

COUNTY OF MENDOCINO

AUDIT REPORT

JUNE 30, 2011

**COUNTY OF MENDOCINO
AUDIT REPORT
For the Year Ended June 30, 2011**

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mendocino, California, (the County), as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated March 29, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Supervisors and Grand Jury
County of Mendocino

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

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Gallina LLP

Roseville, California
March 29, 2012

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

As management of Mendocino County, we offer readers of the County of Mendocino's financial statement this narrative overview and analysis of the financial activities of Mendocino County for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-vi).

Financial Highlights

- ❖ The County of Mendocino's assets exceeded its liabilities at the close of the most recent fiscal year by \$74,957,769 (net assets). There was a deficit of (\$25,296,574) in unrestricted net assets.
- ❖ The County's total net assets increased by \$29,982,295. Reasons for this increase include a change in the teeter fund advance, a change in the OPEB estimate, and increases to the state and federal funding.
- ❖ At the close of the current fiscal year, the County's combined (all governmental funds) ending fund balance was \$24,659,501. This was a increase of \$30,854,564 in comparison with the prior year.
- ❖ Unassigned fund balance for the General Fund at the close of the current fiscal year was \$5,154,497.
- ❖ Total debt decreased by \$4,691,511 (4.14%) during the 2010/11 Fiscal Year.

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

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

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

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

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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

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

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

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

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

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

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The County of Mendocino maintains forty-one individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund, the road fund, the debt service fund and the pension obligation bonds fund, all of which are considered to be major funds. Data from the other thirty-seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County of Mendocino adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule (page 62) has been provided for the general fund to demonstrate compliance with this budget.

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

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

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

The basic proprietary fund financial statements can be found on pages 21-24 of this report.

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

The basic Fiduciary Fund Financial Statement can be found on pages 25 and 26 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-60 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 61-66 of this report.

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 67-83 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Mendocino, assets exceeded liabilities by \$74,957,769 at the close of the 2010/11 Fiscal Year.

By far the largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County of Mendocino's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

County of Mendocino's Net Assets

	Governmental Activities*	
	2011	2010
Current and other assets	\$ 119,464,870	\$ 114,005,609
Capital assets	100,307,029	101,041,841
Total Assets	219,771,899	215,047,450
Long-term liabilities	125,709,586	135,880,893
Other liabilities	19,104,544	34,191,083
Total Liabilities	144,814,130	170,071,976
Net Assets:		
Invested in capital assets, net of related debt	74,585,302	73,868,603
Restricted	25,669,041	21,402,865
Unrestricted	(25,296,574)	(50,295,994)
Total Net Assets	\$ 74,957,769	\$ 44,975,474

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

Investments in capital assets are subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net assets in the amount of (\$25,296,574) cannot be used to meet the County's ongoing obligations to citizens and creditors.

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Governmental Activities. Governmental activities increased the County's net assets by \$29,982,295. Key elements of this increase are change in teeter fund advance, change in OPEB estimate, and increase to state and federal funding.

Revenues

	2011	2010
Program Revenues:		
Fees, fines and charges for services	\$ 20,759,976	\$ 19,954,121
Operating grants & contributions	111,534,406	104,803,783
Capital grants & contributions	4,995,419	9,209,305
General Revenues:		
Property taxes	41,144,426	43,264,975
Sales & use taxes	9,741,986	8,159,252
Other taxes	3,644,843	3,462,727
Unrestricted interest & investment earnings	701,241	1,754,046
Miscellaneous	1,590,451	1,986,873
Change in estimate - OPEB	5,653,767	
Special Item	11,499,287	(10,325,585)
	211,265,802	182,269,497

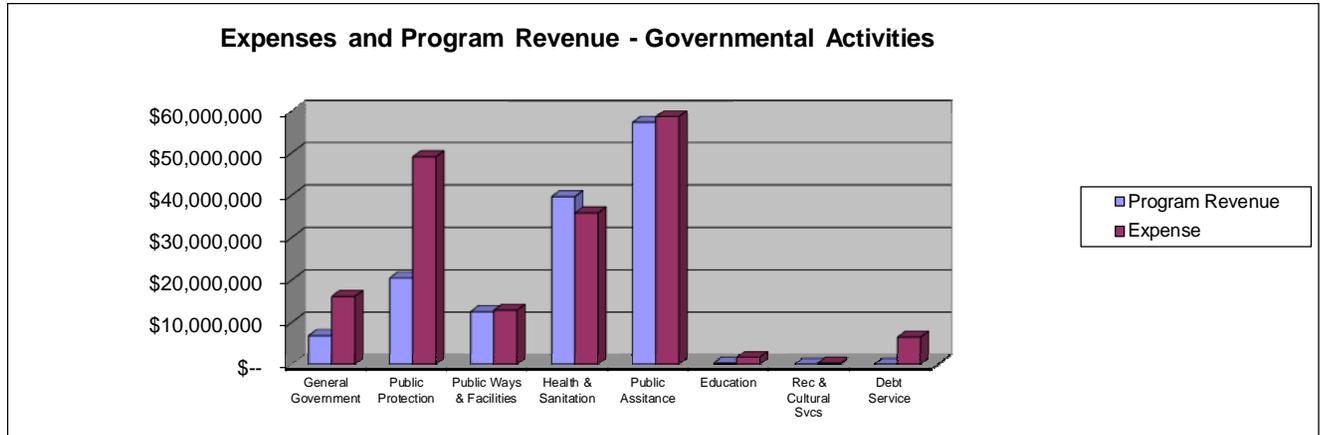
Expenses

Expenses:		
General government	16,205,286	16,021,847
Public protection	49,125,445	49,758,954
Public ways & facilities	12,916,136	11,425,458
Health & sanitation	35,845,647	38,171,062
Public assistance	58,642,918	56,794,530
Education	1,713,418	1,612,037
Recreation and cultural services	255,063	376,799
Interest on long-term debt	6,579,594	6,965,035
Total Expenses	181,283,507	181,125,722
Change in Net Assets	29,982,295	1,143,775
Beginning Net Assets	44,975,474	43,831,699
Ending Net Assets	\$ 74,957,769	\$ 44,975,474

MENDOCINO COUNTY
 Management's Discussion and Analysis
 For the Year Ended June 30, 2011

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

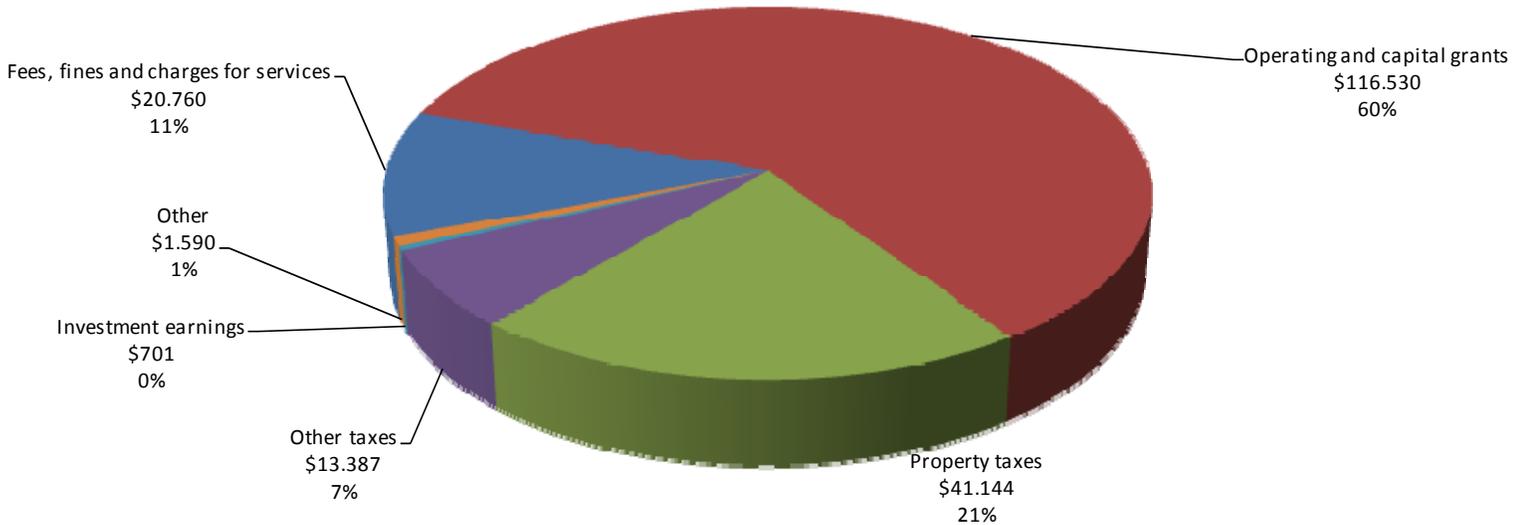
- ❖ Property taxes decreased by (\$2,120,549) (4.90%) during the year. Most of this decrease is attributable to a 0.31% decrease in assessed valuations.



Expenses and Program Revenue		
Governmental Functions	Program	
	Revenue	Expense
General Government	\$ 6,936,098	\$ 16,205,286
Public Protection	20,518,732	49,125,445
Public Ways & Facilities	12,592,062	12,916,136
Health & Sanitation	39,713,261	35,845,647
Public Assistance	57,248,305	58,642,918
Education	281,343	1,713,418
Rec & Cultural Svcs	--	255,063
Debt Service	--	6,579,594

MENDOCINO COUNTY
 Management's Discussion and Analysis
 For the Year Ended June 30, 2011

Revenues by Source (in millions) - Governmental Activities



The largest portion of revenue received by the County comes from Federal and State sources (approximately (60%). The second largest source comes from property taxes (21%). However, it should be noted that of every \$1.00 collected in property tax approximately 63% benefits schools, with 30% going toward the funding of County services and programs. Cities receive 2% and Special Districts receive 5%. Only 34% of total revenue received is discretionary (not dedicated to particular services/programs).

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

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

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

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

As of the end of the current fiscal year, the County of Mendocino's governmental funds reported combined ending fund balances of \$24,659,501, a increase of \$30,854,564 from the prior year.

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Some of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$668,299); 2) to pay debt service (\$8,035,559); 3) for specific road infrastructure projects (\$5,842,792); 4) for mental health programs (\$1,311,619); 5) for a variety of other restricted purposes (\$4,050,644).

The general fund is the chief operating fund of the County of Mendocino. At the end of the current fiscal year, unassigned fund balance of the general fund was \$5,154,497, while total fund balance reached \$5,473,581. The fund balance of the County of Mendocino's general fund increased by \$17,220,155 during the 2010/11 Fiscal Year. This is primarily due to the reclassification of the County's Teeter obligation from general fund to the agency funds.

The debt service fund had a total fund balance of \$2,019,132, all of which is assigned for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$27,182. Interest expenditures decreased during the current period by \$54,232.

The pension obligation fund had a total fund balance of \$6,016,427, all of which is assigned for the payment of debt service. The net decrease in fund balance during the current year was (\$296,652).

The mental health services fund had a total fund balance of 1,311,619. The net increase in fund balance during the current year was \$9,479,289.

The road fund had a total fund balance of \$6,397,331. The net increase for the year was \$4,579,646.

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

Unrestricted net assets of the internal service funds at the end of the year amounted to \$7,717,946.

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

- ❖ Increased Sheriff's budgeted expenditures and corresponding revenues by \$132,254 for fixed asset purchases from Asset Forfeiture and Cal-EMA funds.
- ❖ Increased Agriculture's budgeted expenditures and corresponding revenues by \$249,674 for the European Grapevine Moth detection program.
- ❖ Increased District Attorney's budgeted expenditures and corresponding revenues by \$814,405 for assistance to other law enforcement agencies.
- ❖ Increased Public Health's budgeted expenditures and corresponding revenues by \$150,000 for payments to state for medical claims for CCS clients.

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Capital Asset and Debt Administration

Capital assets. The County of Mendocino's investment in capital assets for its governmental activities as of June 30, 2011, amounts to \$100,307,029 (net of accumulated depreciation).

