

COUNTY OF MENDOCINO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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COUNTY OF MENDOCINO
AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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FINANCIAL SECTION

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INDEPENDENT AUDITOR’S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mendocino, California, (the County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
General Fund	Unmodified
Debt Service Fund	Unmodified
Pension Obligation Bonds Fund	Unmodified
Mental Health Services Fund	Unmodified
Road Fund	Unmodified
Aggregate Remaining Fund Information: Pension Trust Fund	Qualified
Aggregate Remaining Fund Information: Excluding the Pension Trust Fund	Unmodified

To the Board of Supervisors and Grand Jury
County of Mendocino

Basis for Qualified Opinion on the Pension Trust Fund

The audit of the financial statements of the Mendocino County Employees' Retirement Association (MCERA) was not completed at the time of our audit of the County's basic financial statements due to the delay in implementing Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. MCERA's financial activities are included in the County's basic financial statements as a pension trust fund and represent 100 percent of the assets, liabilities, net position, and change in net position of the County's pension trust fund. A complete financial statement of MCERA will be available at the Retirement Office of the County of Mendocino once the audit is finalized.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion on the Pension Trust Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Pension Trust Fund of the County as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County, except for the Pension Trust Fund as described above, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

To the Board of Supervisors and Grand Jury
County of Mendocino

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County's internal control over financial reporting and compliance.



Roseville, California
December 8, 2014

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MENDOCINO COUNTY

Management's Discussion and Analysis For the Year Ended June 30, 2014

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, 2014. We encourage readers to consider the information presented here.

Financial Highlights

- ❖ The County of Mendocino's assets exceeded its liabilities at the close of the most recent fiscal year by \$79,979,424 (net position). There was a deficit of (\$28,096,833) in unrestricted net position.
- ❖ The County's total net position increased by \$1,275,160. Reasons for this increase include increases to the cash and investments in Treasury and the change in the net pension asset balance.
- ❖ At the close of the current fiscal year, the County's combined (all governmental funds) ending fund balance was \$53,278,609. This was an increase of \$13,164,136 in comparison with the prior year.
- ❖ Unassigned fund balance for the General Fund at the close of the current fiscal year was \$11,693,461.
- ❖ Total debt decreased by \$4,765,057 (4.78%) during the 2013/14 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 Position and Statement of Activities.

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

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

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.

MENDOCINO COUNTY

Management's Discussion and Analysis For the Year Ended June 30, 2014

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

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

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

The County of Mendocino maintains eighteen individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund, the road fund, the mental health fund, the debt service fund and the pension obligation bonds fund, all of which are considered to be major funds. Data from the other thirteen 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 54) 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 21-23 of this report.

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

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

MENDOCINO COUNTY

**Management's Discussion and Analysis
For the Year Ended June 30, 2014**

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 27-51 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information can be found on pages 53-58 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 59-73 of this report.

Government-Wide Financial Analysis

As noted earlier, net position 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 \$79,979,424 at the close of the 2013/14 Fiscal Year.

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

County of Mendocino's Net Position

	Governmental Activities*	
	2014	2013
Current and other assets	\$ 114,575,403	\$ 119,980,418
Capital assets	100,071,317	99,058,762
Total Assets	214,646,720	219,039,180
Long-term liabilities	120,441,855	121,304,199
Other liabilities	14,225,441	19,030,717
Total Liabilities	134,667,296	140,334,916
Net Position:		
Net investment in capital assets	77,486,846	75,464,234
Restricted	30,589,411	29,746,454
Unrestricted	(28,096,833)	(26,506,424)
Total Net Position	\$ 79,979,424	\$ 78,704,264

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

Investment in capital assets is subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net position in the amount of (\$28,096,833) 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, 2014**

Governmental Activities. Governmental activities increased the County's net position by \$1,275,160. Key elements of this increase are the increases in cash and investments in Treasury and the change in the net pension asset balance.

Revenues	2014	2013
Program Revenues:		
Fees, fines and charges for services	\$ 16,541,512	\$ 15,632,677
Operating grants & contributions	102,164,072	101,038,836
Capital grants & contributions	4,431,138	3,484,428
General Revenues:		
Property taxes	41,090,300	41,489,770
Sales & use taxes	13,395,840	12,752,013
Other taxes	4,243,631	3,951,331
Unrestricted interest & investment earnings	374,872	780,334
Gain (loss) on sale of assets	155,000	--
Miscellaneous	1,466,672	1,939,034
Total Revenues and Extraordinary Item	183,863,037	181,068,423
Expenses		
Expenses:		
General government	15,162,563	12,977,492
Public protection	52,834,030	49,523,671
Public ways & facilities	13,130,250	13,696,845
Health & sanitation	35,194,672	30,083,546
Public assistance	58,200,338	54,621,785
Education	2,634,983	2,115,089
Recreation and cultural services	454,096	410,654
Interest on long-term debt	4,976,945	6,147,856
Total Expenses	182,587,877	169,576,938
Change in Net Position	1,275,160	11,491,485
Beginning Net Position, Restated	78,704,264	67,212,779
Ending Net Position	\$ 79,979,424	\$ 78,704,264

