital Assets, Net	<u>\$ 110,068,086</u>	<u>\$ 3,608,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,677,055</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 868,006
Public Protection	1,435,516
Public Ways and Facilities	3,027,677
Health and Sanitation	364,120
Public Assistance	446,434
Education	84,138
Recreation and Culture	35,505
Capital Assets Held by the Government's Internal Service Funds are Charged to the Various Functions Based on Their Usage of the Assets	<u>134,516</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 6,395,912</u>

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 LONG-TERM LIABILITIES

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2017, are as follows:

Type of Indebtedness (Purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
Governmental Activities:					
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)	7/01/2004 - 7/1/2026	2.07% - 5.77%	\$885,000 - \$7,560,000	\$ 91,945,000	\$ 59,765,000
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	\$ 19,395,000

A. Summary of Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Governmental Activities:					
Refunding Certificates of Participation	\$ 20,480,000	\$ -	\$ (1,085,000)	\$ 19,395,000	\$ 1,115,000
Bonds Payable	64,150,000	-	(4,385,000)	59,765,000	4,630,000
Compensated Absences	4,289,596	202,022	-	4,491,618	4,491,618
Liability for Self-Insurance	3,788,315	11,191,419	(11,421,519)	3,558,215	3,558,215
Landfill Postclosure Costs	18,078,970	-	(7,391,614)	10,687,356	-
Total Governmental Activities	\$ 110,786,881	\$ 11,393,441	\$ (24,283,133)	\$ 97,897,189	\$ 13,794,833

As of June 30, 2017, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30,	Governmental Activities			
	Certificate of Participation		Bonds Payable	
	Principal	Interest	Principal	Interest
2018	\$1,115,000	\$753,636	\$4,630,000	\$3,240,890
2019	1,150,000	717,398	4,885,000	2,978,276
2020	1,190,000	677,148	5,155,000	2,701,172
2021	1,230,000	635,498	5,440,000	2,408,750
2022	1,280,000	589,372	5,740,000	2,100,182
2023 - 2027	8,160,000	2,083,112	33,915,000	5,102,199
2028 - 2030	5,270,000	452,574	-	-
Total	\$ 19,395,000	\$ 5,908,738	\$ 59,765,000	\$18,531,469

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

**COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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 \$4,491,618. The entire amount was considered current, based on experience.

NOTE 7 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 \$10,687,356 reported as landfill closure/postclosure liability at June 30, 2017, 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 2017. 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, 2017</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 2,763,801
South Coast Landfill	Mendocino County	100%	Closed	5,366,967
Laytonville Landfill	Mendocino County	100%	Closed	2,556,588
Total				<u>\$ 10,687,356</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, 2017, investments of \$3,644,411 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

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

Casper Landfill is officially closed. The County is in the process of closing South Coast Landfill and Laytonville Landfill and they are no longer accepting waste from the public.

NOTE 8 NET POSITION/FUND BALANCES

Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment 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.

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

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

The following is a summary of fund balances at June 30, 2017:

	General	Debt Service	Pension Obligation Bonds	Mental Health Services	Road	Other Governmental Funds	Total
Nonspendable							
Inventory	\$ 115,416	\$ -	\$ -	\$ -	\$ 525,415	\$ -	\$ 640,831
Restricted for:							
Road Projects	-	-	-	-	6,630,060	-	6,630,060
Mental Health	-	-	-	11,411,952	-	-	11,411,952
Special Districts	-	-	-	-	-	1,890,342	1,890,342
Various Grant	-	-	-	-	-	-	-
Programs	-	-	-	-	-	3,495,169	3,495,169
Endowments	-	-	-	-	-	751,535	751,535
Debt Service	-	1,990,058	7,187,929	-	-	-	9,177,987
Total Restricted	-	1,990,058	7,187,929	11,411,952	6,630,060	6,137,046	33,357,045
Assigned:							
Retirement	3,650,000	-	-	-	-	-	3,650,000
General reserve	11,500,000	-	-	-	-	-	11,500,000
Contracted services	12,390,856	-	-	-	-	996,750	13,387,606
Total Assigned	27,540,856	-	-	-	-	996,750	28,537,606
Unassigned	8,930,745	-	-	-	-	(956)	8,929,789
Total Fund Balance	<u>\$ 36,587,017</u>	<u>\$ 1,990,058</u>	<u>\$ 7,187,929</u>	<u>\$ 11,411,952</u>	<u>\$ 7,155,475</u>	<u>\$ 7,132,840</u>	<u>\$ 71,465,271</u>

NOTE 9 PENSION PLANS

Summary of Significant Accounting Policies

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County's defined benefit pension plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Mendocino County Employees' Retirement Association (MCERA). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. General Information About the Pension Plans

Plan Descriptions

The Mendocino County Employees' Retirement Association is a cost-sharing 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

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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.

Benefits Provided

MCERA provides service retirement, disability, death, and survivor benefits to eligible employees. All permanent employees of the County or contracting districts who work at least 32 hours per week become members of MCERA effective on the first day of the pay period following employment. There are separate retirement plans for General, Safety, and Probation member employees. Any new employees who become members on or after January 1, 2013 are subject to the provisions of California Public Employees' Pension Reform Act of 2013 (PEPRA), California Government Code 7522 et seq. and Assembly Bill (AB) 197.