This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the County of Mendocino's investment in capital assets for the current fiscal year was 0.7%. Additional details of capital assets are in Note 7 on Page 45.

County of Mendocino's Capital Assets

	2011	2010
Land	\$ 3,002,620	\$ 2,822,620
Structures and improvements	39,016,623	40,385,947
Improvements other than buildings	2,700,584	2,808,692
Equipment	7,208,902	6,510,576
Infrastructure	44,527,187	37,803,183
Construction in progress	3,851,113	10,710,823
Total	\$ 100,307,029	\$ 101,041,841

Long-term debt. At the end of the current fiscal year, the County of Mendocino has long-term debt outstanding of \$108,701,727.

MENDOCINO COUNTY
Management's Discussion and Analysis
For the Year Ended June 30, 2011

County of Mendocino's Outstanding Debt

	2011	2010
General obligation bonds	\$ 82,980,000	\$ 86,220,000
Certificates of Participation	24,130,000	24,850,000
Capital leases & loans	1,591,727	2,323,238
Total	\$ 108,701,727	\$ 113,393,238

The County of Mendocino's total debt decreased by \$4,691,511 (4.14%) during the current fiscal year. The key factor in this decrease was an increase in principal payment on the general obligation bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue at 10% of its total assessed valuation. The current debt limitation for the County of Mendocino is \$955,851,883, which is significantly in excess of the County of Mendocino's outstanding general obligation debt.

Additional information on the County of Mendocino's long-term debt can be found in note 8 on pages 45-48 of this report.

Economic Factors that Impacted Budget. All of the factors listed below were considered in preparing the County of Mendocino's budget for the 2011/12 fiscal year.

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

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

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

COUNTY OF MENDOCINO

Statement of Net Assets June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Pooled cash and investments in county treasury	\$ 32,437,820
Restricted Assets:	
Cash with fiscal agent	7,702,963
Other cash	212,475
Accounts receivable	778,621
Taxes receivable	2,562,552
Interest receivable	98,127
Due from other governments	15,959,826
Inventory	668,299
Net pension asset	56,944,627
Deferred charges	2,099,560
Total Current Assets	<u>119,464,870</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	6,853,733
Depreciable, net	93,453,296
Total Noncurrent Assets	<u>100,307,029</u>
Total Assets	<u>219,771,899</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	4,425,759
Accrued salaries and benefits	4,943,958
Interest payable	2,505,787
Unearned revenue	7,229,040
Loans payable	558,961
Bonds payable	3,405,000
Certificates of participation	755,000
Liability for unpaid claims	2,904,231
Compensated absences	4,841,445
Capital lease obligation	96,465
Total Current Liabilities	<u>31,665,646</u>
Noncurrent Liabilities:	
Long-term liabilities, due beyond one year	112,989,484
Other postemployment benefits (OPEB) liability	159,000
Total Noncurrent Liabilities	<u>113,148,484</u>
Total Liabilities	<u>144,814,130</u>
NET ASSETS	
Invested in capital assets, net of related debt	74,585,302
Restricted for:	
Legally segregated taxes, grants and fees	17,633,482
Debt service and capital projects	8,035,559
Unrestricted	(25,296,574)
Total Net Assets	<u>\$ 74,957,769</u>

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

COUNTY OF MENDOCINO

Statement of Activities For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 16,205,286	\$ 3,738,007	\$ 2,525,982	\$ 672,109	\$ (9,269,188)
Public protection	49,125,445	10,959,221	9,559,511	--	(28,606,713)
Public ways and facilities	12,916,136	836,350	7,432,402	4,323,310	(324,074)
Health and sanitation	35,845,647	4,996,252	34,717,009	--	3,867,614
Public assistance	58,642,918	177,608	57,070,697	--	(1,394,613)
Education	1,713,418	52,538	228,805	--	(1,432,075)
Recreation and cultural services	255,063	--	--	--	(255,063)
Debt Service:					
Interest	6,579,594	--	--	--	(6,579,594)
Total Governmental Activities	<u>\$ 181,283,507</u>	<u>\$ 20,759,976</u>	<u>\$ 111,534,406</u>	<u>\$ 4,995,419</u>	<u>(43,993,706)</u>
General Revenues:					
Taxes:					
Property taxes					41,144,426
Sales and use taxes					9,741,986
Transient occupancy taxes					3,293,554
Other					351,289
Unrestricted interest and investment earnings					701,241
Miscellaneous					1,590,451
Change in estimate - OPEB					5,653,767
Special item - Teeter Fund Advance					11,499,287
Total General Revenues, Change in Estimate and Special Item					<u>73,976,001</u>
Change in Net Assets					29,982,295
Net assets - July 1					<u>44,975,474</u>
Net assets - June 30					<u>\$ 74,957,769</u>

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

COUNTY OF MENDOCINO

Balance Sheet
Governmental Funds
June 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>
ASSETS			
Pooled cash and investments in treasury	\$ 11,449,804	\$ 64,925	\$ 300,971
Restricted Assets:			
Cash with fiscal agent	--	1,987,507	5,715,456
Imprest cash	9,611	--	--
Accounts receivable	304,576	--	--
Taxes receivable	2,562,552	--	--
Interest receivable	96,199	--	--
Due from other governments	5,732,094	--	--
Inventory	103,962	--	--
Total Assets	<u>\$ 20,258,798</u>	<u>\$ 2,052,432</u>	<u>\$ 6,016,427</u>
LIABILITIES			
Accounts payable	\$ 1,174,517	\$ --	\$ --
Accrued salaries and benefits	4,172,694	--	--
Due to other funds	--	--	--
Matured principal and interest payable	--	33,300	--
Deferred revenue	5,346,898	--	--
Unearned revenue	4,091,108	--	--
Total Liabilities	<u>14,785,217</u>	<u>33,300</u>	<u>--</u>
FUND BALANCES			
Nonspendable	103,962	--	--
Restricted	--	2,019,132	6,016,427
Assigned	215,122	--	--
Unassigned	5,154,497	--	--
Total Fund Balances	<u>5,473,581</u>	<u>2,019,132</u>	<u>6,016,427</u>
 Total Liabilities and Fund Balances	 <u>\$ 20,258,798</u>	 <u>\$ 2,052,432</u>	 <u>\$ 6,016,427</u>

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

COUNTY OF MENDOCINO

Balance Sheet (continued)
Governmental Funds
June 30, 2011

	Mental Health Services	Road	Other Governmental Funds	Total
ASSETS				
Pooled cash and investments in treasury	\$ 1,434,316	\$ 6,067,772	\$ 3,903,084	\$ 23,220,872
Restricted Assets:				
Cash with fiscal agent	--	--	--	7,702,963
Imprest cash	100	50	580	10,341
Accounts receivable	308,104	394	1,572	614,646
Taxes receivable	--	--	--	2,562,552
Interest receivable	--	1,928	--	98,127
Due from other governments	5,807,514	2,548,331	1,871,887	15,959,826
Inventory	--	554,539	9,798	668,299
Total Assets	<u>\$ 7,550,034</u>	<u>\$ 9,173,014</u>	<u>\$ 5,786,921</u>	<u>\$ 50,837,626</u>
LIABILITIES				
Accounts payable	\$ 1,326,114	\$ 1,459,684	\$ 351,286	\$ 4,311,601
Accrued salaries and benefits	244,756	290,999	211,128	4,919,577
Due to other funds	--	--	1,190,000	1,190,000
Matured principal and interest payable	--	--	--	33,300
Deferred revenue	4,667,545	1,025,000	593,096	11,632,539
Unearned revenue	--	--	--	4,091,108
Total Liabilities	<u>6,238,415</u>	<u>2,775,683</u>	<u>2,345,510</u>	<u>26,178,125</u>
FUND BALANCES				
Nonspendable	--	554,539	9,798	668,299
Restricted	1,311,619	5,842,792	3,835,522	19,025,492
Assigned	--	--	--	215,122
Unassigned	--	--	(403,909)	4,750,588
Total Fund Balances	<u>1,311,619</u>	<u>6,397,331</u>	<u>3,441,411</u>	<u>24,659,501</u>
Total Liabilities and Fund Balances	<u>\$ 7,550,034</u>	<u>\$ 9,173,014</u>	<u>\$ 5,786,921</u>	<u>\$ 50,837,626</u>

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

COUNTY OF MENDOCINO

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities June 30, 2011

Fund Balance - total governmental funds (page 16)	\$ 24,659,501
Amounts reported for governmental activities in the statement of net assets are different because:	
Deferred charges in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,099,560
The pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefore not reported in the funds.	56,944,627
Deferred revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	11,632,539
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	100,290,297
Advance of interest earnings from the trustee was previously recognized as revenue in the governmental funds and is currently being recognized over the life of the bonds in the government-wide statements.	(3,137,932)
Internal service funds are used by the County to charge the cost of unemployment insurance, dental insurance, fleet services and telephone services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets are:	7,734,678
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of June 30, 2010, are:	
Loans payable	(1,495,262)
Bonds payable	(82,980,000)
Certificates of participation	(24,130,000)
Capital leases	(96,465)
Accrued interest on long-term debt	(2,472,487)
Compensated absences	(4,829,104)
Landfill closure/post closure care costs	(9,103,183)
OPEB liability	(159,000)
Net assets of governmental activities (page 13)	<u>\$ 74,957,769</u>

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2011

	General	Debt Service	Pension Obligation Bonds
Revenues:			
Taxes	\$ 53,913,187	\$ --	\$ --
Licenses, permits and franchises	2,445,728	--	--
Intergovernmental	70,238,075	--	--
Revenue from use of money and property	436,871	28,359	(12,200)
Fines, forfeitures and penalties	3,551,636	20,000	--
Charges for services	12,194,085	38,580	45,157
Other revenue	1,398,636	--	--
Total Revenues	144,178,218	86,939	32,957
Expenditures:			
Current:			
General government	13,709,238	8,138	2,265
Public protection	42,669,394	--	--
Public ways and facilities	142,963	--	--
Health and sanitation	11,470,704	--	--
Public assistance	54,545,360	--	--
Education	206,776	--	--
Recreation and culture services	244,358	--	--
Debt service:			
Principal	--	1,255,766	3,240,000
Interest	560,135	1,341,423	4,675,324
Capital outlay	2,021,019	--	--
Total Expenditures	125,569,947	2,605,327	7,917,589
Excess (Deficiency) of Revenues Over (Under) Expenditures	18,608,271	(2,518,388)	(7,884,632)
Other Financing Sources (Uses):			
Transfers in	736,028	2,545,570	7,587,980
Transfers out	(13,623,431)	--	--
Total Other Financing Sources (Uses)	(12,887,403)	2,545,570	7,587,980
Special Item - Teeter Fund Advance	11,499,287	--	--
Net change in fund balances	17,220,155	27,182	(296,652)
Fund balances - beginning	(11,746,574)	1,991,950	6,313,079
Fund balances - ending	\$ 5,473,581	\$ 2,019,132	\$ 6,016,427

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Governmental Funds For the Year Ended June 30, 2011