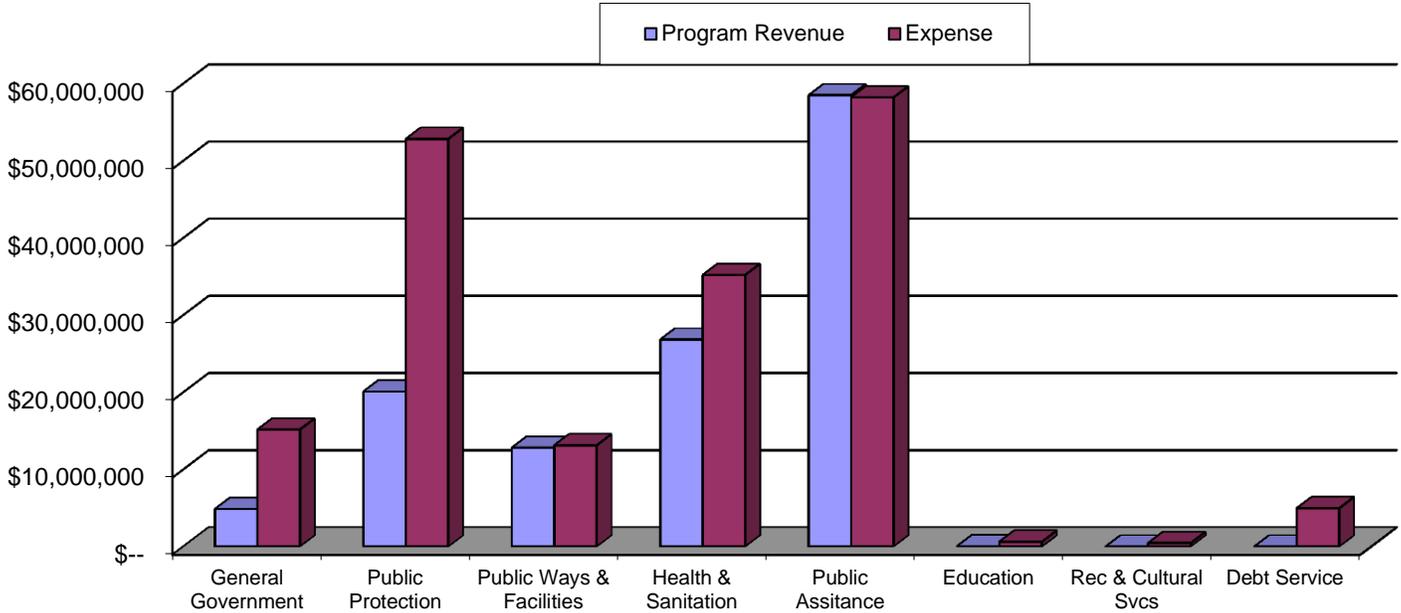
MENDOCINO COUNTY

**Management's Discussion and Analysis
For the Year Ended June 30, 2014**

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

- ❖ Property taxes decreased by \$399,470 (0.96%) during the year. Most of this decrease is attributable to the closeout of the County's redevelopment agencies.

Expenses and Program Revenue - Governmental Activities

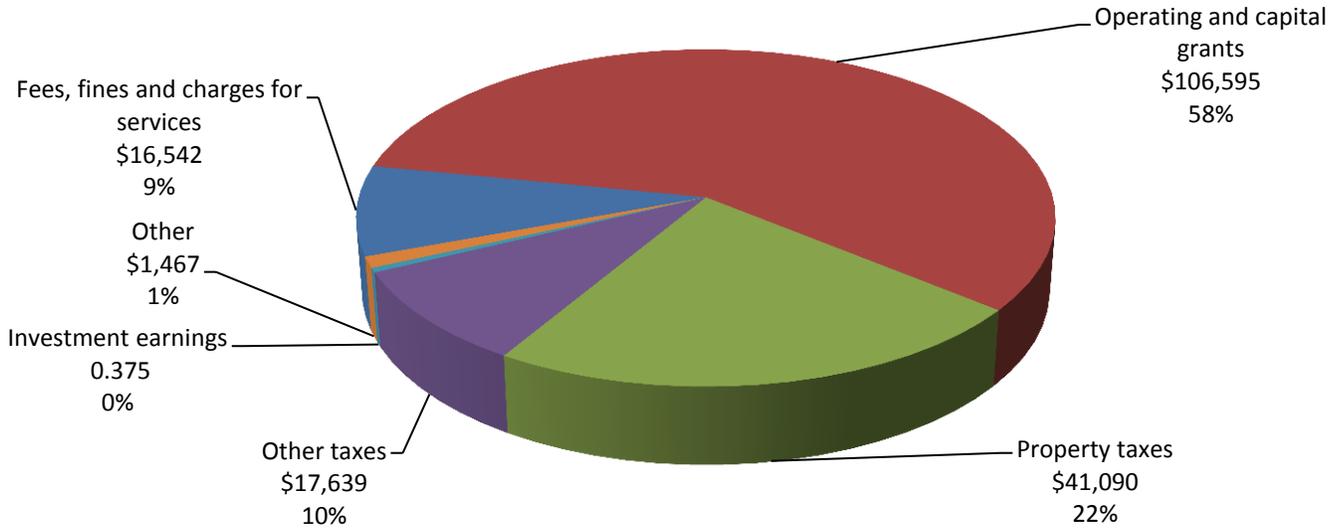


Expenses and Program Revenue		
Governmental Functions	Program Revenue	Expense
General Government	\$ 4,875,381	\$ 15,162,563
Public Protection	20,088,598	52,834,030
Public Ways & Facilities	12,813,161	13,130,250
Health & Sanitation	26,822,421	35,194,672
Public Assistance	58,488,001	58,200,338
Education	49,160	634,983
Rec & Cultural Svcs	--	454,096
Debt Service	--	4,976,945

MENDOCINO COUNTY

Management's Discussion and Analysis
For the Year Ended June 30, 2014

Revenues by Source (in millions) - Governmental Activities



The largest portion of revenue received by the County comes from Federal and State sources (approximately 58%). The second largest source comes from property taxes (22%). However, it should be noted that of every \$1.00 collected in property tax approximately 63% benefits schools, with 30% going toward the funding of County services and programs. Cities receive 2% and Special Districts receive 5%. Only 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 \$53,278,609, an increase of \$13,164,136 from the prior year. Some of the fund balance is restricted to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$8,466,949); 2) for specific road infrastructure projects (\$6,127,361); 3) for mental health programs (\$5,184,545); 4) for a variety of other restricted purposes (\$5,502,539).