General members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. A member who is age 70 or older is eligible to retire regardless of service. General members who are first hired on or after January 1, 2013 are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit, or age 70, regardless of service.

Safety and Probation members hired prior to January 1, 2013 are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 20 years of service is eligible to retire regardless of age. A member who is age 70 or older is eligible to retire regardless of service. Safety and Probation members who are first hired on or after January 1, 2013 are eligible to retire once they have attained the age of 50, and have acquired five years of retirement service credit, or age 70, regardless of service.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

General member benefits are calculated pursuant to the provisions of Section 31676.121. The monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times the age factor from Section 31676.12. General member benefits for those who are first hired on or after January 1, 2013 are calculated pursuant to the provision of California Government Code Section 7522.20(a). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

Safety member benefits are calculated pursuant to the provisions of Section 31664.2. The monthly allowance is equal to 3% of final compensation times years of accrued retirement service credit times the age factor from Section 31664.2. Safety member benefits for those who are first hired on or after January 1, 2013 are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

Probation member benefits are calculated pursuant to the provisions of Section 31664. The monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times the age factor from Section 31664.

Probation member benefits for those who are first hired on or after January 1, 2013 are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

For members with membership dates before January 1, 2013, the maximum monthly retirement allowance is 100% of final compensation.

Final average compensation consists of the highest 12 consecutive months of pay for a General Tier 1, Safety Tier 1, or Probation Tier 1 member, and the highest 36 consecutive months for all other members.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

MCERA provides an annual cost-of-living benefit to all non-PEPRA retirees. The cost-of-living adjustment, based upon the Consumer Price Index prepared by the Bureau of Labor Statistics that applies to the Mendocino County Area, is capped at 3.0%.

Contributions

The County and contracting districts contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from MCERA's actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2016 for 2016-2017 (based on the June 30, 2016 valuation) was 32.05% of compensation. The actual employer rate depends on General, Safety, or Probation membership, and tier.

All members are required to make contributions to MCERA regardless of the retirement plan or tier in which they are included; however, non-PEPRA members with 30 or more years of service are exempt from paying member contributions. The average member contribution rate as of June 30, 2016 for 2016-2017 (based on the June 30, 2016 valuation) was 9.65% of compensation. The actual member rate depends on the member's age at the time of hire, General, Safety, or Probation membership, and tier.

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The member and employer contribution rates are adjusted annually to maintain the appropriate funding status of the Plan. The employer contribution rate is actuarially determined to provide for the balance of the contributions needed to fund the annual normal cost (basic and cost of living) and the amortization of the unfunded actuarial accrued liability.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan was as follows:

Contributions - Employer	<u>\$ 18,175,998</u>
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B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2017, the County reported net pension liabilities for its proportionate shares of the net pension liability of the Plan as follows:

	Proportionate Share of Net Pension Liability <u>\$ 193,097,508</u>
Total Net Pension Liability	

The County's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The County's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

Proportion - June 30, 2016	93.236%
Proportion - June 30, 2017	<u>93.837%</u>
Change - Increase (Decrease)	0.601%

For the year ended June 30, 2017, the County recognized net pension expense of \$36,201,061. At June 30, 2017, the County reported deferred outflows of resources

**COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 1,352,457	\$ (3,681,833)
Changes in Assumptions	6,710,309	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	27,301,614	-
Changes in Proportion and Differences Between County's Contributions and Proportionate Share of Contributions	1,131,093	(178,316)
County's Contributions Subsequent to the Measurement Date	18,175,998	-
Total	\$ 54,671,471	\$ (3,860,149)

The County reported \$18,175,998 deferred outflows of resources related to contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Amount
2018	\$ 9,957,660
2019	3,420,182
2020	11,346,586
2021	7,910,896
Total	32,635,324

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.25%
Inflation	3.25%
Payroll Growth	3.0%
Projected Salary Increase	4.25% – 8.75% (1)
Investment Rate of Return	7.25% (2)
Mortality	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females

(1) Depending on age, service, and type of employment.

(2) Net of pension plan investment expenses, including inflation.

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016 valuation were based on the results of a October 2014 actuarial experience study for the period July 1, 2011 – June 30, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Large Cap Equity	25.3%	5.64%
U.S. Small Cap Equity	12.7%	6.24%
Global Equity	29.0%	6.70%
Domestic Fixed Income	22.0%	1.06%
Real Estate	11.0%	4.37%
Total	<u>100.0%</u>	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.

The following presents the County's proportionate share of the net pension liability for the Plan, calculated using the discount rate for each Plan, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.25%
Net Pension Liability	\$ 269,504,646
Current Discount Rate	7.25%
Net Pension Liability	\$ 193,097,508
1% Increase	8.25%
Net Pension Liability	\$ 130,009,084

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued MCERA financial report.

NOTE 10 CONTINGENCIES

A. Litigation

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

B. Grants

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited, but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

NOTE 11 RISK MANAGEMENT

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

A. Unemployment Insurance

The County is fully self-insured for this program. The estimated claims liability at fiscal year-end was \$412,496.

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.

COUNTY OF MENDOCINO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, 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 \$1,022,052 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 \$2,123,667.