	Mental Health Services	Road	Other Governmental Funds	Totals
Revenues:				
Taxes	\$ --	\$ 112,046	\$ 981,188	\$ 55,006,421
Licenses, permits and franchises	--	53,887	287,564	2,787,179
Intergovernmental	27,810,155	13,788,827	10,918,193	122,755,250
Revenue from use of money and property	(21,971)	16,105	13,868	461,032
Fines, forfeitures and penalties	--	64,518	116,005	3,752,159
Charges for services	1,441,280	717,945	175,408	14,612,455
Other revenue	28,260	29,019	134,536	1,590,451
Total Revenues	<u>29,257,724</u>	<u>14,782,347</u>	<u>12,626,762</u>	<u>200,964,947</u>
Expenditures:				
Current:				
General government	--	--	987,087	14,706,728
Public protection	--	--	3,529,394	46,198,788
Public ways and facilities	--	7,996,623	42,899	8,182,485
Health and sanitation	19,153,689	--	3,838,823	34,463,216
Public assistance	--	--	3,305,295	57,850,655
Education	--	--	1,451,341	1,658,117
Recreation and culture services	--	--	3,135	247,493
Debt service:				
Principal	--	--	--	4,495,766
Interest	--	--	--	6,576,882
Capital outlay	--	4,737,540	501,797	7,260,356
Total Expenditures	<u>19,153,689</u>	<u>12,734,163</u>	<u>13,659,771</u>	<u>181,640,486</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,104,035</u>	<u>2,048,184</u>	<u>(1,033,009)</u>	<u>19,324,461</u>
Other Financing Sources (Uses):				
Transfers in	--	3,288,764	1,204,662	15,363,004
Transfers out	(624,746)	(757,302)	(326,709)	(15,332,188)
Total Other Financing Sources (Uses)	<u>(624,746)</u>	<u>2,531,462</u>	<u>877,953</u>	<u>30,816</u>
Special Item - Teeter Fund Advance	--	--	--	11,499,287
Net change in fund balances	9,479,289	4,579,646	(155,056)	30,854,564
Fund balances - beginning	<u>(8,167,670)</u>	<u>1,817,685</u>	<u>3,596,467</u>	<u>(6,195,063)</u>
Fund balances - ending	<u>\$ 1,311,619</u>	<u>\$ 6,397,331</u>	<u>\$ 3,441,411</u>	<u>\$ 24,659,501</u>

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

COUNTY OF MENDOCINO

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2011

Net change to fund balance - total governmental funds (page 19)		\$ 30,854,564
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 4,905,476	
Less current year depreciation	<u>(5,622,155)</u>	(716,679)
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.		(7,957,640)
Interest received in advance as a result of a debt service forward agreement are deferred in the government-wide statements and recognized over the life of the bonds.		209,196
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal and refunded debt repayments:		
Capital leases	195,745	
Loans payable	535,766	
Bonds payable and certificates of participation	<u>3,960,000</u>	4,691,511
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	87,128	
Amortization of bond issuance costs	(89,840)	
Change in net pension asset	(5,403,505)	
Change in net OPEB obligation	5,246,372	
Change in compensated absences	632,250	
Change in liability for closure/post closure care	<u>(798,901)</u>	(326,496)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain activities of the internal service funds is reported with governmental activities.		<u>3,227,839</u>
Change in net assets of governmental activities (page 14)		<u><u>\$ 29,982,295</u></u>

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

COUNTY OF MENDOCINO

Statement of Fund Net Assets
Proprietary Funds
June 30, 2011

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
ASSETS	
Current Assets:	
Pooled cash and investments in treasury	\$ 9,216,948
Other cash	202,134
Accounts receivable	163,975
Due from other funds	<u>1,190,000</u>
Total Current Assets	<u>10,773,057</u>
Noncurrent Assets:	
Depreciable capital assets, net	<u>16,732</u>
Total Noncurrent Assets	<u>16,732</u>
Total Assets	<u>10,789,789</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	114,158
Accrued salaries and benefits	24,381
Compensated absences payable	12,341
Liability for unpaid claims	<u>2,904,231</u>
Total Current Liabilities	<u>3,055,111</u>
Total Liabilities	<u>3,055,111</u>
NET ASSETS	
Invested in capital assets, net of related debt	16,732
Unrestricted	<u>7,717,946</u>
Total Net Assets	<u>\$ 7,734,678</u>

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenses and Changes in Fund Net Assets
 Proprietary Funds
 For the Year Ended June 30, 2011

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
Operating Revenues:	
Charges for services	\$ 22,059,837
Other revenue	534
Total Operating Revenues	<u>22,060,371</u>
Operating Expenses:	
Salaries and employee benefits	481,898
Services and supplies	13,803,115
Insurance	5,542,321
Depreciation	18,133
Claims and judgments	418,899
Total Operating Expenses	<u>20,264,366</u>
Operating Income	<u>1,796,005</u>
Non-Operating Revenues (Expenses):	
Interest income	31,013
Intergovernmental revenue	865,242
Total non-operating revenues (expenses)	<u>896,255</u>
Income Before Transfers and Change in Estimate	2,692,260
Change in estimate - OPEB	566,395
Transfers in	120,000
Transfers out	<u>(150,816)</u>
Change in Net Assets	3,227,839
Net Assets - Beginning of Year	<u>4,506,839</u>
Net Assets - End of Year	<u><u>\$ 7,734,678</u></u>

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

COUNTY OF MENDOCINO

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from interfund services provided	\$ 22,237,142
Cash paid to suppliers for goods and services	(19,507,435)
Cash paid to employees for services	<u>(488,994)</u>
Net Cash Provided (Used) by Operating Activities	<u>2,240,713</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in	120,000
Transfers out	(150,816)
Due from other funds	1,510,000
Intergovernmental revenues	<u>865,242</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>2,344,426</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>31,013</u>
Net Cash Provided by Investing Activities	<u>31,013</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,616,152
Cash and Cash Equivalents, Beginning of Year	<u>4,802,930</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,419,082</u></u>

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

COUNTY OF MENDOCINO

Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 1,796,005
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	18,133
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	176,771
Increase (decrease) in:	
Accounts payable	87,208
Accrued salaries	(3,724)
Compensated absences	(3,372)
Liability for self-insurance	<u>169,692</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 2,240,713</u></u>

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

COUNTY OF MENDOCINO

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Investment Trust	Agency Funds	Pension Trust Fund
ASSETS			
Cash and investments in treasury	\$ 116,525,878	\$ 1,741,854	\$ 1,189,486
Accounts receivable	--	--	363,378
Taxes receivable	--	12,850,256	--
Other assets	--	--	3,786
Other investments	--	--	353,565,325
Total Assets	\$ 116,525,878	\$ 14,592,110	\$ 355,121,975
LIABILITIES			
Accrued expenses	\$ --	\$ --	\$ 79,452
Agency funds held for others	--	14,592,110	--
Total Liabilities	--	14,592,110	79,452
NET ASSETS			
Net Assets held in trust for:			
Retirement system	--	--	355,042,523
Investment pool participants	116,525,878	--	--
Total Net Assets	116,525,878	--	355,042,523
Total Liabilities and Net Assets	\$ 116,525,878	\$ 14,592,110	\$ 355,121,975

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

COUNTY OF MENDOCINO

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2011

	Investment Trust	Pension Trust
Additions:		
Contributions:		
Employer contributions	\$ --	\$ 9,553,955
Member contributions	--	5,446,964
Contributions on pooled investments	331,214,408	--
Interest and investment income - net	445,622	64,075,101
Total Additions	331,660,030	79,076,020
 Deductions:		
Benefit payments	--	23,436,295
Distributions from investment pool	324,447,488	--
Administrative expense	--	639,764
Total Deductions	324,447,488	24,076,059
Change in net assets	7,212,542	54,999,961
Net assets, beginning	109,313,336	300,042,562
Net assets, ending	\$ 116,525,878	\$ 355,042,523

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provided in the financial section of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a summary of significant accounting policies for the County, and other necessary disclosure of pertinent matters relating to the financial position of the County. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

Note 1: **Summary of Significant Accounting Policies**

A. **The Financial Reporting Entity**

The County of Mendocino (County), the primary government, is a political subdivision of the State of California. It is governed by an elected board of five County supervisors.

The accounting methods and procedures adopted by the County conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Reporting for component units on the County's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Blended component units are an extension of the County and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. Each component unit has a June 30th year end.

Blended Component Units. The Alexander Estates Lighting District, Covelo Lighting District, Fairview Acres Lighting District, Hopland Lighting District, Laytonville Lighting District, Noyo Lighting District, Oak Knoll Lighting District, Riverwood Terrace Lighting District, Ukiah Village Lighting District, West Talmage Lighting District, Lakewood Lighting District, Meadowbrook Manor Sanitation District, Mendocino County Air Quality Management District, and Mendocino County Public Facilities Corporation are districts and a corporation governed by the County board of supervisors. The component unit's governing body is substantially the same as the primary government, hence, these units are presented by blending them with the primary government.

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

B. **Basis of Presentation**

Government-Wide Financial Statements

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

B. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. At June 30, 2011, the County had no business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities. Direct expenses are those that are specifically associated with a program or functions, and therefore, are clearly identifiable to a particular function and allocated indirect expenses. Direct expenses also include each function's allocated share of indirect expenses. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

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

Fund Financial Statements (continued)

The County reports the following major governmental funds:

- The *General Fund* is the County's primary operating fund. The General Fund is used to account for all revenues and expenditures necessary to carry out the basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreational services.
- The *Debt Service Fund* is used to accumulate funds for the payment of debt service on the Certificates of Participation.
- The *Pension Obligation Bonds Fund* is used to accumulate funds for the payment of debt service on the Pension Obligation Bonds. Deposits are made on each pay period from amounts charged to the individual departments, based on retirement participation.
- The *Mental Health Services Fund* is a special revenue fund whose revenues are legally restricted for specified mental health purposes. The financial activities of the Mental Health Department were formerly an integral part of the County General Fund prior to fiscal 2002-2003.
- The *Road Fund* is a special revenue fund that provides for planning, design, construction, maintenance and administration of County maintained roads. Revenues consist primarily of highway user taxes and other intergovernmental revenues.

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the County's vehicle replacement and software acquisition services provided to other departments or to other governments and self-insurance programs – unemployment, general liability, worker's compensation and health insurance benefits, on a cost-reimbursement basis.
- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

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

C. Measurement Focus and Basis of Accounting

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

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

C. Measurement Focus and Basis of Accounting (continued)

The County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

D. Cash and Investments

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

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

E. Cash and Cash Equivalents

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

F. Receivables

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

G. Inventories

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

H. Restricted Assets

The County has \$7,702,963 restricted cash deposited with fiscal agents to meet Certificates of Participation, Pension Obligation Bond and other long-term debt reserve fund requirements.

I. Property Tax Revenue

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

Alternative Method of Distribution of Tax Levies

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

The County maintains 25% of the total delinquent secured taxes for participating entities in the County, as calculated at the end of the fiscal year, in the tax loss reserve fund. The balance in the fund was approximately \$1.3 million at year end.

J. Capital Assets

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

J. **Capital Assets** (continued)

The estimated useful lives are as follows:

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

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

K. **Deferred Revenue and Unearned Revenue**

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

L. **Interfund Transactions**

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

M. Estimates

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

N. Implementation of New Standards

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the County implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes new accounting and financial reporting standards for all governments that report governmental funds. The statement provides more clearly defined categories within fund balance to make the nature and extent of the constraints placed on the fund balance more transparent. GASB 54 also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund statements. Implementation of GASB 54 required the reclassification of several funds previously reported as special revenue funds and redefined how fund balances of the governmental funds are presented in the financial statements.

Note 2: **Stewardship, Compliance and Accountability**

Deficit Fund Equity

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

<u>Fund</u>	<u>Deficit</u>
Special Revenue Funds:	
Lighting Special District – Alexander Estates	\$ 23,159
Lighting Special District – Noyo	14,846
Miscellaneous Grants	214,821
Mendocino County Water Agency	103,150
Capital Project Funds:	
Capital Projects	189,088
Internal Service Funds:	
Unemployment Insurance	364,851

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Deficit Fund Equity (continued)

The deficit equity in the Miscellaneous Grant fund is due to several programs incurring expenditures on a reimbursement basis. The fund is reporting \$593,096 in deferred revenue to account for receivables that do not meet the availability criteria.

The Internal Service Funds for insurance (unemployment) had a deficit fund equity at fiscal year ending June 30, 2011, as a result of increasing liabilities for unpaid claims as well as the rising costs for insurance in general. Having achieved its goal on a pay-as-you-go basis with each of these accounts, the County intends to continue to aggressively raise the amount of insurance contributions in order to reach actuarial soundness.

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

Note 3: **Cash and Investments**

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds using a formula based on the average daily cash balance of each fund.