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 \$11,693,461, while total fund balance reached \$27,356,304. The fund balance of the County of Mendocino's general fund increased by \$8,597,581 during the 2013/14 Fiscal Year.

MENDOCINO COUNTY

**Management's Discussion and Analysis
For the Year Ended June 30, 2014**

The debt service fund had a total fund balance of \$2,170,624, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$48,073. Interest expenditures for the debt service fund decreased during the current period by (\$57,170).

The pension obligation fund had a total fund balance of \$6,296,325, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$344,875.

The mental health services fund had a total fund balance of 5,184,545. The net increase in fund balance during the current year was \$635,390.

The road fund had a total fund balance of \$6,777,964. The net increase for the year was \$2,499,616.

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 position of the internal service funds at the end of the year amounted to \$6,772,293.

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 \$437,698 for fixed asset purchases from; Asset Forfeiture funds, Restitution 11470.2 funds, SAFE funds, CalEMA grant funds, State Parks & Rec. funds, DMV \$1 RAN funds and Justice Assist. Grant funds.
- ❖ Decreased Jail's budgeted expenditures by (\$295,105) and transfer the Trial Court Funding costs to the Sheriff.

Capital Asset and Debt Administration

Capital Assets. The County of Mendocino's investment in capital assets for its governmental activities as of June 30, 2014, amounts to \$100,071,317 (net of accumulated depreciation).

This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the County of Mendocino's investment in capital assets for the current fiscal year was 1.02%. Additional details of capital assets are in Note 6 on Page 41.

County of Mendocino's Capital Assets

	2014	2013
Land	\$ 2,921,620	\$ 3,002,620
Structures and improvements	35,858,707	37,013,852
Improvements other than buildings	2,041,370	2,276,572
Equipment	6,715,626	6,258,848
Infrastructure	43,683,718	43,243,491
Construction in progress	8,850,276	7,263,379
Total	\$ 100,071,317	\$ 99,058,762

MENDOCINO COUNTY

Management's Discussion and Analysis
For the Year Ended June 30, 2014

Long-term debt. At the end of the current fiscal year, the County of Mendocino has long-term debt outstanding of \$94,829,471.

County of Mendocino's Outstanding Debt

	2014	2013
General obligation bonds	\$ 72,245,000	\$ 76,000,000
Certificates of Participation	22,545,000	23,530,000
Capital leases & loans	39,471	64,528
Total	<u>\$ 94,829,471</u>	<u>\$ 99,594,528</u>

The County of Mendocino's total debt decreased by \$4,765,057 (4.78%) 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 \$969,276,355, which is significantly in excess of the County of Mendocino's outstanding general obligation debt.

Additional information on the County of Mendocino's long-term debt can be found in Note 7 on pages 42-43 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 2014/15 fiscal year.

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

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

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

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COUNTY OF MENDOCINO

Statement of Net Position
June 30, 2014

	Governmental Activities
	<hr/>
<u>ASSETS</u>	
Cash and investments	\$ 57,771,746
Cash with fiscal agent	7,940,940
Other cash	106,622
Accounts receivable	423,088
Due from other governments	15,891,281
Taxes receivable	649,022
Inventories	737,078
Net pension asset	31,055,626
Capital assets:	
Nondepreciable	11,771,896
Depreciable, net	88,299,421
Total Assets	<hr/> <hr/> 214,646,720
 <u>LIABILITIES</u>	
Accounts payable	6,370,762
Salaries and benefits payable	2,079,590
Interest payable	2,099,465
Unearned revenue	3,675,624
Long-Term Liabilities:	
Portion due or payable within one year:	
Certificates of participation	1,020,000
Bonds payable	3,940,000
Loans payable	26,056
Liability for compensated absences	4,064,242
Claims liability	2,942,647
Portion due or payable after one year:	
Certificates of participation	21,525,000
Bonds payable	68,305,000
Loans payable	13,415
Closure/post-closure liability	18,605,495
Total Liabilities	<hr/> <hr/> 134,667,296
 <u>NET POSITION</u>	
Net Investment in capital assets	77,486,846
Restricted for:	
Legally segregated taxes, grants and fees	14,814,001
Debt service and capital projects	15,775,410
Unrestricted	(28,096,833)
Total Net Position	<hr/> <hr/> \$ 79,979,424

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

COUNTY OF MENDOCINO

Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Position
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 15,162,563	\$ 2,911,072	\$ 1,755,625	\$ 208,684	\$ (10,287,182)
Public protection	52,834,030	9,953,930	10,134,668	--	(32,745,432)
Public ways and facilities	13,130,250	267,576	8,323,131	4,222,454	(317,089)
Health and sanitation	35,194,672	3,217,782	23,604,639	--	(8,372,251)
Public assistance	58,200,338	141,992	58,346,009	--	287,663
Education	2,634,983	49,160	--	--	(2,585,823)
Recreation and culture	454,096	--	--	--	(454,096)
Debt Service:					
Interest	4,976,945	--	--	--	(4,976,945)
Total Governmental Activities	\$ 182,587,877	\$ 16,541,512	\$ 102,164,072	\$ 4,431,138	(59,451,155)
General Revenues:					
Taxes:					
Property taxes					41,090,300
Sales and use taxes					13,395,840
Transient occupancy tax					3,855,504
Other					388,127
Unrestricted interest and investment earnings					374,872
Gain on sale of assets					155,000
Miscellaneous					1,466,672
Total General Revenues					60,726,315
Change in Net Position					1,275,160
Net Position - Beginning of Year					78,704,264
Net Position - End of Year					\$ 79,979,424