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

	Unemployment Insurance	General Liability	Health Insurance	Total
Claims Liability, July 1, 2015	\$ 428,533	\$ 1,066,302	\$ 1,481,249	\$ 2,976,084
Current Year Claims and Changes in Estimates	209,261	1,104,360	9,504,422	10,818,043
Claims Payments	(213,451)	(140,854)	(9,651,507)	(10,005,812)
Claims Liability, June 30, 2016	<u>\$ 424,343</u>	<u>\$ 2,029,808</u>	<u>\$ 1,334,164</u>	<u>\$ 3,788,315</u>
Claims Liability, July 1, 2016	\$ 424,343	\$ 2,029,808	\$ 1,334,164	\$ 3,788,315
Current Year Claims and Changes in Estimates	184,323	(606,095)	11,613,191	11,191,419
Claims Payments	(196,170)	(401,661)	(10,823,688)	(11,421,519)
Claims Liability, June 30, 2017	<u>\$ 412,496</u>	<u>\$ 1,022,052</u>	<u>\$ 2,123,667</u>	<u>\$ 3,558,215</u>

REQUIRED SUPPLEMENTARY INFORMATION

**COUNTY OF MENDOCINO
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

Schedule of the County's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

	Reporting Fiscal Year (Measurement Date)		
	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
County's Proportion of the Net Pension Liability	93.84%	93.24%	91.97%
County's Proportionate Share of the Net Pension Liability	\$ 193,097,508	\$ 154,924,361	\$ 130,705,221
County's Covered-Employee Payroll	\$ 54,492,771	\$ 51,937,992	\$ 50,778,344
County's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	354.35%	298.29%	257.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.45%	72.78%	75.68%

Notes to Schedule

Valuation Date:

- * Fiscal year 2015 was the first year of implementation. Additional years will be presented as they become available.

Schedule of the County's Contributions

Last 10 Fiscal Years*

	Reporting Fiscal Year (Measurement Date)		
	June 30, 2017 (June 30, 2016)	June 30, 2016 (June 30, 2015)	June 30, 2015 (June 30, 2014)
Actuarially Determined Contribution	\$ 17,950,331	\$ 14,139,041	\$ 13,196,530
Contributions Related to the Actuarially Determined Contribution	17,950,331	14,139,041	13,196,530
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's Covered-Employee Payroll	\$ 54,492,771	\$ 51,937,992	\$ 50,778,344
Contributions as a Percentage of Covered-Employee Payroll	35.77%	27.22%	25.99%

Notes to Schedule

Valuation Date:

- * Fiscal year 2015 was the first year of implementation. Additional years will be presented as they become available.

**COUNTY OF MENDOCINO
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 67,047,732	\$ 67,047,732	\$ 69,817,861	\$ 2,770,129
Licenses and Permits	2,691,050	2,691,050	2,973,005	281,955
Fines, Forfeits, and Penalties	1,689,406	1,768,019	1,499,894	(268,125)
Revenue From Use of Money and Property	175,422	175,422	490,510	315,088
Intergovernmental	93,439,472	94,041,245	82,576,972	(11,464,273)
Charges for Services	10,843,396	11,727,305	12,117,171	389,866
Other Revenue	1,138,976	1,146,626	1,237,229	90,603
Total Revenues	<u>177,025,454</u>	<u>178,597,399</u>	<u>170,712,642</u>	<u>(7,884,757)</u>
EXPENDITURES				
Current:				
General Government	17,117,466	17,447,685	16,376,605	1,071,080
Public Protection	58,895,891	59,455,094	57,758,628	1,696,466
Public Way and Facilities	259,402	259,402	260,101	(699)
Health and Sanitation	16,329,483	16,467,144	11,712,150	4,754,994
Public Assistance	71,856,049	71,856,049	66,635,250	5,220,799
Education	232,171	232,171	223,362	8,809
Recreation and Cultural Services	549,138	549,138	478,974	70,164
Debt Service:				
Principal	3,600,000	3,600,000	3,202,603	397,397
Interest and Fiscal Charges	-	-	99,981	(99,981)
Total Expenditures	<u>168,839,600</u>	<u>169,866,683</u>	<u>156,747,654</u>	<u>13,119,029</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,185,854	8,730,716	13,964,988	5,234,272
OTHER FINANCING SOURCES (USES)				
Transfers In	605,953	737,751	469,517	(268,234)
Transfers Out	(12,419,648)	(16,105,391)	(16,378,426)	(273,035)
Total Other Financing Sources (Uses)	<u>(11,813,695)</u>	<u>(15,367,640)</u>	<u>(15,908,909)</u>	<u>(541,269)</u>
NET CHANGE IN FUND BALANCES	(3,627,841)	(6,636,924)	(1,943,921)	4,693,003
Budgetary Fund Balances - Beginning of Year	<u>30,827,434</u>	<u>30,827,434</u>	<u>30,827,434</u>	<u>-</u>
BUDGETARY FUND BALANCES - END OF YEAR	<u>\$ 27,199,593</u>	<u>\$ 24,190,510</u>	<u>\$ 28,883,513</u>	<u>\$ 4,693,003</u>