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

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

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

At June 30, 2011, total County cash and investments were as follows:

Cash:

Cash on hand	\$ 1,013,999
Imprest cash	10,341
Overdrafts (deposits less outstanding warrants)	(251,800)
Cash with fiscal agents	1,000
Total cash (overdrafts)	<u>773,540</u>

Investments:

In Treasurer's pool	151,334,973
With fiscal agents	7,701,963
With fiscal agents, Pension Trust Fund	353,565,325
Total investments	<u>512,602,261</u>
Total cash and investments	<u>\$ 513,375,801</u>

Total cash and investments at June 30, 2011, were presented on the County's financial statements as follows:

Primary government	\$ 40,353,258
Investment trust fund	116,525,878
Pension trust fund	354,754,811
Agency funds	1,741,854
Total cash and investments	<u>\$ 513,375,801</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.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Deposits – Custodial Risk (continued)

At June 30, 2011, the carrying value of the County’s deposits was \$(251,800) and the bank balance was \$8,854,162. The difference between the carrying amount and the bank balance is a result of transactions in transit. Of the bank balance, \$250,000 was covered by Federal Depository Insurance Corporation (FDIC) and the remainder was covered by the multiple financial institution collateral pool that insures public deposits.

Investments

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

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

The investment pool was in compliance with above mentioned guidelines except for medium term notes. As of the date of the most recent medium term note purchases, the County held 30.57% of its investments in medium term notes while State law and the County’s investment policy places a limit of 30% of the portfolio.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Investments (continued)

At June 30, 2011, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not made (fair value was 100.24% of carrying value).

At June 30, 2011, the County had the following investments:

	Interest Rates	Maturities	Par	Fair Value	Carrying Value	WAM (Years)
Investments in Investment Pool						
Medium Term Corporate Notes	0.42% - 1.66%	7/25/11 - 4/25/14	\$ 62,448,000	\$ 62,415,273	\$ 62,148,202	1.38
Negotiable Certificate of Deposits	0.40% - 1.27%	7/12/11 - 5/6/14	43,000,000	43,113,980	43,022,886	1.18
Union Bank SWEEP account	Variable	On Demand	163,885	163,885	163,885	0.00
California Local Agency Investment Fund	Variable	On Demand	45,000,000	45,000,000	45,000,000	0.00
California Asset Management Program	Variable	On Demand	1,000,000	1,000,000	1,000,000	0.00
Total investments in investment pool			<u>151,611,885</u>	<u>151,693,138</u>	<u>151,334,973</u>	<u>0.90</u>
Investments Outside Investment Pool						
<i>Cash held with fiscal agent</i>						
Commercial paper	0.58%	12/1/2011	1,957,000	1,953,340	1,957,000	0.42
Money market mutual funds	Variable	On Demand	5,744,963	5,744,963	5,744,963	0.00
Total investments outside investment pool			<u>7,701,963</u>	<u>7,698,303</u>	<u>7,701,963</u>	<u>0.11</u>
Total investments			<u>\$ 159,313,848</u>	<u>\$ 159,391,441</u>	<u>\$ 159,036,936</u>	

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County manages its exposure to declines in fair values by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to provide the necessary cash flow and liquidity needed for operations. The County monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The County had invested \$62,148,202 in floating rate securities. These are tied to the one or three month London Interbank Offer Rate (LIBOR) index.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments in

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Credit Risk (continued)

commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law also limits investments in corporate bonds to the rating of A by Standard & Poor's and Moody's Investors Service for a maturity of up to one year and a rating of AA for maturities beyond one year.

Concentration of Credit Risk

At June 30, 2011, the County held 5.94% (\$9,009,270) of its net investment in medium term notes issued by General Electric Capital Corporation. The County also held 6.63% (\$10,059,900) and 5.31% (\$8,055,280), respectively, in negotiable certificates of deposit issued by Barclay's Bank of New York and Nordea Bank of Finland. The County did not have 10% or more of its net investment in a single mutual fund.

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, 2011.

Investments In Investment Pool	<u>S&P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Medium Term Corporate Notes	AAA	AAA	5.94%
Medium Term Corporate Notes	AA	AA3	3.95%
Medium Term Corporate Notes	AA	AA2	3.31%
Medium Term Corporate Notes	AA	Unrated	2.62%
Medium Term Corporate Notes	AA-	AA3	5.94%
Medium Term Corporate Notes	AA-	A2	1.95%
Medium Term Corporate Notes	A+	AA3	7.00%
Medium Term Corporate Notes	A+	AA1	3.29%
Medium Term Corporate Notes	A	A2	7.14%
Negotiable Certificates of Deposit	A+	AA2	3.29%
Negotiable Certificates of Deposit	A+	AA3	3.29%
Negotiable Certificates of Deposit	A+	A2	3.30%
Negotiable Certificates of Deposit	AA	AA2	3.30%
Negotiable Certificates of Deposit	AA-	AA2	5.31%
Negotiable Certificates of Deposit	AA-	AA3	3.33%
Negotiable Certificates of Deposit	Unrated	Unrated	6.60%
Union Bank SWEEP	Unrated	Unrated	0.11%
California Local Agency Investment Fund	Unrated	Unrated	29.67%
California Asset Management Program	Unrated	Unrated	0.66%
			<u>100.00%</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

Custodial Credit Risk

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

Local Agency Investment Fund

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

At June 30, 2011, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$45 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 \$66.4 billion. Of that amount, 5.01% was invested in structured notes and asset-backed securities with the remaining 94.99% invested in other non-derivative financial products.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The County's investments include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information previously provided):

<u>Highly Sensitive Investments</u>	<u>Fair Value</u>
Investments in asset backed securities. These securities are based on cash flows for payments on underlying loans. Therefore, they are sensitive to prepayments by borrowers, which may result from a decline in interest rates.	<u>\$ 62,415,273</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

County Investment Pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the investment pool as of June 30, 2011:

Statement of Net Assets

Net assets held for pool participants	<u>\$ 151,895,038</u>
Equity of internal pool participants	\$ 35,369,160
Equity of external pool participants	<u>116,525,878</u>
Total net assets	<u>\$ 151,895,038</u>

Statement of Changes in Net Assets

Net assets for pool participants at July 1, 2010	\$ 139,264,889
Net change in investments by pool participants	<u>12,630,149</u>
Net assets at June 30, 2011	<u>\$ 151,895,038</u>

Note 4: **Endowments**

For the year ended June 30, 2011, the net appreciation on investments of donor-restricted endowments was \$3,935. Under local ordinances and State statutes, the County is authorized based on a total-return policy to spend the appreciation on the supplies and maintenance of the community libraries and museums.

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

On July 2, 2010, the County issued a \$24,525,630 tax and revenue anticipation note to manage the temporary cash flow deficits that occur when the timing of required expenditures does not coincide with the timing of the collection of taxes and other revenues. The note was issued in anticipation of collection of taxes and other revenues to be received during the fiscal year ended June 30, 2011, and was repaid with taxes and other revenues by June 29, 2011.

Short-term note payable activity for the year ended June 30, 2011, was as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2011</u>
Short-term note payable	<u>\$ --</u>	<u>\$24,525,630</u>	<u>\$24,525,630</u>	<u>\$ --</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 6: **Interfund Transactions**

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2011, are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Funds	Nonmajor Governmental Funds	<u>\$ 1,190,000</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>	<u>Amount</u>
General Fund	Debt Service Fund	\$ 2,501,832
	Road Fund	3,288,765
	Pension Obligation Fund	6,508,172
	Internal Service Funds	120,000
	Nonmajor Governmental Funds	<u>1,204,662</u>
		<u>13,623,431</u>
Mental Health Services Fund	General Fund	232,190
	Debt Service Fund	43,737
	Pension Obligation Fund	<u>348,819</u>
		<u>624,746</u>
Road Fund	General Fund	369,572
	Pension Obligation Fund	371,451
	Nonmajor Governmental Funds	<u>16,279</u>
		<u>757,302</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

Interfund Receivables/Payables (continued)

Transfer From	Transfer To	Amount
Internal Service Funds	General Fund	\$ 117,337
	Pension Obligation Fund	33,479
		150,816
Nonmajor Governmental Funds	General Fund	650
	Pension Obligation Fund	326,059
		326,709
		\$ 15,483,004

Note 7: **Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2011
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 2,822,620	\$ 180,000	\$ --	\$ --	\$ 3,002,620
Construction in progress	10,710,823	1,981,349	--	(8,841,059)	3,851,113
	13,533,443	2,161,349	--	(8,841,059)	6,853,733
Capital assets, being depreciated:					
Infrastructure	64,199,638	--	--	8,841,059	73,040,697
Structures and improvements	69,309,387	510,377	--	--	69,819,764
Equipment	25,529,910	2,128,238	(215,602)	--	27,442,546
Improvements other than buildings	5,552,324	105,512	--	--	5,657,836
	164,591,259	2,744,127	(215,602)	8,841,059	175,960,843
Less accumulated depreciation for:					
Infrastructure	(26,396,455)	(2,117,055)	--	--	(28,513,510)
Structures and improvements	(28,923,440)	(1,879,701)	--	--	(30,803,141)
Equipment	(19,019,334)	(1,429,912)	215,602	--	(20,233,644)
Improvements other than buildings	(2,743,632)	(213,620)	--	--	(2,957,252)
	(77,082,861)	(5,640,288)	215,602	--	(82,507,547)
Total capital assets, being depreciated, net	87,508,398	(2,896,161)	--	8,841,059	93,453,296
Governmental activities capital assets, net	\$ 101,041,841	\$ (734,812)	\$ --	\$ --	\$ 100,307,029

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 7: **Capital Assets** (continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 908,217
Public protection	1,342,299
Public ways and facilities	2,643,707
Health and sanitation	354,409
Public assistance	294,658
Education	57,825
Recreation and culture	21,040
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the asset	<u>18,133</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 5,640,288</u>

Note 8: **Long-Term Liabilities**

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2011, are as follows:

<u>Governmental Activities</u>		Interest	Annual	Original	
Type of Indebtedness (Purpose)	Maturity	Rates	Principal Installments	Issue Amount	Outstanding at June 30, 2011
Loans Payable					
Microwave Radio Network equipment loan	8/1/2013	4.30%	\$210,945-\$288,591	\$ 2,600,000	\$ 1,383,477
California Energy Commission Loan - 2004	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	<u>250,000</u>	<u>111,785</u>
Total Loans Payable				<u>\$ 2,850,000</u>	<u>\$ 1,495,262</u>
Taxable Pension Obligation Bonds					
2002 Series (Issued to partially refund the 1996 Series and to meet the net pension obligation of the County's retirement plan)	7/1/04-7/1/26	2.07%-5.77%	\$885,000-\$7,560,000	<u>\$ 91,945,000</u>	<u>\$ 82,980,000</u>
Total Taxable Pension Obligation Bonds				<u>\$ 91,945,000</u>	<u>\$ 82,980,000</u>
Certificates of Participation					
2000 Issue (Refunding of 1998 COPs)					
Serial Current Interest Certificates	6/1/04-6/1/16	4.10%-5.0%	\$75,000-\$535,000	\$ 6,120,000	\$ 2,450,000
Term Current Interest Certificates	6/1/2030	5.25%	\$570,000-\$1,905,000	<u>16,360,000</u>	<u>16,360,000</u>
2000 Issue				<u>22,480,000</u>	<u>18,810,000</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

<u>Governmental Activities</u> Type of Indebtedness (Purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2011
Certificates of Participation (continued)					
2001 Issue (Refunding of 1998 certificates)					
Serial Current Interest Certificates	6/1/04-6/1/21	3.5%-4.8%	\$240,000-\$460,000	\$ 6,455,000	\$ 3,810,000
Term Current Interest Certificates	6/1/2024	4.98%	\$480,000-\$525,000	1,510,000	1,510,000
2001 Issues				7,965,000	5,320,000
Total Certificates of Participation				<u>\$ 30,445,000</u>	<u>\$ 24,130,000</u>