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

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COUNTY OF MENDOCINO

Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>	<u>Mental Health Services</u>
<u>Assets</u>				
Pooled cash and investments in treasury	\$30,819,724	\$ 187,757	\$ 314,244	\$ 5,655,254
Restricted Assets:				
Cash with fiscal agent	--	1,958,859	5,982,081	--
Imprest cash	4,411	--	--	--
Accounts receivable	361,611	--	--	3,851
Taxes receivable	649,022	--	--	--
Due from other governments	6,558,347	24,008	--	4,566,545
Due from other funds	587,006	--	--	--
Inventory	86,475	--	--	--
Total Assets	<u>\$39,066,596</u>	<u>\$ 2,170,624</u>	<u>\$ 6,296,325</u>	<u>\$ 10,225,650</u>
<u>Liabilities</u>				
Accounts payable	\$ 3,166,340	\$ --	\$ --	\$ 1,307,195
Accrued salaries and benefits	1,792,387	--	--	65,764
Due to other funds	--	--	--	--
Unearned revenue	3,675,624	--	--	--
Total Liabilities	<u>8,634,351</u>	<u>--</u>	<u>--</u>	<u>1,372,959</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	3,075,941	--	--	3,668,146
Total Deferred Inflows of Resources	<u>3,075,941</u>	<u>--</u>	<u>--</u>	<u>3,668,146</u>
<u>Fund Balances</u>				
Nonspendable	90,586	--	--	--
Restricted	--	2,170,624	6,296,325	5,184,545
Assigned	15,572,257	--	--	--
Unassigned	11,693,461	--	--	--
Total Fund Balances	<u>27,356,304</u>	<u>2,170,624</u>	<u>6,296,325</u>	<u>5,184,545</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$39,066,596</u>	<u>\$ 2,170,624</u>	<u>\$ 6,296,325</u>	<u>\$ 10,225,650</u>

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

COUNTY OF MENDOCINO

Balance Sheet (continued)
 Governmental Funds
 June 30, 2014

	<u>Road</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Pooled cash and investments in treasury	\$6,312,679	\$ 4,710,413	\$48,000,071
Restricted Assets:			
Cash with fiscal agent	--	--	7,940,940
Imprest cash	50	480	4,941
Accounts receivable	26,850	23,380	415,692
Taxes receivable	--	--	649,022
Due from other governments	2,384,331	2,358,050	15,891,281
Due from other funds	--	--	587,006
Inventory	650,603	--	737,078
Total Assets	<u>\$9,374,513</u>	<u>\$ 7,092,323</u>	<u>\$74,226,031</u>
<u>Liabilities</u>			
Accounts payable	\$1,294,682	\$ 471,017	\$ 6,239,234
Accrued salaries and benefits	120,767	82,634	2,061,552
Due to other funds	--	587,006	587,006
Unearned revenue	--	--	3,675,624
Total Liabilities	<u>1,415,449</u>	<u>1,140,657</u>	<u>12,563,416</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	<u>1,181,100</u>	<u>458,819</u>	<u>8,384,006</u>
Total Deferred Inflows of Resources	<u>1,181,100</u>	<u>458,819</u>	<u>8,384,006</u>
<u>Fund Balances</u>			
Nonspendable	650,603	--	741,189
Restricted	6,127,361	5,502,539	25,281,394
Assigned	--	--	15,572,257
Unassigned	--	(9,692)	11,683,769
Total Fund Balances	<u>6,777,964</u>	<u>5,492,847</u>	<u>53,278,609</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$9,374,513</u>	<u>\$ 7,092,323</u>	<u>\$74,226,031</u>

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

COUNTY OF MENDOCINO

Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position - Governmental Activities
For the Year Ended June 30, 2014

Fund Balance - total governmental funds (page 16)	\$ 53,278,609
Amounts reported for governmental activities in the statement of net position are different because:	
The pension asset resulting from contributions in excess of the annual required contribution are not financial resources and therefore not reported in the funds.	31,055,626
Unavailable revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	8,384,006
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	99,939,107
Internal service funds are used by the County to charge the cost of insurance, software acquisition and vehicle replacement services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position is:	6,904,503
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net position.	
Loans payable	(39,471)
Bonds payable	(72,245,000)
Certificates of participation	(22,545,000)
Accrued interest on long-term debt	(2,099,465)
Compensated absences	(4,047,996)
Landfill closure/post closure care costs	<u>(18,605,495)</u>
Net position of governmental activities (page 13)	<u><u>\$ 79,979,424</u></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, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>	<u>Mental Health Services</u>
Revenues:				
Taxes	\$ 56,698,723	\$ --	\$ --	\$ --
Licenses, permits and franchises	2,564,397	--	--	--
Intergovernmental	73,165,382	70,151	--	17,936,861
Revenue from use of money and property	258,240	61,205	(20,125)	2,254
Fines, forfeitures and penalties	2,793,487	13,500	--	--
Charges for services	10,241,690	--	--	119,050
Other revenues	1,385,773	--	88,010	24,724
Total Revenues	<u>147,107,692</u>	<u>144,856</u>	<u>67,885</u>	<u>18,082,889</u>
Expenditures:				
Current:				
General government	13,508,254	3,711	2,350	--
Public protection	46,093,220	--	--	--
Public ways and facilities	166,759	--	--	--
Health and sanitation	8,488,593	--	--	17,921,428
Public assistance	55,077,709	--	--	--
Education	150,697	--	--	--
Recreation and culture	420,560	--	--	--
Debt service:				
Principal	--	1,010,051	3,755,000	--
Interest	41,845	879,995	4,151,449	--
Capital outlay	809,363	--	--	--
Total Expenditures	<u>124,757,000</u>	<u>1,893,757</u>	<u>7,908,799</u>	<u>17,921,428</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>22,350,692</u>	<u>(1,748,901)</u>	<u>(7,840,914)</u>	<u>161,461</u>
Other Financing Sources (Uses):				
Transfers in	658,860	1,796,974	8,185,789	1,169,018
Transfers out	(14,411,971)	--	--	(695,089)
Total Other Financing Sources (Uses)	<u>(13,753,111)</u>	<u>1,796,974</u>	<u>8,185,789</u>	<u>473,929</u>
Net Changes in Fund Balances	8,597,581	48,073	344,875	635,390
Fund Balances, Beginning of Year	<u>18,758,723</u>	<u>2,122,551</u>	<u>5,951,450</u>	<u>4,549,155</u>
Fund Balances, End of Year	<u>\$ 27,356,304</u>	<u>\$ 2,170,624</u>	<u>\$ 6,296,325</u>	<u>\$ 5,184,545</u>

continued

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Governmental Funds
 For the Year Ended June 30, 2014