**COUNTY OF MENDOCINO
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 YEAR ENDED JUNE 30, 2017**

Reconciliation to the Statement of Revenues, Expenditures, and Changes in Fund Balance

Total Revenues from the Budgetary Comparison Schedule	\$ 170,712,642
Revenues from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	2,260,956
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>(3,202,603)</u>
Total Revenues from the Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	<u>\$ 169,770,995</u>
Total expenditures from the budgetary comparison schedule	\$ 156,747,654
The County budgets transfers to the Pension Obligation Fund as functional expenditures.	(6,936,880)
Expenditures from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	4,342,796
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>(3,202,603)</u>
Total Expenditures from the Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	<u>\$ 150,950,967</u>

**COUNTY OF MENDOCINO
BUDGETARY COMPARISON SCHEDULE
MENTAL HEALTH SERVICES FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Revenue From Use of Money and Property	\$ 21,401	\$ 5,401	\$ 3,940	\$ (1,461)
Intergovernmental	21,978,831	20,192,268	27,827,636	7,635,368
Charges for Services	287,746	106,670	499,003	392,333
Other Revenues	-	10,000	35,652	25,652
Total Revenues	<u>22,287,978</u>	<u>20,314,339</u>	<u>28,366,231</u>	<u>8,051,892</u>
EXPENDITURES				
Current:				
Health and Sanitation	<u>24,429,411</u>	<u>24,514,846</u>	<u>22,456,420</u>	<u>2,058,426</u>
Total Expenditures	<u>24,429,411</u>	<u>24,514,846</u>	<u>22,456,420</u>	<u>2,058,426</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,141,433)	(4,200,507)	5,909,811	10,110,318
OTHER FINANCING SOURCES (USES)				
Transfers In	2,857,012	3,367,838	1,138,073	(2,229,765)
Transfers Out	<u>(3,092,982)</u>	<u>(3,092,982)</u>	<u>(336,552)</u>	<u>2,756,430</u>
Total Other Financing Sources (Uses)	<u>(235,970)</u>	<u>274,856</u>	<u>801,521</u>	<u>526,665</u>
NET CHANGE IN FUND BALANCES	(2,377,403)	(3,925,651)	6,711,332	10,636,983
Fund Balances - Beginning of Year	<u>4,700,620</u>	<u>4,700,620</u>	<u>4,700,620</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,323,217</u>	<u>\$ 774,969</u>	<u>\$ 11,411,952</u>	<u>\$ 10,636,983</u>

**COUNTY OF MENDOCINO
BUDGETARY COMPARISON SCHEDULE
ROAD FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 66,000	\$ 66,000	\$ 78,487	\$ 12,487
Licenses, Permits, and Franchises	44,500	44,500	58,869	14,369
Revenue From Use of Money and Property	10,000	10,000	39,316	29,316
Fines, Forfeitures, and Penalties	45,000	45,000	43,046	(1,954)
Intergovernmental	10,648,296	10,648,296	8,920,879	(1,727,417)
Charges for Services	115,000	115,000	161,036	46,036
Other Revenues	6,800	6,800	21,761	14,961
Total Revenues	<u>10,935,596</u>	<u>10,935,596</u>	<u>9,323,394</u>	<u>(1,612,202)</u>
EXPENDITURES				
Current:				
Public Ways and Facilities	18,285,865	20,170,636	14,672,715	5,497,921
Total Expenditures	<u>18,285,865</u>	<u>20,170,636</u>	<u>14,672,715</u>	<u>5,497,921</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(7,350,269)</u>	<u>(9,235,040)</u>	<u>(5,349,321)</u>	<u>3,885,719</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	6,239,240	8,036,194	7,827,255	(208,939)
Transfers Out	(180,000)	(180,000)	(379,932)	(199,932)
Total Other Financing Sources (Uses)	<u>6,059,240</u>	<u>7,856,194</u>	<u>7,447,323</u>	<u>(408,871)</u>
NET CHANGE IN FUND BALANCES	(1,291,029)	(1,378,846)	2,098,002	3,476,848
Fund Balances - Beginning of Year	<u>5,057,473</u>	<u>5,057,473</u>	<u>5,057,473</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,766,444</u>	<u>\$ 3,678,627</u>	<u>\$ 7,155,475</u>	<u>\$ 3,476,848</u>

**COUNTY OF MENDOCINO
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

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.

Budgets are adopted for the General Fund, Debt Service Funds, and most Special Revenue Funds. Accounting principles applied for purposes of developing data on a budgetary basis are materially the same as those used to present financial statements in conformity with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

**COUNTY OF MENDOCINO
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Special Revenue			
	Library	Fish and Game	Special Aviation	Supplemental Law Enforcement
ASSETS				
Cash and Investments in County Treasury	\$ 2,090,928	\$ 74,786	\$ 125,060	\$ 252,993
Imprest Cash	275	-	-	-
Accounts Receivable	-	-	-	-
Taxes Receivable	287,000	-	-	-
Due From Other Governmental Agencies	-	-	-	-
Total Assets	<u>\$ 2,378,203</u>	<u>\$ 74,786</u>	<u>\$ 125,060</u>	<u>\$ 252,993</u>
LIABILITIES				
Accounts Payable	\$ 73,021	\$ 544	\$ -	\$ -
Accrued Salaries and Benefits	68,150	-	-	-
Due to Other Funds	-	-	-	-
Total Liabilities	<u>141,171</u>	<u>544</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	-	-	-	-
FUND BALANCE				
Restricted	2,237,032	74,242	125,060	252,993
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total Fund Balances	<u>2,237,032</u>	<u>74,242</u>	<u>125,060</u>	<u>252,993</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,378,203</u>	<u>\$ 74,786</u>	<u>\$ 125,060</u>	<u>\$ 252,993</u>