A. Summary of Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2011:

	Balance			Amounts	
	July 1, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
Governmental Activities					
Certificates of participation	\$ 24,850,000	\$ --	\$ (720,000)	\$ 24,130,000	\$ 755,000
Bonds payable	86,220,000	--	(3,240,000)	82,980,000	3,405,000
Loans payable	2,031,028	--	(535,766)	1,495,262	558,961
Capital leases	292,210	--	(195,745)	96,465	96,465
Compensated absences	5,477,067	4,086,389	(4,722,011)	4,841,445	4,841,445
Liability for self-insurance	2,734,539	11,220,248	(11,050,556)	2,904,231	2,904,231
Landfill postclosure costs	8,304,282	798,901	--	9,103,183	--
Total Governmental Activities	<u>\$ 129,909,126</u>	<u>\$ 16,105,538</u>	<u>\$ (20,464,078)</u>	<u>\$ 125,550,586</u>	<u>\$ 12,561,102</u>

As of June 30, 2011, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Governmental Activities					
	Certifications of Participation		Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	755,000	1,228,702	3,405,000	4,509,199	558,961	57,993
2013	790,000	1,192,328	3,575,000	4,334,699	583,183	33,769
2014	830,000	1,153,718	3,755,000	4,151,449	313,647	8,509
2015	870,000	1,115,258	3,940,000	3,948,830	26,056	1,305
2016	905,000	1,074,065	4,155,000	3,725,408	13,415	266
2017-2021	5,270,000	4,648,209	24,495,000	14,818,792	--	--
2022-2026	7,655,000	3,087,162	32,095,000	6,984,275	--	--
2027-2031	7,055,000	949,948	7,560,000	218,106	--	--
	<u>\$ 24,130,000</u>	<u>\$ 14,449,390</u>	<u>\$ 82,980,000</u>	<u>\$ 42,690,758</u>	<u>\$ 1,495,262</u>	<u>\$ 101,842</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

A. Summary of Long-Term Liabilities

Claims and judgments will be paid from the County's risk management internal service funds. A majority of the claims are paid through internal service fund charges to the general fund and special revenue funds. Compensated absences liabilities will be paid by several of the County's funds, including the general fund, special revenue funds, and other internal service funds.

Debt Service Forward Agreement

In December 2002, the County entered into a debt service forward agreement with the fiscal agent related to the 2002 Bonds. The County received \$4,811,500 in advance for interest to be earned on the required reserves deposited with the fiscal agent over the life of the bonds. The amount, which previously was recognized by the General Fund as other revenue in the fund statements, is currently being recognized as deferred revenue to be amortized over the life of the bonds in the government-wide statement of net assets. At fiscal year end, the amount of unamortized interest was \$3,137,932.

B. Leases

Operating Leases

The County has signed several operating leases, primarily for office buildings. Terms of the leases are month-to-month or contain early termination clauses. Because of this, the County does not have a definite noncancelable commitment from the various leases.

Capital Leases

The County has entered into lease agreements for data processing systems, copy machines, and other equipment, with interest rates ranging from 4.0% to 16.7%. The minimum future lease commitments on these leases are as follows:

Fiscal Year Ending June 30,	<u>Payments</u>
2012	\$ 100,451
Total Minimum Lease Payments	100,451
Less Amount Representing Interest	<u>(3,986)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 96,465</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

B. **Leases** (continued)

Capital Leases (continued)

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

	<u>Governmental Activities</u>
Equipment	\$ 622,173
Less: accumulated depreciation	<u>(603,578)</u>
Net Value	<u><u>\$ 18,595</u></u>

C. **Compensated Absences**

Vacation – employees accrue vacation at varying rates depending on the length of an employee’s service. Upon termination unused vacation, up to accrual limits, is paid off in cash. Sick leave – all employees accrue sick leave at the rate of 15 days per year. Sick leave may be accrued without limit. Upon termination, unused sick leave will be applied toward length of service for retirement credit. Holidays must be taken within the calendar year and are not accruable. The County records the gross vacation liability. At fiscal year end, the total liability for compensated absences was \$4,841,445. The entire amount was considered current, based on experience.

Note 9: **Municipal Solid Waste Landfill Closure and Postclosure Care Costs**

State and federal law and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$9,103,183 reported as landfill closure/postclosure liability at June 30, 2011, 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 2011. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 9: **Municipal Solid Waste Landfill Closure and Postclosure Care Costs** (continued)

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, 2011</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 1,568,825
South Coast Landfill	Mendocino County	100%	2034	5,279,563
Laytonville Landfill	Mendocino County	100%	Closed	2,254,795
				<u>\$ 9,103,183</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, 2011, investments of \$3,049,829 are held for these purposes. The County intends to obtain either a grant or issue debt to fund the closure costs. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Note 10: **Net Assets/Fund Balances**

Net Assets

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Fund Balances

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

The following is a summary of fund balances at June 30, 2011:

	General Fund	Debt Service	Pension Obligation Bonds	Mental Health Services	Road Fund	Other Governmental Funds
Nonspendable:						
Prepays and inventory	\$ 103,962	\$ --	\$ --	\$ --	\$ 554,539	\$ 9,798
Total Nonspendable	<u>103,962</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>554,539</u>	<u>9,798</u>
Restricted for:						
Road Projects	--	--	--	--	5,842,792	--
Mental Health	--	--	--	1,311,619	--	--
Special Districts	--	--	--	--	--	1,067,089
Various Grant Programs	--	--	--	--	--	2,768,433
Debt Service	--	2,019,132	6,016,427	--	--	--
Total Restricted	<u>--</u>	<u>2,019,132</u>	<u>6,016,427</u>	<u>1,311,619</u>	<u>5,842,792</u>	<u>3,835,522</u>
Assigned:						
Capital Projects	215,122	--	--	--	--	--
Unassigned	5,154,497	--	--	--	--	(403,909)
Total Fund Balance	<u>\$ 5,473,581</u>	<u>\$ 2,019,132</u>	<u>\$ 6,016,427</u>	<u>\$ 1,311,619</u>	<u>\$ 6,397,331</u>	<u>\$ 3,441,411</u>

In circumstances where an expenditures 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.

Restatement of Beginning Fund Balance

In addition to redefining the classification included within fund balance, GASB Statement No. 54 clarified the governmental fund type definitions resulting in funds previously presented as special revenue funds being reported as part of the General Fund for fiscal year 2010-11. For fiscal year 2010-11, the County combined several funds with the General Fund for financial reporting as summarized in the table below:

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

Restatement of Beginning Fund Balance (continued)

	Fund Statements	
	General Fund	Other Governmental Funds
Fund balance as of June 30, 2010, as previously reported	\$(16,339,738)	\$ 8,189,631
<u>Reclassifications</u>		
Accumulated capital outlay	383,562	(383,562)
Mobile spay/neuter	46,787	(46,787)
Museum/bookstore projects	103,182	(103,182)
Assessor	46,975	(46,975)
General plan update	473,400	(473,400)
Landfill closure	3,068,334	(3,068,334)
Special revenue trusts	470,924	(470,924)
Total	4,593,164	(4,593,164)
Fund balance as of July 1, 2010, restated	\$(11,746,574)	\$ 3,596,467

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

Plan Description

The Mendocino County Employees' Retirement Association is a multiple employer defined benefit pension plan serving the employees of the County of Mendocino and two special districts. The Association was established under the County Employees Retirement Act of 1937, as amended. The plan is totally controlled and governed by a nine-member retirement board and is available to essentially all full-time employees of the County and certain special districts. Members of the board are appointed as follows: four members are appointed by the Board of Supervisors, two members are elected by general county employees, one member is elected by safety county employees, two members are elected by county retirees, one alternate, and one member is the County Treasurer who is an ex-officio board member and administrator of the retirement system.

Funding Policy

Employees of the County and the special districts contribute to the plan. County contributions for the plan's year ended June 30, 2011, were \$9,553,955; contributions by the employees of the County, special districts, and the Courts were \$5,446,964.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

Annual Pension Cost

The Retirement Association uses an entry age normal method with a supplemental present value for its actuarial computations. Significant actuarial assumptions used to determine the standardized measure of the pension benefit obligations are a) a rate of return on current and future investments of 8.0 percent compounded annually, b) projected salary increases of 0.00 percent per year attributable to merit/longevity, and c) additional projected salary increases of 4.00 percent per year attributable to inflation.

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

The County's annual pension cost and prepaid pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2011, were as follows (in thousands):

Annual required contribution (County fiscal year basis)	\$ 9,554
Interest on beginning pension asset	(4,988)
Adjustment to the annual required contribution	10,391
Annual pension cost	<u>14,957</u>
Contributions made	<u>9,554</u>
Increase (decrease) in pension asset	(5,403)
Net pension asset, beginning of year	<u>62,348</u>
Net pension asset, end of year	<u><u>\$ 56,945</u></u>

The following table shows the County's annual pension cost and the percentage contributed for the fiscal year 2010-2011 and each of the two preceding fiscal years (in thousands):

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Contributions	Percentage of APC Contributed	Net Pension Asset
2009	\$ 9,107	\$ 8,525	94%	\$ 67,449
2010	13,811	8,710	63%	62,348
2011	14,958	9,554	64%	56,945

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

Annual Pension Cost (continued)

The difference between the ARC and the APC is due to the amortization of the Net Pension Asset.

The following is the funded status information for the plan as of June 30, 2011, the most recent actuarial valuation date (dollar amounts in thousands):

Entry Age					
Normal	Actuarial	Unfunded/	Funded	Annual	UAAL as
Accrued	Value	(Overfunded)	Ratio	Covered	a % of
<u>Liability</u>	<u>of Assets</u>	<u>Liability</u>		<u>Payroll</u>	<u>Payroll</u>
\$ 472,644	\$ 347,732	\$ 124,912	73.6%	\$ 64,144	194.7%

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

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

Plan Description

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

Eligible retirees consist of employees hired before September 1998 who retire from active employment with the County and meet the following requirements for lifetime coverage under the Mendocino County Employees Retirement Health Plan: 1) has 10 or more years of service with Mendocino County; 2) is at least 50 on the date of retirement; and 3) makes the required contributions (if any) for retiree coverage as required by the Plan Administrator. A contribution of \$819 per month is required for dependent coverage. A payment reserve of \$288 for each non-medicare eligible retiree and \$104 for each medicare eligible retiree is set aside each month for health care costs.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Plan Description (continued)

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

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

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

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the County. The contribution is based on pay-as-you-go financing requirements. For fiscal year 2010-11, the County contributed \$744,000 or 82.4% of the actuarially required contributions for the year ended June 30, 2011, to the Retiree Health Plan.

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

Annual OPEB Cost and Net OPEB Obligation (continued)

Annual required contribution	\$ 903
Annual OPEB cost (expense)	<u>903</u>
Contributions made	(744)
Change in liability estimate since last actuarial	<u>(5,654)</u>
Decrease in net OPEB obligation	5,813
Net OPEB obligation - beginning of year	<u>5,972</u>
Net OPEB obligation - end of year	<u><u>\$ 159</u></u>

The County's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan (as described in the funding policy above), and the Net OPEB Obligation for fiscal years 2008-09 through 2010-11 is as follows (dollar amounts in thousands):

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributions</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/09	\$ 7,372	\$ 4,568	62.00%	\$ 6,226
6/30/10 ¹	Not available			
6/30/11	903	744	82.40%	159

¹ An actuarial was not prepared for June 30, 2010.

Funded Status and Funding Progress

The funded status of the plan, based on an actuarial valuation as of July 1, 2011, the plan's most recent actuarial valuation date, was as follows (amounts in thousands):

Actuarial accrued liability (AAL)	\$ 797
Actuarial value of plan assets	<u>--</u>
Unfunded actuarial accrued liability (UAAL)	797
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active Plan members)	N/A
UAAL as a percentage of covered payroll	N/A

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

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

Actuarial Methods and Assumptions

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

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

In the July 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return, an inflation rate of 3.25% per year, and assumed medical inflation of 11% graded down to 5% over 9 years. The OPEB plan's unfunded actuarial liability is being amortized by level percent of payroll contributions over 30 years. The remaining amortization period at June 30, 2011, was 1.25 years.