	Road	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
Taxes	\$ 146,794	\$ 1,884,254	\$ 58,729,771
Licenses, permits and franchises	51,801	297,047	2,913,245
Intergovernmental	13,075,918	5,521,542	109,769,854
Revenue from use of money and property	19,081	17,611	338,266
Fines, forfeitures and penalties	52,461	159,758	3,019,206
Charges for services	163,314	152,128	10,676,182
Other revenues	41,217	82,948	1,622,672
Total Revenues	<u>13,550,586</u>	<u>8,115,288</u>	<u>187,069,196</u>
Expenditures:			
Current:			
General government	--	110,085	13,624,400
Public protection	--	1,041,633	47,134,853
Public ways and facilities	13,908,851	42,689	14,118,299
Health and sanitation	--	2,152,642	28,562,663
Public assistance	--	1,409,106	56,486,815
Education	--	2,308,537	2,459,234
Recreation and culture	--	--	420,560
Debt service:			
Principal	--	--	4,765,051
Interest	--	--	5,073,289
Capital outlay	--	208,684	1,018,047
Total Expenditures	<u>13,908,851</u>	<u>7,273,376</u>	<u>173,663,211</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(358,265)</u>	<u>841,912</u>	<u>13,405,985</u>
Other Financing Sources (Uses):			
Transfers in	3,295,428	1,348,084	16,454,153
Transfers out	(437,547)	(1,151,395)	(16,696,002)
Total Other Financing Sources (Uses)	<u>2,857,881</u>	<u>196,689</u>	<u>(241,849)</u>
Net Changes in Fund Balances	2,499,616	1,038,601	13,164,136
Fund Balances, Beginning of Year	<u>4,278,348</u>	<u>4,454,246</u>	<u>40,114,473</u>
Fund Balances, End of Year	<u>\$ 6,777,964</u>	<u>\$ 5,492,847</u>	<u>\$ 53,278,609</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, 2014

Net change to fund balance - total governmental funds (page 19) \$ 13,164,136

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

Governmental funds report capital asset additions as expenditures. However,
in the statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 6,311,867	
Less current year depreciation	<u>(5,431,522)</u>	880,345

Governmental fund revenues deferred at year end due to unavailability, and
therefore, deferred under the modified accrual basis method of accounting,
were recognized as revenue on the full accrual method of accounting. (3,241,765)

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

Principal and refunded debt repayments:		
Bonds payable	3,755,000	
Loans payable	25,051	
Certificates of participation	<u>985,000</u>	4,765,051

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	96,344	
Change in net pension asset	(10,536,730)	
Change in net OPEB obligation	686,041	
Change in compensated absences	194,745	
Change in liability for closure/post closure care	<u>(4,840,520)</u>	(14,400,120)

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. 107,513

Change in net position of governmental activities (page 14) \$ 1,275,160

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

COUNTY OF MENDOCINO

Statement of Net Position
Proprietary Funds
June 30, 2014

	<u>Governmental Activities Internal Service Funds</u>
<u>ASSETS</u>	
Current Assets:	
Pooled cash and investments in treasury	\$ 9,766,734
Other cash	106,622
Accounts receivable	7,396
Total Current Assets	<u>9,880,752</u>
Noncurrent Assets:	
Capital assets:	
Depreciable, net	132,210
Total Noncurrent Assets	<u>132,210</u>
Total Assets	<u>10,012,962</u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	131,528
Accrued salaries and benefits	18,038
Compensated absences	16,246
Liability for unpaid claims	2,942,647
Total Current Liabilities	<u>3,108,459</u>
Total Liabilities	<u>3,108,459</u>
<u>NET POSITION</u>	
Net Investment in capital assets	132,210
Unrestricted	<u>6,772,293</u>
Total Net Position	<u>\$ 6,904,503</u>

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Governmental Activities
	<u>Internal Service Funds</u>
Operating Revenues:	
Charges for services	<u>\$ 16,738,836</u>
Total Operating Revenues	<u>16,738,836</u>
Operating Expenses:	
Salaries and employee benefits	706,469
Services and supplies	12,428,515
Insurance	3,584,009
Depreciation	8,130
Claims and judgments	182,655
Total Operating Expenses	<u>16,909,778</u>
Operating Income (Loss)	<u>(170,942)</u>
Non-Operating Revenues (Expenses):	
Interest income	<u>36,606</u>
Total non-operating revenues (expenses)	<u>36,606</u>
Income (Loss) Before Transfers	(134,336)
Transfers in	640,000
Transfers out	<u>(398,151)</u>
Change in Net Position	107,513
Net Position - Beginning of Year	<u>6,796,990</u>
Net Position - End of Year	<u>\$ 6,904,503</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, 2014

	Governmental Activities
	<u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from interfund services provided	\$ 16,810,461
Cash paid to employees for services	(701,610)
Cash paid to suppliers for goods and services	<u>(16,170,615)</u>
Net Cash Provided (Used) by Operating Activities	<u>(61,764)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Interfund loans	198,437
Transfers in	640,000
Transfers out	<u>(398,151)</u>
Net Cash Provided (Used) by Investing Activities	<u>440,286</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(140,340)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(140,340)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received (paid)	<u>36,606</u>
Net Cash Provided (Used) by Investing Activities	<u>36,606</u>
Net Increase (Decrease) in Cash and Cash Equivalents	274,788
Cash and Cash Equivalents, Beginning of Year	<u>9,598,568</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 9,873,356</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (170,942)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	8,130
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	71,625
Increase (decrease) in:	
Accounts payable	82,383
Accrued salaries	4,061
Compensated absences	798
Claims liability	<u>(57,819)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (61,764)</u></u>