**COUNTY OF MENDOCINO
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
ASSETS				
Cash and Investments in County Treasury	\$ 117,421	\$ -	\$ 124,668	\$ 3,168
Imprest Cash	-	-	-	-
Accounts Receivable	-	-	466	94
Taxes Receivable	-	-	-	-
Due From Other Governmental Agencies	-	-	-	-
Total Assets	<u>\$ 117,421</u>	<u>\$ -</u>	<u>\$ 125,134</u>	<u>\$ 3,262</u>
LIABILITIES				
Accounts Payable	-	-	-	625
Accrued Salaries and Benefits	-	-	-	2,637
Due to Other Funds	-	956	-	-
Total Liabilities	<u>-</u>	<u>956</u>	<u>-</u>	<u>3,262</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE				
Restricted	117,421	-	125,134	-
Assigned	-	-	-	-
Unassigned	-	(956)	-	-
Total Fund Balances	<u>117,421</u>	<u>(956)</u>	<u>125,134</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 117,421</u>	<u>\$ -</u>	<u>\$ 125,134</u>	<u>\$ 3,262</u>

**COUNTY OF MENDOCINO
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Special Revenue		
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other
ASSETS			
Cash and Investments in County Treasury	\$ 357,907	\$ 416,120	\$ 1,508,778
Imprest Cash	-	-	200
Accounts Receivable	-	-	84,039
Taxes Receivable	-	-	-
Due From Other Governmental Agencies	951,395	-	52,368
	<u>951,395</u>	<u>-</u>	<u>52,368</u>
Total Assets	<u>\$ 1,309,302</u>	<u>\$ 416,120</u>	<u>\$ 1,645,385</u>
LIABILITIES			
Accounts Payable	\$ 174,321	\$ -	\$ 63,466
Accrued Salaries and Benefits	54,515	-	23,658
Due to Other Funds	-	-	-
Total Liabilities	<u>228,836</u>	<u>-</u>	<u>87,124</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	517,179	-	84,039
	<u>517,179</u>	<u>-</u>	<u>84,039</u>
FUND BALANCE			
Restricted	563,287	416,120	1,474,222
Assigned	-	-	-
Unassigned	-	-	-
Total Fund Balances	<u>563,287</u>	<u>416,120</u>	<u>1,474,222</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,309,302</u>	<u>\$ 416,120</u>	<u>\$ 1,645,385</u>

**COUNTY OF MENDOCINO
COMBINING BALANCE SHEET (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>Capital Projects</u>	<u>Permanent Fund Endowment Funds</u>	<u>Total</u>
ASSETS			
Cash and Investments in County Treasury	\$ 996,750	\$ 751,535	\$ 6,820,114
Imprest Cash	-	-	475
Accounts Receivable	-	-	84,599
Taxes Receivable	-	-	287,000
Due From Other Governmental Agencies	-	-	1,003,763
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 996,750</u>	<u>\$ 751,535</u>	<u>\$ 8,195,951</u>
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 311,977
Accrued Salaries and Benefits	-	-	148,960
Due to Other Funds	-	-	956
Total Liabilities	<u> </u>	<u> </u>	<u>461,893</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	-	-	601,218
	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE			
Restricted	-	751,535	6,137,046
Assigned	996,750	-	996,750
Unassigned	-	-	(956)
Total Fund Balances	<u>996,750</u>	<u>751,535</u>	<u>7,132,840</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 996,750</u>	<u>\$ 751,535</u>	<u>\$ 8,195,951</u>

COUNTY OF MENDOCINO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	Special Revenue			
	Library	Fish and Game	Special Aviation	Supplemental Law Enforcement
REVENUES				
Taxes	\$ 1,821,912	\$ -	\$ -	\$ -
Licenses, Permits, and Franchises	-	-	-	-
Aid from other governmental agencies	1,000	-	10,000	146,460
Revenue From Use of Money and Property	15,731	625	-	1,392
Fines, Forfeitures, and Penalties	-	12,232	-	-
Charges for Services	55,143	-	-	-
Other Revenue	12,193	5,000	-	-
Total Revenues	<u>1,905,979</u>	<u>17,857</u>	<u>10,000</u>	<u>147,852</u>
EXPENDITURES				
Current:				
General Government	-	-	-	-
Public Protection	-	47,158	-	42,637
Public Ways and Facilities	-	-	-	-
Health and Sanitation	-	-	-	-
Public Assistance	-	-	-	-
Education	2,986,861	-	-	-
Recreation and Culture	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>2,986,861</u>	<u>47,158</u>	<u>-</u>	<u>42,637</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,080,882)</u>	<u>(29,301)</u>	<u>10,000</u>	<u>105,215</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	1,255,598	-	-	-
Transfers Out	(139,818)	-	(15,000)	(2,667)
Total Other Financing Sources (Uses)	<u>1,115,780</u>	<u>-</u>	<u>(15,000)</u>	<u>(2,667)</u>
NET CHANGE IN FUND BALANCES	34,898	(29,301)	(5,000)	102,548
Fund Balances - Beginning of Year	<u>2,202,134</u>	<u>103,543</u>	<u>130,060</u>	<u>150,445</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,237,032</u>	<u>\$ 74,242</u>	<u>\$ 125,060</u>	<u>\$ 252,993</u>