Note 13: **Contingencies**

A. **Litigation**

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2011

Note 13: **Contingencies** (continued)

B. Grants

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. The County has received notice of audit findings related to its state-funded mental health program that call into question approximately \$1,000,000 of expenditures from the 2004-2005 and 2005-2006 fiscal years. However, the County is actively disputing this amount and the outcome is uncertain. As of June 30, 2011, significant amounts of grant expenditures have not been audited, but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

Note 14: **Risk Management**

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

A. Unemployment Insurance

The County is fully self-insured for this program. The estimated claims liability at fiscal year end was \$739,037.

B. General Liability Insurance

The County maintains a self-insured retention (SIR) of \$200,000 per occurrence for this program. Losses which exceed the SIR are covered by excess insurance obtained through CSAC-Excess Insurance Authority. This program is the only insurance program administered without the benefit of a third party administrator.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

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

B. General Liability Insurance (continued)

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, 2011, 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 \$598,547 includes incurred but not reported claims.

C. Workers’ Compensation

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

D. Health Insurance

The County is fully self-insured and administers the program. The County has hired Keenan Associates as a health plan consultant/actuary to review the health plan on an annual basis, and determine by how much County and employee share in premiums should be increased. The estimated claims liability at fiscal year end was \$1,566,647.

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

	<u>Unemployment Insurance</u>	<u>General Liability</u>	<u>Health Insurance</u>	<u>Total</u>
Claims liability, July 1, 2009	\$ 339,814	\$ 1,427,325	\$ 2,282,251	\$ 4,049,390
Current year claims and changes in estimates	1,068,816	(581,050)	8,719,644	9,207,410
Claims payments	<u>(644,063)</u>	<u>(357,348)</u>	<u>(9,520,850)</u>	<u>(10,522,261)</u>
Claims liability, June 30, 2010	<u>\$ 764,567</u>	<u>\$ 488,927</u>	<u>\$ 1,481,045</u>	<u>\$ 2,734,539</u>
Claims liability, July 1, 2010	\$ 764,567	\$ 488,927	\$ 1,481,045	\$ 2,734,539
Current year claims and changes in estimates	422,600	358,827	10,438,821	11,220,248
Claims payments	<u>(448,130)</u>	<u>(249,207)</u>	<u>(10,353,219)</u>	<u>(11,050,556)</u>
Claims liability, June 30, 2011	<u>\$ 739,037</u>	<u>\$ 598,547</u>	<u>\$ 1,566,647</u>	<u>\$ 2,904,231</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 15: **Special Item**

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

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

	June 30, 2011
Negative cash in tax resources fund	\$ (11,764,545)
Less:	
Positive cash in tax loss reserve fund	1,262,715
Receivable: Secured taxes	11,561,005
Receivable: Penalties and interest	1,289,251
Excess receivables over net cash deficit	\$ 2,348,426

In the prior year, the County reported an advance to reflect the entire net deficit reported in the Teeter funds to reflect the balance of the Teeter obligation note between the General Fund and the Tax Resources Fund as presented in the County’s 2009/2010 Final Budget.

As of June 30, 2011, the County eliminated the \$11,499,287 Interfund advance between the General Fund and the Tax Resources Fund after determining (1) the net deficit cash of \$10,501,830 reported in the Teeter Funds (Teeter obligation) at June 30, 2011 is currently an obligation of the property owners and not of the General Fund based on the property taxes receivable balance of \$12,850,256 reported in the Agency Funds and 2) the County did not formally adopt a note of repayment for the balance of the Teeter obligation at June 30, 2011 though the County continues to annually appropriate funds in excess of the tax delinquencies collected to pay down the Teeter obligation.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2011

Note 15: **Special Item** (continued)

In an effort to reduce the teeter obligation, the County adopted a budget unit within the General Fund to budget for accelerated payments on the Teeter obligation each year. During the year ended June 30, 2011, the County paid \$969,205 over tax delinquencies collected from the General Fund to the Tax Resources Fund.

The County's tentative payment schedule for the next 12 years, with each individual payment pending annual approval by the Board of Supervisors, is as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>
2012	\$ 769,205
2013	769,205
2014	769,205
2015	769,205
2016	769,205
2017-2021	3,846,024
2022	<u>1,813,367</u>
	<u>\$ 9,505,416</u>

Note 16: **Subsequent Events**

On July 12, 2011, the County issued a \$25 million tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable June 2012, and carries a 2.0% interest rate.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MENDOCINO

Required Supplementary Information
For the Year Ended June 30, 2011

SCHEDULE OF FUNDING PROGRESS – RETIREMENT PLAN

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

Valuation Date	Entry Age Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability (UAAL)	Funded Ratio	Annual Covered Payroll ⁽¹⁾	UAAL as a % of Payroll
6/30/09	\$ 403,196	\$ 336,263	\$ 66,933	83.4%	\$ 72,235	92.7%
6/30/10	434,987	343,202	91,785	78.9%	69,004	133.0%
6/30/11	472,644	347,732	124,912	73.6%	64,144	194.7%

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

SCHEDULE OF FUNDING PROGRESS – POSTEMPLOYMENT HEALTH PLAN

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

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

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

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 59,302,603	\$ 59,302,603	\$ 59,630,081	\$ 327,478
Licenses and permits	2,392,529	2,392,529	2,445,728	53,199
Fines, forfeits and penalties	2,406,331	3,344,236	3,531,636	187,400
Revenue from use of money and property	420,065	420,065	421,775	1,710
Intergovernmental	73,242,475	73,664,149	69,565,966	(4,098,183)
Charges for services	11,957,550	11,957,550	11,374,686	(582,864)
Other revenue	1,584,193	1,584,193	1,382,219	(201,974)
Total Revenues	<u>151,305,746</u>	<u>152,665,325</u>	<u>148,352,091</u>	<u>(4,313,234)</u>
Expenditures:				
Current:				
General government	15,324,257	15,363,298	14,412,440	950,858
Public protection	45,422,059	46,443,933	46,049,351	394,582
Public way and facilities	383,248	383,248	142,963	240,285
Health and sanitation	14,103,597	14,310,946	11,584,453	2,726,493
Public assistance	60,846,565	60,846,565	56,302,279	4,544,286
Education	265,297	265,297	216,371	48,926
Recreation and cultural services	239,726	239,726	232,401	7,325
Debt service - principal	6,249,204	6,249,204	5,716,894	532,310
Debt service - interest	554,850	554,850	560,135	(5,285)
Capital outlay	1,361,139	1,535,598	998,024	537,574
Total Expenditures	<u>144,749,942</u>	<u>146,192,665</u>	<u>136,215,311</u>	<u>9,977,354</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,555,804</u>	<u>6,472,660</u>	<u>12,136,780</u>	<u>5,664,120</u>
Other Financing Sources (Uses):				
Transfers in	796,173	796,173	719,749	(76,424)
Transfers out	(6,995,258)	(6,995,258)	(7,115,259)	(120,001)
Total Other Financing Sources (Uses)	<u>(6,199,085)</u>	<u>(6,199,085)</u>	<u>(6,395,510)</u>	<u>(196,425)</u>
Special Item - Teeter Fund Advance	--	--	11,499,287	11,499,287
Net change in fund balances	356,719	273,575	17,240,557	16,966,982
Fund balances - beginning	<u>(16,339,738)</u>	<u>(16,339,738)</u>	<u>(16,339,738)</u>	<u>--</u>
Fund balances - ending	<u>\$ (15,983,019)</u>	<u>\$ (16,066,163)</u>	<u>\$ 900,819</u>	<u>\$ 16,966,982</u>

continued

COUNTY OF MENDOCINO

Budgetary Comparison Schedule (continued)
General Fund
For the Year Ended June 30, 2011

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

Total expenditures from the budgetary comparison schedule:	\$ 136,215,311
The County budgets transfers to the Pension Obligation Fund as functional expenditures.	(6,508,172)
Expenditures from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,579,702
The County budgets transfers to the Tax Resources Fund as a debt service expenditure, but reports the disbursement as a reduction of taxes revenue.	<u>(5,716,894)</u>
Total expenditures from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 125,569,947</u>
Total revenues from the budgetary comparison schedule:	\$ 148,352,091
Revenues from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,543,021
The County budgets transfers to the Tax Resources Fund as a debt service expenditure, but reports a portion of the disbursement as a reduction of the taxes revenue.	<u>(5,716,894)</u>
Total revenues from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 144,178,218</u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Mental Health Services Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Revenue from use of money and property	\$ (200,000)	\$ (200,000)	\$ (21,971)	\$ 178,029
Intergovernmental	23,269,921	23,269,921	27,810,155	4,540,234
Charges for services	1,035,000	1,035,000	1,441,280	406,280
Other revenues	--	--	28,260	28,260
Total Revenues	24,104,921	24,104,921	29,257,724	5,152,803
Expenditures:				
Current:				
Health and sanitation	23,661,317	23,661,317	19,153,689	4,507,628
Total Expenditures	23,661,317	23,661,317	19,153,689	4,507,628
Excess (Deficiency) of Revenues Over (Under) Expenditures	443,604	443,604	10,104,035	9,660,431
Other Financing Sources (Uses):				
Transfers out	(443,604)	(443,604)	(624,746)	(181,142)
Total Other Financing Sources (Uses)	(443,604)	(443,604)	(624,746)	(181,142)
Net change in fund balances	--	--	9,479,289	9,479,289
Fund balances - beginning	(8,167,670)	(8,167,670)	(8,167,670)	--
Fund balances - ending	\$ (8,167,670)	\$ (8,167,670)	\$ 1,311,619	\$ 9,479,289

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Road Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 95,000	\$ 95,000	\$ 112,046	\$ 17,046
Licenses, permits and franchises	78,400	78,400	53,887	(24,513)
Revenue from use of money and property	12,500	12,500	16,105	3,605
Fines, forfeitures and penalties	70,000	70,000	64,518	(5,482)
Intergovernmental	22,505,547	22,505,547	13,788,827	(8,716,720)
Charges for services	140,600	140,600	717,945	577,345
Other revenue	4,500	4,500	29,019	24,519
Total Revenues	<u>22,906,547</u>	<u>22,906,547</u>	<u>14,782,347</u>	<u>(8,124,200)</u>
Expenditures:				
Current:				
Public ways and facilities	8,816,627	8,832,770	7,996,623	836,147
Capital outlay	18,955,432	19,907,551	4,737,540	15,170,011
Total Expenditures	<u>27,772,059</u>	<u>28,740,321</u>	<u>12,734,163</u>	<u>16,006,158</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,865,512)</u>	<u>(5,833,774)</u>	<u>2,048,184</u>	<u>7,881,958</u>
Other Financing Sources (Uses):				
Transfers in	3,288,764	3,288,764	3,288,764	--
Transfers out	(522,042)	(522,042)	(757,302)	(235,260)
Total Other Financing Sources (Uses)	<u>2,766,722</u>	<u>2,766,722</u>	<u>2,531,462</u>	<u>(235,260)</u>
Net change in fund balances	(2,098,790)	(3,067,052)	4,579,646	7,646,698
Fund balances - beginning	<u>1,817,685</u>	<u>1,817,685</u>	<u>1,817,685</u>	<u>--</u>
Fund balances - ending	<u><u>\$ (281,105)</u></u>	<u><u>\$ (1,249,367)</u></u>	<u><u>\$ 6,397,331</u></u>	<u><u>\$ 7,646,698</u></u>

COUNTY OF MENDOCINO

Required Supplementary Information
For the Year Ended June 30, 2011

BUDGETARY BASIS OF ACCOUNTING

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the County prepares and legally adopts a final budget for each fiscal year on or before August 30. Budgeted expenditures are enacted into law through the passage of an Appropriation Ordinance. This ordinance mandates the maximum authorized expenditures for the fiscal year and cannot be exceeded except by subsequent amendments to the budget by the County's Board of Supervisors.