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

COUNTY OF MENDOCINO

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Investment Trust	Agency Funds	Pension Trust Fund	Private Purpose Trust Fund
<u>Assets</u>				
Cash and investments in treasury	\$ 110,405,490	\$ 15,303,798	\$ 4,966,310	\$ --
Other investments	--	--	437,422,635	--
Accounts receivable	--	--	432,614	--
Taxes receivable	--	12,323,092	--	--
Other assets	--	--	6,468	9,798
Total Assets	<u>110,405,490</u>	<u>27,626,890</u>	<u>442,828,027</u>	<u>9,798</u>
<u>Liabilities</u>				
Accounts payable and accrued expenses	--	--	519,579	--
Agency funds held for others	--	27,626,890	--	--
Total Liabilities	<u>--</u>	<u>27,626,890</u>	<u>519,579</u>	<u>--</u>
<u>Net position</u>				
Net position held in trust for:				
Other entities	--	--	--	9,798
Retirement system	--	--	442,308,448	--
Investment pool participants	110,405,490	--	--	--
Total Net Position	<u>\$ 110,405,490</u>	<u>\$ --</u>	<u>\$ 442,308,448</u>	<u>\$ 9,798</u>

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

COUNTY OF MENDOCINO

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

	Investment Trust	Pension Trust Fund	Private Purpose Trust Fund
<u>Additions</u>			
Contributions:			
Employer contributions	\$ --	\$ 14,324,752	\$ --
Member contributions	--	4,575,895	--
Contributions on pooled investments	352,807,526	--	--
Taxes	--	--	10,000
Interest and investment income - net	498,316	68,294,844	4,098
Other income	--	200,106	--
Total Additions	<u>353,305,842</u>	<u>87,395,597</u>	<u>14,098</u>
<u>Deductions</u>			
Benefit payments	--	27,353,529	--
Distributions from investment pool	362,238,755	--	--
Payments to taxing entities	--	--	45,957
Administrative expense	--	930,437	4,000
Total Deductions	<u>362,238,755</u>	<u>28,283,966</u>	<u>49,957</u>
Change in net position	(8,932,913)	59,111,631	(35,859)
Net Position, beginning	<u>119,338,403</u>	<u>383,196,817</u>	<u>45,657</u>
Net Position, ending	<u><u>\$ 110,405,490</u></u>	<u><u>\$ 442,308,448</u></u>	<u><u>\$ 9,798</u></u>

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Financial Reporting Entity

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

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

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

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

B. Basis of Presentation

Government-Wide Financial Statements

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

These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. At June 30, 2014, the County had no business-type activities.

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the County's vehicle replacement and software acquisition services provided to other departments or to other governments and self-insurance programs – unemployment, general liability, worker's compensation and health insurance benefits, on a cost-reimbursement basis.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

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

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

Fund Financial Statements (continued)

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

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

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

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

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

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

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

E. Cash and Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Restricted Assets

The County has \$7,940,940 restricted cash deposited with fiscal agents to meet Certificates of Participation, Pension Obligation Bond and other long-term debt reserve fund requirements.

I. Property Tax Revenue

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

Alternative Method of Distribution of Tax Levies

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

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

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

J. Capital Assets

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

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

The estimated useful lives are as follows:

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

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

K. Deferred Outflows/Inflows of Resources

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

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

L. Interfund Transactions

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

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

L. **Interfund Transactions** (continued)

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

M. **Estimates**

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

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

Government Accounting Standards Board Statement No. 68

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Deficit Fund Equity

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

<u>Fund</u>	<u>Deficit</u>
Nonmajor Governmental Funds:	
Capital projects	\$ 9,644
Micrographics	48
Internal Service Funds:	
Unemployment insurance	73,811

The deficit equity balances in the Capital projects and micrographics funds are due to costs that exceeded anticipated revenues.

The Internal Service Funds for insurance had a deficit fund equity at fiscal year ending June 30, 2014, as a result of increasing liabilities for unpaid claims as well as the rising costs for insurance in general. Having achieved its goal on a pay-as-you-go basis with each of these accounts, the County intends to continue to aggressively raise the amount of insurance contributions in order to reach actuarial soundness.

NOTE 3: CASH AND INVESTMENTS

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of securing and protecting the public funds of the County and other participants. Funds not immediately required for daily operations are invested in an attempt to earn a yield commensurate to current conditions. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds using a formula based on the average daily cash balance of each fund.

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

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

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

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

At June 30, 2014, total County cash and investments were as follows:

<i>Cash:</i>	
Cash on hand	1,762,817
Imprest cash	4,941
Deposits less outstanding warrants	7,562,066
Total cash	9,329,824
 <i>Investments:</i>	
In Treasurer's pool	179,224,142
With fiscal agents	7,940,940
With fiscal agents, Pension Trust Fund	437,422,635
Total investments	624,587,717
Total cash and investments	\$ 633,917,541

Total cash and investments at June 30, 2014, were presented on the County's financial statements as follows:

Primary government	\$ 65,819,308
Investment trust fund	110,405,490
Pension trust fund	442,388,945
Agency funds	15,303,798
Total cash and investments	\$ 633,917,541

Deposits – Custodial Risk

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

At June 30, 2014, the carrying value of the County's deposits was \$7,185,432 and the bank balance was \$12,636,480. 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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds and Obligations	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
California Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	25%
Banker's Acceptances	180 days	40%	5%
Commercial Paper	270 days	40%	5%
Negotiable Certificates of Deposit /CD Placement Service	5 years	30%	5%
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements		Prohibited	
Medium-Term Corporate Notes	5 years	30%	5%
Money Market Mutual Funds	N/A	20%	10%
Non-Negotiable Certificates of Deposit (collateralized bank deposits)	5 years	None	5%
Mortgage Pass-Through Securities	5 years	20%	None
Bank/Time Deposits	5 years	20%	5%
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool (includes CAMP)	N/A	None	None
Local Agency Investment Fund	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

At June 30, 2014, the difference between the cost and fair values was not material. Therefore, an adjustment to fair value was not made (fair value was 100.13% of carrying value).