COUNTY OF MENDOCINO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	Special Revenue			
	COPS	Sheriff	Recorder	Micrographics
	AB 1913	Special Projects	Modernization	
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses, Permits, and Franchises	-	-	-	-
Aid from other governmental agencies	242,654	-	-	-
Revenue From Use of Money and Property	1,789	58	815	(114)
Fines, Forfeitures, and Penalties	-	-	-	-
Charges for Services	-	-	48,074	56,870
Other Revenue	-	10,360	-	20,122
Total Revenues	<u>244,443</u>	<u>10,418</u>	<u>48,889</u>	<u>76,878</u>
EXPENDITURES				
Current:				
General Government	-	-	44,608	72,270
Public Protection	300,146	14,157	-	-
Public Ways and Facilities	-	-	-	-
Health and Sanitation	-	-	-	-
Public Assistance	-	-	-	-
Education	-	-	-	-
Recreation and Culture	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>300,146</u>	<u>14,157</u>	<u>44,608</u>	<u>72,270</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(55,703)</u>	<u>(3,739)</u>	<u>4,281</u>	<u>4,608</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	(4,608)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,608)</u>
NET CHANGE IN FUND BALANCES	(55,703)	(3,739)	4,281	-
Fund Balances - Beginning of Year	<u>173,124</u>	<u>2,783</u>	<u>120,853</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ 117,421</u>	<u>\$ (956)</u>	<u>\$ 125,134</u>	<u>\$ -</u>

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES (CONTINUED)
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	Special Revenue		
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other
REVENUES			
Taxes	\$ -	\$ 76,299	\$ 147,085
Licenses, Permits, and Franchises	-	-	345,021
Aid from other governmental agencies	3,375,617	637	711,768
Revenue From Use of Money and Property	-	-	9,728
Fines, Forfeitures, and Penalties	44,970	-	7,849
Charges for Services	25,993	-	14,350
Other Revenue	3,854	-	3,650
Total Revenues	<u>3,450,434</u>	<u>76,936</u>	<u>1,239,451</u>
EXPENDITURES			
Current:			
General government	-	-	-
Public protection	1,049,515	-	337,072
Public ways and facilities	-	44,812	-
Health and sanitation	1,669,124	-	848,639
Public assistance	852,035	-	-
Education	-	-	-
Recreation and Culture	2,489	-	-
Capital Outlay	-	-	-
Total Expenditures	<u>3,573,163</u>	<u>44,812</u>	<u>1,185,711</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(122,729)</u>	<u>32,124</u>	<u>53,740</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	245,338	-	-
Transfers Out	(93,999)	-	(50,162)
Total Other Financing Sources (Uses)	<u>151,339</u>	<u>-</u>	<u>(50,162)</u>
NET CHANGE IN FUND BALANCES	28,610	32,124	3,578
Fund Balances - Beginning of Year	<u>534,677</u>	<u>383,996</u>	<u>1,470,644</u>
FUND BALANCES - END OF YEAR	<u>\$ 563,287</u>	<u>\$ 416,120</u>	<u>\$ 1,474,222</u>

**COUNTY OF MENDOCINO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2017**

	Capital Projects	Permanent Fund Endowment Funds	Total
REVENUES			
Taxes	\$ -	\$ -	\$ 2,045,296
Licenses, Permits, and Franchises	-	-	345,021
Aid from other governmental agencies	-	-	4,488,136
Revenue From Use of Money and Property	5,419	5,249	40,692
Fines, Forfeitures, and Penalties	-	-	65,051
Charges for Services	-	-	200,430
Other Revenue	-	-	55,179
Total Revenues	<u>5,419</u>	<u>5,249</u>	<u>7,239,805</u>
EXPENDITURES			
Current:			
General government	-	-	116,878
Public protection	-	-	1,790,685
Public ways and facilities	-	-	44,812
Health and sanitation	-	-	2,517,763
Public assistance	-	-	852,035
Education	-	206,786	3,193,647
Recreation and Culture	-	-	2,489
Capital Outlay	46,740	-	46,740
Total Expenditures	<u>46,740</u>	<u>206,786</u>	<u>8,565,049</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(41,321)</u>	<u>(201,537)</u>	<u>(1,325,244)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	630,740	-	2,131,676
Transfers Out	-	-	(306,254)
Total Other Financing Sources (Uses)	<u>630,740</u>	<u>-</u>	<u>1,825,422</u>
NET CHANGE IN FUND BALANCES	589,419	(201,537)	500,178
Fund Balances - Beginning of Year	<u>407,331</u>	<u>953,072</u>	<u>6,632,662</u>
FUND BALANCES - END OF YEAR	<u>\$ 996,750</u>	<u>\$ 751,535</u>	<u>\$ 7,132,840</u>