An operating budget is adopted each fiscal year for all governmental funds. Expenditures are controlled at the object level within budget units for the County. The object level within a budget unit is the level at which expenditures may not legally exceed appropriations. Any amendments or transfers of appropriations between object levels within the same budget unit or between departments or funds are authorized by the County Manager's office and must be approved by the Board of Supervisors. Supplementary appropriations normally financed by unanticipated revenues during the year must be approved by the Board of Supervisors. Pursuant to Board Resolution, the County Manager is authorized to approve transfers and revision of appropriations under \$50,000 within a single budget unit as deemed necessary and appropriate. Budgeted amounts in the budgetary financial schedules are reported as originally adopted and is amended during the fiscal year by resolutions approved by the Board of Supervisors.

The County uses an encumbrances system as an extension of normal budgetary accounting for the general, special revenue, and other debt service funds and to assist in controlling expenditures of the capital projects funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end.

The budget approved by the Board of Supervisors for the General Fund includes budgeted expenditures and reimbursements for amounts disbursed on behalf of other governmental funds. Actual reimbursements for these items have been eliminated in the accompanying budgetary financial schedules. Accordingly, the related budgets for these items have also been eliminated in order to provide a meaningful comparison of actual and budgeted results of operations.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, expenditures exceeded appropriations in the General Fund's Teeter Plan budget unit where debt service interest expenditures exceeded appropriations by \$5,285.

SUPPLEMENTAL INFORMATION

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2011

	Special Revenue			
	Library	Fish and Game	Special Aviation	Supplemental Law Enforcement
Assets				
Cash and investments in County Treasury	\$ 370,277	\$ 86,991	\$ 140,002	\$ 72,368
Imprest cash	180	--	--	--
Accounts receivable	396	--	--	--
Due from other governmental agencies	--	--	--	--
Inventory	--	--	--	--
Total Assets	<u>\$ 370,853</u>	<u>\$ 86,991</u>	<u>\$ 140,002</u>	<u>\$ 72,368</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 10,369	\$ 1,098	\$ --	\$ --
Accrued salaries and benefits	53,587	--	--	3,838
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	--
Total Liabilities	<u>63,956</u>	<u>1,098</u>	<u>--</u>	<u>3,838</u>
Fund Balances:				
Nonspendable	--	--	--	--
Restricted	306,897	85,893	140,002	68,530
Unassigned	--	--	--	--
Total Fund Balances	<u>306,897</u>	<u>85,893</u>	<u>140,002</u>	<u>68,530</u>
Total Liabilities and Fund Balances	<u>\$ 370,853</u>	<u>\$ 86,991</u>	<u>\$ 140,002</u>	<u>\$ 72,368</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2011

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
Assets				
Cash and investments in County Treasury	\$ 64,801	\$ 62,767	\$ 80,537	\$ 3,753
Imprest cash	--	--	--	--
Accounts receivable	--	740	363	73
Due from other governmental agencies	64,841	--	--	--
Inventory	--	--	--	--
Total Assets	<u>\$ 129,642</u>	<u>\$ 63,507</u>	<u>\$ 80,900</u>	<u>\$ 3,826</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ --	\$ 577	\$ 40	\$ 48
Accrued salaries and benefits	--	--	--	3,324
Due to other funds	--	--	--	--
Deferred revenue	--	--	--	--
Total Liabilities	<u>--</u>	<u>577</u>	<u>40</u>	<u>3,372</u>
Fund Balances:				
Nonspendable	--	--	--	--
Restricted	129,642	62,930	80,860	454
Unassigned	--	--	--	--
Total Fund Balances	<u>129,642</u>	<u>62,930</u>	<u>80,860</u>	<u>454</u>
Total Liabilities and Fund Balances	<u>\$ 129,642</u>	<u>\$ 63,507</u>	<u>\$ 80,900</u>	<u>\$ 3,826</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2011

	Special Revenue			
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other	
Assets				
Cash and investments in County Treasury	\$ 44,248	\$ 253,394	\$ 829,522	\$ 2,008,660
Imprest cash	--	--	400	580
Accounts receivable	--	--	--	1,572
Due from other governmental agencies	1,768,674	--	38,372	1,871,887
Inventory	--	--	--	--
Total Assets	\$ 1,812,922	\$ 253,394	\$ 868,294	\$ 3,882,699
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 315,355	\$ 80	\$ 23,432	\$ 350,999
Accrued salaries and benefits	119,292	--	31,087	211,128
Due to other funds	1,000,000	--	--	1,000,000
Deferred revenue	593,096	--	--	593,096
Total Liabilities	2,027,743	80	54,519	2,155,223
Fund Balances:				
Nonspendable	--	--	--	--
Restricted	--	253,314	813,775	1,942,297
Unassigned	(214,821)	--	--	(214,821)
Total Fund Balances	(214,821)	253,314	813,775	1,727,476
Total Liabilities and Fund Balances	\$ 1,812,922	\$ 253,394	\$ 868,294	\$ 3,882,699

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2011

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permament Fund</u>	
	<u>Capital Projects</u>	<u>Redevelopment Agency</u>	<u>Endowment Funds</u>	<u>Total</u>
Assets				
Cash and investments in County Treasury	\$ 912	\$ 823,783	\$ 1,069,729	\$ 3,903,084
Imprest cash	--	--	--	580
Accounts receivable	--	--	--	1,572
Due from other governmental agencies	--	--	--	1,871,887
Inventory	--	9,798	--	9,798
Total Assets	<u>\$ 912</u>	<u>\$ 833,581</u>	<u>\$ 1,069,729</u>	<u>\$ 5,786,921</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ --	\$ 287	\$ --	\$ 351,286
Accrued salaries and benefits	--	--	--	211,128
Due to other funds	190,000	--	--	1,190,000
Deferred revenue	--	--	--	593,096
Total Liabilities	<u>190,000</u>	<u>287</u>	<u>--</u>	<u>2,345,510</u>
Fund Balances:				
Nonspendable	--	9,798	--	9,798
Restricted	--	823,496	1,069,729	3,835,522
Unassigned	(189,088)	--	--	(403,909)
Total Fund Balances	<u>(189,088)</u>	<u>833,294</u>	<u>1,069,729</u>	<u>3,441,411</u>
Total Liabilities and Fund Balances	<u>\$ 912</u>	<u>\$ 833,581</u>	<u>\$ 1,069,729</u>	<u>\$ 5,786,921</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	228,454	--	40,000	138,094
Revenue from use of money and property	1,995	311	--	158
Fines, forfeitures and penalties	--	37,506	--	--
Charges for services	52,538	--	--	--
Other revenue	8,799	--	--	--
Total Revenues	<u>291,786</u>	<u>37,817</u>	<u>40,000</u>	<u>138,252</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	--	62,177	--	79,947
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	1,451,341	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	--	--	18,335	12,561
Total Expenditures	<u>1,451,341</u>	<u>62,177</u>	<u>18,335</u>	<u>92,508</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,159,555)</u>	<u>(24,360)</u>	<u>21,665</u>	<u>45,744</u>
Other Financing Sources (Uses):				
Transfers In	1,204,662	--	--	--
Transfers Out	(62,805)	--	--	(6,459)
Total Other Financing Sources (Uses)	<u>1,141,857</u>	<u>--</u>	<u>--</u>	<u>(6,459)</u>
Net Change in Fund Balances	(17,698)	(24,360)	21,665	39,285
Fund Balances, Beginning of year	<u>324,595</u>	<u>110,253</u>	<u>118,337</u>	<u>29,245</u>
Fund Balances, Ending	<u>\$ 306,897</u>	<u>\$ 85,893</u>	<u>\$ 140,002</u>	<u>\$ 68,530</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2011

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	205,056	5,574	--	--
Revenue from use of money and property	411	155	359	(80)
Fines, forfeitures and penalties	--	--	--	--
Charges for services	--	--	28,196	67,358
Other revenue	--	56,536	--	21,572
Total Revenues	<u>205,467</u>	<u>62,265</u>	<u>28,555</u>	<u>88,850</u>
Expenditures:				
Current:				
General government	--	--	33,742	84,705
Public protection	179,674	23,884	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	--	12,913	--	--
Total Expenditures	<u>179,674</u>	<u>36,797</u>	<u>33,742</u>	<u>84,705</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>25,793</u>	<u>25,468</u>	<u>(5,187)</u>	<u>4,145</u>
Other Financing Sources (Uses):				
Transfers In	--	--	--	--
Transfers Out	(18,411)	--	--	(4,145)
Total Other Financing Sources (Uses)	<u>(18,411)</u>	<u>--</u>	<u>--</u>	<u>(4,145)</u>
Net Change in Fund Balances	7,382	25,468	(5,187)	--
Fund Balances, Beginning of year	<u>122,260</u>	<u>37,462</u>	<u>86,047</u>	<u>454</u>
Fund Balances, Ending	<u>\$ 129,642</u>	<u>\$ 62,930</u>	<u>\$ 80,860</u>	<u>\$ 454</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2011

	Special Revenue			Total Special Revenue
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other	
Revenues:				
Taxes	\$ --	\$ 64,366	\$ 127,477	\$ 191,843
Licenses, permits and franchises	--	--	287,564	287,564
Aid from other governmental agencies	9,648,762	1,399	632,636	10,899,975
Revenue from use of money and property	--	--	2,924	6,233
Fines, forfeitures and penalties	24,020	--	54,479	116,005
Charges for services	--	--	27,316	175,408
Other revenue	28,518	--	19,111	134,536
Total Revenues	<u>9,701,300</u>	<u>65,765</u>	<u>1,151,507</u>	<u>11,811,564</u>
Expenditures:				
Current:				
General government	--	--	--	118,447
Public protection	2,946,940	--	236,772	3,529,394
Public ways and facilities	--	42,899	--	42,899
Health and sanitation	3,067,526	--	771,297	3,838,823
Public assistance	3,305,295	--	--	3,305,295
Education	--	--	--	1,451,341
Recreation and culture services	3,135	--	--	3,135
Capital outlay	259,007	--	744	303,560
Total Expenditures	<u>9,581,903</u>	<u>42,899</u>	<u>1,008,813</u>	<u>12,592,894</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>119,397</u>	<u>22,866</u>	<u>142,694</u>	<u>(781,330)</u>
Other Financing Sources (Uses):				
Transfers In	--	--	--	1,204,662
Transfers Out	(187,541)	--	(47,348)	(326,709)
Total Other Financing Sources (Uses)	<u>(187,541)</u>	<u>--</u>	<u>(47,348)</u>	<u>877,953</u>
Net Change in Fund Balances	(68,144)	22,866	95,346	96,623
Fund Balances, Beginning of year	<u>(146,677)</u>	<u>230,448</u>	<u>718,429</u>	<u>1,630,853</u>
Fund Balances, Ending	<u>\$ (214,821)</u>	<u>\$ 253,314</u>	<u>\$ 813,775</u>	<u>\$ 1,727,476</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Nonmajor Special Revenue Funds
 For the Year Ended June 30, 2011

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Redevelopment Agency</u>	<u>Endowment Funds</u>	<u>Total</u>
Revenues:				
Taxes	\$ --	\$ 789,345	\$ --	\$ 981,188
Licenses, permits and franchises	--	--	--	287,564
Aid from other governmental agencies	18,218	--	--	10,918,193
Revenue from use of money and property	(288)	3,988	3,935	13,868
Fines, forfeitures and penalties	--	--	--	116,005
Charges for services	--	--	--	175,408
Other revenue	--	--	--	134,536
Total Revenues	<u>17,930</u>	<u>793,333</u>	<u>3,935</u>	<u>12,626,762</u>
Expenditures:				
Current:				
General government	--	868,640	--	987,087
Public protection	--	--	--	3,529,394
Public ways and facilities	--	--	--	42,899
Health and sanitation	--	--	--	3,838,823
Public assistance	--	--	--	3,305,295
Education	--	--	--	1,451,341
Recreation and culture services	--	--	--	3,135
Capital outlay	198,237	--	--	501,797
Total Expenditures	<u>198,237</u>	<u>868,640</u>	<u>--</u>	<u>13,659,771</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(180,307)</u>	<u>(75,307)</u>	<u>3,935</u>	<u>(1,033,009)</u>
Other Financing Sources (Uses):				
Transfers In	--	--	--	1,204,662
Transfers Out	--	--	--	(326,709)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>877,953</u>
Net Change in Fund Balances	(180,307)	(75,307)	3,935	(155,056)
Fund Balances, Beginning of year	<u>(8,781)</u>	<u>908,601</u>	<u>1,065,794</u>	<u>3,596,467</u>
Fund Balances, Ending	<u>\$ (189,088)</u>	<u>\$ 833,294</u>	<u>\$ 1,069,729</u>	<u>\$ 3,441,411</u>