At June 30, 2014, the County had the following investments:

Investment Pool	Interest Rates	Maturities	Par	Fair Value	Book/Carrying Value	WAM (Years)
Investment Pool						
Asset-Backed Securities	0.36% - 0.93%	7/15/2016 - 4/16/2018	\$ 7,088,355	\$ 7,095,098	\$ 7,091,225	3.03
Federal Agency Obligations	0.35% - 1.69%	8/28/2014 - 9/17/2018	47,386,000	47,624,815	47,533,632	2.08
Treasury Obligations	0.30% - 1.33%	1/15/2015 - 2/28/2018	37,040,000	37,008,317	36,943,479	2.01
Medium Term Corporate Notes	0.53% - 1.40%	10/1/2014 - 11/7/2017	25,436,000	25,781,798	25,707,028	1.92
Negotiable Certificate of Deposit	0.80%	9/12/2014	5,000,000	5,000,000	5,000,000	0.20
Commercial Paper	0.19% - 0.27%	7/16/2014 - 11/3/2014	9,855,000	9,851,095	9,581,094	0.18
Money Market Mutual Funds	Variable	On Demand	367,694	367,694	367,694	0.00
California Local Agency Investment Fund (LAIF)	Variable	On Demand	42,000,000	42,000,000	42,000,000	0.00
California Asset Management Program	Variable	On Demand	5,000,000	5,000,000	5,000,000	0.00
			<u>179,173,049</u>	<u>179,728,817</u>	<u>179,224,152</u>	1.25
Investments Outside Investment Pool						
<i>Cash held with fiscal agent</i>						
Money Market Mutual Funds	Variable	On Demand	\$ 7,940,940	\$ 7,941,722	\$ 7,940,940	0.00
			<u>\$ 7,940,940</u>	<u>\$ 7,941,722</u>	<u>\$ 7,940,940</u>	0.00
Total Investments			<u>\$ 187,113,989</u>	<u>\$ 187,670,539</u>	<u>\$ 187,165,092</u>	

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

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

Investments (continued)

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County manages its exposure to declines in fair values by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to provide the necessary cash flow and liquidity needed for operations. The County monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The County had invested \$37,798,253 in floating rate securities. These are tied to the one or three month London Interbank Offer Rate (LIBOR) index.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments in commercial paper to the rating of A1 by Standards & Poor's or P-1 by Moody's Investors Service. State law also limits investments in corporate bonds to the rating of A or better by Standard & Poor's and Moody's Investors Service for a maturity of up to five years.

Concentration of Credit Risk

At June 30, 2014, the County held the following percentages and amounts by issuer of its net investment in Federal Agency Obligations: 8.30% (\$15,068,063), Federal National Mortgage Association; 7.20% (\$13,065,569), Federal Home Loan Banks; and 7.06% (\$12,808,055), Federal Home Loan Mortgage Corporation.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk (continued)

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's carrying value at June 30, 2014.

	<u>S&P</u>	<u>Moody's</u>	<u>% of Portfolio</u>
Investments In Investment Pool			
Asset-backed securities	AAA	Aaa	2.91%
Asset-backed securities	AAA	Unrated	1.04%
Federal agency obligations	AA+	Aaa	26.49%
Treasury obligations	AA+	Aaa	20.58%
Medium term notes	A+	A2	0.79%
Medium term notes	AA-	A1	0.86%
Medium term notes	AA	Aa2	1.39%
Medium term notes	A+	A1	4.34%
Medium term notes	A-	A1	0.56%
Medium term notes	AA	Aa3	0.56%
Medium term notes	AA-	Aa3	1.30%
Medium term notes	AA+	Aa1	0.96%
Medium term notes	A	A2	1.90%
Medium term notes	A	A1	0.55%
Medium term notes	AA+	A1	0.86%
Medium term notes	AA	A1	0.29%
Commercial paper	A-1+	P-1	4.37%
Commercial paper	A-1	P-1	1.11%
Negotiable Certificates of Deposit	Unrated	Aa3	2.78%
Money market mutual funds	AAA	Aaa	0.21%
California Local Agency Investment Fund State Pool	Unrated	Unrated	23.37%
Public Financial Management CAMP	Unrated	Unrated	2.78%
			<u>100.00%</u>

Custodial Credit Risk

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

Local Agency Investment Fund

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Local Agency Investment Fund (continued)

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

At June 30, 2014, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$42 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 \$64.8 billion. Of that amount, 1.86% was invested in structured notes and asset-backed securities with the remaining 98.14% 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>Carrying Value</u>
Investments in asset-backed securities, medium term corporate notes, and negotiable certificates of deposit are highly sensitive. The asset-backed securities are based in 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>\$ 37,798,253</u>

County Investment Pool Condensed Financial Statements

The following represents a condensed statement of net position and changes in net position for the investment pool as of June 30, 2014:

Statement of Net Position

Net position held for pool participants	<u>\$ 188,442,403</u>
Equity of internal pool participants	\$ 78,036,913
Equity of external pool participants	<u>110,405,490</u>
Total net position	<u>\$ 188,442,403</u>

Statement of Changes in Net Position

Net position for pool participants at July 1, 2013	\$ 179,952,284
Net change in investments by pool participants	<u>8,490,119</u>
Net position at June 30, 2014	<u>\$ 188,442,403</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 4: ENDOWMENTS

For the year ended June 30, 2014, the net appreciation on investments of donor-restricted endowments was \$4,779. 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: INTERFUND TRANSACTIONS