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017**

ASSETS	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
CURRENT ASSETS				
Pooled Cash and Investments in County Treasury	\$ 2,273,923	\$ -	\$ 530,144	\$ 1,568,191
Other Cash	-	-	-	-
Accounts Receivable	-	-	-	-
Total Current Assets	<u>2,273,923</u>	<u>-</u>	<u>530,144</u>	<u>1,568,191</u>
NONCURRENT ASSETS				
Capital Assets:				
Depreciable, Net	-	468,951	-	-
Total Noncurrent Assets	<u>-</u>	<u>468,951</u>	<u>-</u>	<u>-</u>
Total Assets	2,273,923	468,951	530,144	1,568,191
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	77,925	-	-	52,256
Accrued Salaries and Benefits	-	-	-	5,626
Compensated Absences Payable	-	-	-	10,306
Due to Other Funds	-	42,486	-	-
Liability for Unpaid Claims	-	-	412,496	1,022,052
Total Current Liabilities	<u>77,925</u>	<u>42,486</u>	<u>412,496</u>	<u>1,090,240</u>
Total Liabilities	77,925	42,486	412,496	1,090,240
NET POSITION				
Net Investment in Capital Assets	-	468,951	-	-
Unrestricted	2,195,998	(42,486)	117,648	477,951
Total Net Position	<u>\$ 2,195,998</u>	<u>\$ 426,465</u>	<u>\$ 117,648</u>	<u>\$ 477,951</u>

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF NET POSITION (CONTINUED)
INTERNAL SERVICE FUNDS
JUNE 30, 2017**

ASSETS	<u>Workers'</u> <u>Compensation</u>	<u>Health</u> <u>Insurance</u>	<u>Total</u>
CURRENT ASSETS			
Pooled Cash and Investments in County Treasury	\$ 562,584	\$ 11,054,088	\$ 15,988,930
Other Cash	-	41,895	41,895
Accounts Receivable	-	1,365	1,365
Total Current Assets	<u>562,584</u>	<u>11,097,348</u>	<u>16,032,190</u>
NONCURRENT ASSETS			
Capital Assets:			
Depreciable, Net	-	-	468,951
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>468,951</u>
Total Assets	562,584	11,097,348	16,501,141
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable	127	113,047	243,355
Accrued Salaries and Benefits	4,033	22,004	31,663
Compensated Absences Payable	-	12,852	23,158
Due to Other Funds	-	-	42,486
Liability for Unpaid Claims	-	2,123,667	3,558,215
Total Current Liabilities	<u>4,160</u>	<u>2,271,570</u>	<u>3,898,877</u>
Total Liabilities	4,160	2,271,570	3,898,877
NET POSITION			
Net Investment in Capital Assets	-	-	468,951
Unrestricted	<u>558,424</u>	<u>8,825,778</u>	<u>12,133,313</u>
Total Net Position	<u>\$ 558,424</u>	<u>\$ 8,825,778</u>	<u>\$ 12,602,264</u>

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2017**

	Software Acquisition	Vehicle Replacement	Unemployment Insurance	General Liability Insurance
OPERATING REVENUES				
Charges and Fees	\$ -	\$ 57,478	\$ 250,000	\$ 1,430,030
Other Revenues	-	16,484	11,847	432,689
Total Operating Revenues	<u>-</u>	<u>73,962</u>	<u>261,847</u>	<u>1,862,719</u>
OPERATING EXPENSES				
Salaries and Benefits	-	-	-	135,703
Services and Supplies	179,145	1,080	861	344,835
Insurance	-	-	-	-
Depreciation	-	134,516	-	-
Claims and Judgments	-	-	196,170	401,661
Total Operating Expenses	<u>179,145</u>	<u>135,596</u>	<u>197,031</u>	<u>882,199</u>
OPERATING INCOME (LOSS)	(179,145)	(61,634)	64,816	980,520
NONOPERATING REVENUES (EXPENSES)				
Interest Revenue (Expense)	14,672	749	3,792	11,939
Total Nonoperating Revenues	<u>14,672</u>	<u>749</u>	<u>3,792</u>	<u>11,939</u>
INCOME (LOSS) BEFORE TRANSFERS	(164,473)	(60,885)	68,608	992,459
TRANSFERS IN	275,000	120,000	-	-
TRANSFERS OUT	<u>-</u>	<u>-</u>	<u>-</u>	<u>(103,403)</u>
CHANGE IN NET POSITION	110,527	59,115	68,608	889,056
Net Position - Beginning of Year	<u>2,085,471</u>	<u>367,350</u>	<u>49,040</u>	<u>(411,105)</u>
NET POSITION - END OF YEAR	<u>\$ 2,195,998</u>	<u>\$ 426,465</u>	<u>\$ 117,648</u>	<u>\$ 477,951</u>

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION (CONTINUED)
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2017**