COUNTY OF MENDOCINO

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2011

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
Assets				
Current Assets:				
Pooled cash and investments in county treasury	\$ 146,685	\$ 82,477	\$ 374,186	\$ 2,529,894
Other cash	--	--	--	--
Accounts receivable	--	--	--	2,122
Due from other funds	--	--	--	--
Total current assets	<u>146,685</u>	<u>82,477</u>	<u>374,186</u>	<u>2,532,016</u>
Noncurrent assets:				
Depreciable:				
Equipment	96,737	13,799	--	2,438
Less accumulated depreciation	<u>(80,005)</u>	<u>(13,799)</u>	--	<u>(2,438)</u>
Total noncurrent assets	<u>16,732</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Assets	<u>163,417</u>	<u>82,477</u>	<u>374,186</u>	<u>2,532,016</u>
Liabilities				
Current Liabilities:				
Accounts payable	--	--	--	71,814
Accrued salaries and benefits	--	--	--	7,864
Compensated absences payable	--	--	--	4,677
Liability for unpaid claims	--	--	739,037	598,547
Total current liabilities	<u>--</u>	<u>--</u>	<u>739,037</u>	<u>682,902</u>
Total Liabilities	<u>--</u>	<u>--</u>	<u>739,037</u>	<u>682,902</u>
Net Assets				
Invested in capital assets, net of related debt	16,732	--	--	--
Unrestricted	<u>146,685</u>	<u>82,477</u>	<u>(364,851)</u>	<u>1,849,114</u>
Total Net Assets	<u>\$ 163,417</u>	<u>\$ 82,477</u>	<u>\$ (364,851)</u>	<u>\$ 1,849,114</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Fund Net Assets (continued)
Internal Service Funds
June 30, 2011

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Assets				
Current Assets:				
Pooled cash and investments in county treasury	\$ 183,444	\$ 5,731,553	\$ 168,709	\$ 9,216,948
Other cash	--	142,175	59,959	202,134
Accounts receivable	--	153,017	8,836	163,975
Due from other funds	--	1,190,000	--	1,190,000
Total current assets	<u>183,444</u>	<u>7,216,745</u>	<u>237,504</u>	<u>10,773,057</u>
Noncurrent assets:				
Depreciable:				
Equipment	--	--	--	112,974
Less accumulated depreciation	--	--	--	(96,242)
Total noncurrent assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>16,732</u>
Total Assets	<u>183,444</u>	<u>7,216,745</u>	<u>237,504</u>	<u>10,789,789</u>
Liabilities				
Current Liabilities:				
Accounts payable	140	32,892	9,312	114,158
Accrued salaries and benefits	8,280	5,519	2,718	24,381
Compensated absences payable	5,698	1,938	28	12,341
Liability for unpaid claims	--	1,566,647	--	2,904,231
Total current liabilities	<u>14,118</u>	<u>1,606,996</u>	<u>12,058</u>	<u>3,055,111</u>
Total Liabilities	<u>14,118</u>	<u>1,606,996</u>	<u>12,058</u>	<u>3,055,111</u>
Net Assets				
Invested in capital assets, net of related debt	--	--	--	16,732
Unrestricted	169,326	5,609,749	225,446	7,717,946
Total Net Assets	<u>\$ 169,326</u>	<u>\$ 5,609,749</u>	<u>\$ 225,446</u>	<u>\$ 7,734,678</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2011

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	\$ --	\$ (1,913)	\$ 600,000	\$ 1,714,581
Other	--	--	--	534
Total Operating Revenues	<u>--</u>	<u>(1,913)</u>	<u>600,000</u>	<u>1,715,115</u>
Operating Expenses:				
Salaries and benefits	--	--	--	123,697
Services and supplies	--	--	949	301,439
Insurance	--	--	448,130	792,625
Depreciation	16,731	1,402	--	--
Claims and judgments	--	--	(25,530)	358,827
Total Operating Expenses	<u>16,731</u>	<u>1,402</u>	<u>423,549</u>	<u>1,576,588</u>
Operating Income (Loss)	<u>(16,731)</u>	<u>(3,315)</u>	<u>176,451</u>	<u>138,527</u>
Non-Operating Revenues (Expenses)				
Interest revenue (expense)	98	305	1,745	9,097
Intergovernmental revenue	--	--	--	--
Total Non-Operating Revenues (Expenses)	<u>98</u>	<u>305</u>	<u>1,745</u>	<u>9,097</u>
Income (Loss) Before Transfers and Change in Estimate	<u>(16,633)</u>	<u>(3,010)</u>	<u>178,196</u>	<u>147,624</u>
Change in estimate - OPEB	--	--	--	--
Transfers in	120,000	--	--	--
Transfers out	--	--	--	(9,106)
Change in net assets	<u>103,367</u>	<u>(3,010)</u>	<u>178,196</u>	<u>138,518</u>
Net Assets - Beginning	<u>60,050</u>	<u>85,487</u>	<u>(543,047)</u>	<u>1,710,596</u>
Net Assets - Ending	<u>\$ 163,417</u>	<u>\$ 82,477</u>	<u>\$ (364,851)</u>	<u>\$ 1,849,114</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets (continued)
Internal Service Funds
For the Year Ended June 30, 2011

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Operating Revenues:				
Charges and fees	\$ 3,643,698	\$ 14,101,074	\$ 2,002,397	\$ 22,059,837
Other	--	--	--	534
Total Operating Revenues	<u>3,643,698</u>	<u>14,101,074</u>	<u>2,002,397</u>	<u>22,060,371</u>
Operating Expenses:				
Salaries and benefits	151,852	119,274	87,075	481,898
Services and supplies	8,382	11,040,929	2,451,416	13,803,115
Insurance	3,280,345	776,354	244,867	5,542,321
Depreciation	--	--	--	18,133
Claims and judgments	--	85,602	--	418,899
Total Operating Expenses	<u>3,440,579</u>	<u>12,022,159</u>	<u>2,783,358</u>	<u>20,264,366</u>
Operating Income (Loss)	<u>203,119</u>	<u>2,078,915</u>	<u>(780,961)</u>	<u>1,796,005</u>
Non-Operating Revenues (Expenses)				
Interest revenue (expense)	(1,715)	20,405	1,078	31,013
Intergovernmental revenue	--	--	865,242	865,242
Total Non-Operating Revenues (Expenses)	<u>(1,715)</u>	<u>20,405</u>	<u>866,320</u>	<u>896,255</u>
Income (Loss) Before Transfers and Change in Estimate	201,404	2,099,320	85,359	2,692,260
Change in estimate - OPEB	--	--	566,395	566,395
Transfers in	--	--	--	120,000
Transfers out	<u>(35,969)</u>	<u>(100,993)</u>	<u>(4,748)</u>	<u>(150,816)</u>
Change in net assets	165,435	1,998,327	647,006	3,227,839
Net Assets - Beginning	<u>3,891</u>	<u>3,611,422</u>	<u>(421,560)</u>	<u>4,506,839</u>
Net Assets - Ending	<u>\$ 169,326</u>	<u>\$ 5,609,749</u>	<u>\$ 225,446</u>	<u>\$ 7,734,678</u>

COUNTY OF MENDOCINO

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from interfund services provided	\$ --	\$ (1,913)	\$ 600,000	\$ 1,716,940
Cash paid to suppliers for goods and services	--	--	(449,079)	(1,292,864)
Cash paid to employees for services	--	--	--	(126,478)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	--	(1,913)	150,921	297,598
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	120,000			
Transfers out	--	--	--	(9,106)
Due from other funds	--	--	--	--
Intergovernmental revenue	--	--	--	--
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	120,000	--	--	(9,106)
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	98	305	1,745	9,097
Net Cash Provided (Used) by Investing Activities	98	305	1,745	9,097
	<hr/>	<hr/>	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	120,098	(1,608)	152,666	297,589
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, Beginning of Year	26,587	84,085	221,520	2,232,305
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	<u>\$ 146,685</u>	<u>\$ 82,477</u>	<u>\$ 374,186</u>	<u>\$ 2,529,894</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (16,731)	\$ (3,315)	\$ 176,451	\$ 138,527
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	16,731	1,402	--	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	1,825
Increase (decrease) in:				
Accounts payable	--	--	--	50,407
Accrued salaries	--	--	--	54
Compensated absences	--	--	--	(2,835)
Claims liability	--	--	(25,530)	109,620
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ --</u>	<u>\$ (1,913)</u>	<u>\$ 150,921</u>	<u>\$ 297,598</u>
	<hr/>	<hr/>	<hr/>	<hr/>

continued

COUNTY OF MENDOCINO

Combining Statement of Cash Flows (continued)
Internal Service Funds
For the Year Ended June 30, 2011

	Worker's Compensation	Health Insurance	Retiree Health Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from interfund services provided	\$ 3,644,662	\$ 14,239,865	\$ 2,037,588	\$ 22,237,142
Cash paid to suppliers for goods and services	(3,289,213)	(11,787,566)	(2,688,713)	(19,507,435)
Cash paid to employees for services	(152,936)	(121,320)	(88,260)	(488,994)
	<u>202,513</u>	<u>2,330,979</u>	<u>(739,385)</u>	<u>2,240,713</u>
Net Cash Provided (Used) by Operating Activities				
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	--	--	--	120,000
Transfers out	(35,969)	(100,993)	(4,748)	(150,816)
Due from other funds	--	1,510,000	--	1,510,000
Intergovernmental revenue	--	--	865,242	865,242
	<u>(35,969)</u>	<u>1,409,007</u>	<u>860,494</u>	<u>2,344,426</u>
Net Cash Provided (Used) by Noncapital Financing Activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	(1,715)	20,405	1,078	31,013
Net Cash Provided (Used) by Investing Activities	<u>(1,715)</u>	<u>20,405</u>	<u>1,078</u>	<u>31,013</u>
Net Increase (Decrease) in Cash and Cash Equivalents	164,829	3,760,391	122,187	4,616,152
Cash and Cash Equivalents, Beginning of Year	18,615	2,113,337	106,481	4,802,930
Cash and Cash Equivalents, End of Year	<u>\$ 183,444</u>	<u>\$ 5,873,728</u>	<u>\$ 228,668</u>	<u>\$ 9,419,082</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 203,119	\$ 2,078,915	\$ (780,961)	\$ 1,796,005
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	--	--	--	18,133
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	964	138,791	35,191	176,771
Increase (decrease) in:				
Accounts payable	(486)	29,717	7,570	87,208
Accrued salaries	(973)	(1,596)	(1,209)	(3,724)
Compensated absences	(111)	(450)	24	(3,372)
Claims liability	--	85,602	--	169,692
	<u>202,513</u>	<u>2,330,979</u>	<u>(739,385)</u>	<u>2,240,713</u>
Net Cash Provided (Used) by Operating Activities				

COUNTY OF MENDOCINO

Combining Balance Sheet
Investment Trust Funds
June 30, 2011

	<u>Special Districts Local Boards</u>	<u>School Districts</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments in County Treasury	<u>\$ 8,326,546</u>	<u>\$ 108,199,332</u>	<u>\$ 116,525,878</u>
<u>Net Assets</u>			
Reserved for pool participants	<u>\$ 8,326,546</u>	<u>\$ 108,199,332</u>	<u>\$ 116,525,878</u>