	Workers' Compensation	Health Insurance	Total
OPERATING REVENUES			
Charges and Fees	\$ 4,507,149	\$ 13,548,358	\$ 19,793,015
Other Revenues	-	1,909	462,929
Total Operating Revenues	4,507,149	13,550,267	20,255,944
OPERATING EXPENSES			
Salaries and Benefits	96,157	485,371	717,231
Services and Supplies	25,183	564,049	1,115,153
Insurance	4,084,338	1,637,167	5,721,505
Depreciation	-	-	134,516
Claims and Judgments	-	10,823,688	11,421,519
Total Operating Expenses	4,205,678	13,510,275	19,109,924
OPERATING INCOME (LOSS)	301,471	39,992	1,146,020
NONOPERATING REVENUES (EXPENSES)			
Interest Revenue (Expense)	(339)	66,437	97,250
Total Nonoperating Revenues	(339)	66,437	97,250
INCOME (LOSS) BEFORE TRANSFERS	301,132	106,429	1,243,270
TRANSFERS IN	-	-	395,000
TRANSFERS OUT	(6,048)	(329,936)	(439,387)
CHANGE IN NET POSITION	295,084	(223,507)	1,198,883
Net Position - Beginning of Year	263,340	9,049,285	11,403,381
NET POSITION - END OF YEAR	\$ 558,424	\$ 8,825,778	\$ 12,602,264

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2017**

	Software Acquisition	Vehicle Replacement	Unemployment Insurance	General Liability Insurance
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Receipts From Interfund Services Provided	\$ -	\$ 73,962	\$ 261,847	\$ 1,862,719
Cash Paid to Employees for Services	-	-	-	(133,602)
Cash Paid to Suppliers for Goods and Services	(101,967)	(213,680)	(208,878)	(1,733,004)
Net Cash Provided (Used) by Operating Activities	(101,967)	(139,718)	52,969	(3,887)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from Other Funds	-	42,486	-	-
Transfers In	275,000	120,000	-	-
Transfers Out	-	-	-	(103,403)
Net Cash Provided (Used) by Noncapital Financing Activities	275,000	162,486	-	(103,403)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of Capital Assets	-	(312,048)	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(312,048)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received (Paid)	14,672	749	3,792	11,939
Net Cash Provided (Used) by Investing Activities	14,672	749	3,792	11,939
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	187,705	(288,531)	56,761	(95,351)
Cash and Cash Equivalents - Beginning of Year	2,086,218	288,531	473,383	1,663,542
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,273,923	\$ -	\$ 530,144	\$ 1,568,191
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ (179,145)	\$ (61,634)	\$ 64,816	\$ 980,520
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation	-	134,516	-	-
Changes in Assets and Liabilities:				
(Increase) Decrease in:				
Accounts Receivable	-	-	-	-
Increase (Decrease) in:				
Accounts Payable	77,178	(212,600)	-	21,248
Accrued Salaries	-	-	-	233
Compensated Absences	-	-	-	1,868
Claims Liability	-	-	(11,847)	(1,007,756)
Net Cash Provided (Used) by Operating Activities	\$ (101,967)	\$ (139,718)	\$ 52,969	\$ (3,887)

**COUNTY OF MENDOCINO
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2017**

	Workers' Compensation	Health Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Receipts From Interfund Services Provided	\$ 4,507,149	\$ 13,560,886	\$ 20,266,563
Cash Paid to Employees for Services	(92,887)	(478,706)	(705,195)
Cash Paid to Suppliers for Goods and Services	(4,109,450)	(12,174,125)	(18,541,104)
Net Cash Provided (Used) by Operating Activities	<u>304,812</u>	<u>908,055</u>	<u>1,020,264</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Advances from Other Funds	-	-	42,486
Transfers In	-	-	395,000
Transfers Out	(6,048)	(329,936)	(439,387)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(6,048)</u>	<u>(329,936)</u>	<u>(1,901)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Capital Assets	-	-	(312,048)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(312,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received (Paid)	(339)	66,437	97,250
Net Cash Provided (Used) by Investing Activities	<u>(339)</u>	<u>66,437</u>	<u>97,250</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	298,425	644,556	803,565
Cash and Cash Equivalents - Beginning of Year	<u>264,159</u>	<u>10,451,427</u>	<u>15,227,260</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 562,584</u></u>	<u><u>\$ 11,095,983</u></u>	<u><u>\$ 16,030,825</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$ 301,471	\$ 39,992	\$ 1,146,020
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation	-	-	134,516
Changes in Assets and Liabilities:			
(Increase) Decrease in:			
Accounts Receivable	-	10,619	10,619
Increase (Decrease) in:			
Accounts Payable	71	61,276	(52,827)
Accrued Salaries	3,270	4,504	8,007
Compensated Absences	-	2,161	4,029
Claims Liability	-	789,503	(230,100)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 304,812</u></u>	<u><u>\$ 908,055</u></u>	<u><u>\$ 1,020,264</u></u>

**COUNTY OF MENDOCINO
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 INVESTMENT TRUST FUND
 JUNE 30, 2017**

	<u>Special Districts Local Boards</u>	<u>School Districts</u>	<u>Total</u>
ASSETS			
Cash and Investments in County Treasury	<u>\$ 13,472,236</u>	<u>\$ 125,186,671</u>	<u>\$ 138,658,907</u>
NET POSITION			
Reserved for Pool Participants	<u>\$ 13,472,236</u>	<u>\$ 125,186,671</u>	<u>\$ 138,658,907</u>