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2014, are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	587,006
		<u>\$ 587,006</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	\$ 1,701,468
	Mental Health Services Fund	1,169,018
	Road Fund	3,295,428
	Pension Obligation Fund	6,462,963
	Internal Service Funds	435,010
	Nonmajor Governmental Funds	<u>1,348,084</u>
		<u>14,411,971</u>
Mental Health Services Fund	General Fund	363,448
	Debt Service	95,506
	Pension Obligation Fund	<u>236,135</u>
		<u>695,089</u>
Road Fund	General Fund	45,361
	Pension Obligation Fund	<u>392,186</u>
		<u>437,547</u>
Internal Service Funds	General Fund	336,865
	Pension Obligation Fund	<u>61,286</u>
		<u>398,151</u>
Nonmajor Governmental Funds	General Fund	118,176
	Pension Obligation Fund	<u>1,033,219</u>
		<u>1,151,395</u>
		<u>\$ 17,094,153</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2014
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,002,620	\$ -	\$ (1,000)	\$ (80,000)	\$ 2,921,620
Construction in progress	7,263,379	4,805,101	-	(3,218,204)	8,850,276
Total capital assets, not being depreciated	10,265,999	4,805,101	(1,000)	(3,298,204)	11,771,896
Capital assets, being depreciated:					
Infrastructure	75,964,468	-	-	2,607,034	78,571,502
Structures and improvements	71,641,697	262,328	(9,838)	505,764	72,399,951
Equipment	27,438,776	1,644,359	(850,064)	-	28,233,071
Improvements other than buildings	5,657,836	22,632	-	(68,183)	5,612,285
Total capital assets, being depreciated	180,702,777	1,929,319	(859,902)	3,044,615	184,816,809
Less accumulated depreciation for:					
Infrastructure	(32,720,977)	(2,160,348)	-	(6,459)	(34,887,784)
Structures and improvements	(34,627,845)	(1,929,060)	9,838	5,823	(36,541,244)
Equipment	(21,179,928)	(1,140,138)	850,064	(47,443)	(21,517,445)
Improvements other than buildings	(3,381,264)	(210,106)	-	20,455	(3,570,915)
Total accumulated depreciation	(91,910,014)	(5,439,652)	859,902	(27,624)	(96,517,388)
Total capital assets, being depreciated, net	88,792,763	(3,510,333)	-	3,016,991	88,299,421
Governmental activities capital assets, net	\$ 99,058,762	\$ 1,294,768	\$ (1,000)	\$ (281,213)	\$ 100,071,317

Depreciation expense was charged to governmental functions as follows:

General government	\$ 831,053
Public protection	1,232,130
Public ways and facilities	2,658,397
Health and sanitation	323,284
Public assistance	277,557
Education	96,412
Recreation and culture	12,689
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>8,130</u>
Total Depreciation Expense - Governmental Functions	<u>\$ 5,439,652</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 7: LONG-TERM LIABILITIES

Individual issues of loans, bonds and certificates of participation outstanding at June 30, 2014, are as follows:

<u>Governmental Activities</u> Type of Indebtedness (Purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2014</u>
Loans Payable					
California Energy Commission Loan - 2004	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	\$ 250,000	\$ 39,471
Total Loans Payable				<u>\$ 250,000</u>	<u>\$ 39,471</u>
Taxable Pension Obligation Bonds					
2002 Series (Issued to partially refund the 1996 Series and to meet the net pension obligation of the County's retirement plan)	7/1/04-7/1/26	2.07%-5.77%	\$885,000-\$7,560,000	\$ 91,945,000	\$ 72,245,000
Total Taxable Pension Obligation Bonds				<u>\$ 91,945,000</u>	<u>\$ 72,245,000</u>
Refunding Certificates of Participation					
2012 Series (Issued to refund 2002 and 2000 Series COPs)	7/15/2012 - 7/15/2030	1.00% - 4.30%	\$975,000 - \$1,830,000	\$ 25,810,000	\$ 22,545,000
Total Certificates of Participation				<u>\$ 25,810,000</u>	<u>\$ 22,545,000</u>

A. Summary of Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>	<u>Amounts Due Within One Year</u>
Governmental Activities					
Refunding certificates of participation	\$ 23,530,000	\$ --	\$ (985,000)	\$ 22,545,000	\$ 1,020,000
Bonds payable	76,000,000	--	(3,755,000)	72,245,000	3,940,000
Loans payable	64,528	--	(25,057)	39,471	26,056
Compensated absences	4,258,189	3,442,261	(3,636,208)	4,064,242	4,064,242
Liability for self-insurance	3,000,466	11,290,733	(11,348,552)	2,942,647	2,942,647
Landfill postclosure costs	13,764,975	--	4,840,520	18,605,495	--
Total Governmental Activities	<u>\$ 120,618,158</u>	<u>\$ 14,732,994</u>	<u>\$ (14,909,297)</u>	<u>\$ 120,441,855</u>	<u>\$ 11,992,945</u>

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 7: LONG-TERM LIABILITIES (CONTINUED)

A. Summary of Long-Term Liabilities (continued)

As of June 30, 2014, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Governmental Activities					
	Certificates of Participation		Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,020,000	\$ 848,136	\$ 3,940,000	\$ 3,948,830	\$ 26,056	\$ 1,305
2016	1,045,000	817,534	4,155,000	3,725,408	13,415	266
2017	1,085,000	786,184	4,385,000	3,489,704	--	--
2018	1,115,000	753,636	4,630,000	3,240,890	--	--
2019	1,150,000	717,398	4,885,000	2,978,276	--	--
2020-2024	7,180,000	2,941,476	28,780,000	10,407,914	--	--
2025-2029	8,120,000	1,417,538	21,470,000	1,904,389	--	--
2030-2034	1,830,000	78,690	--	--	--	--
	<u>\$ 22,545,000</u>	<u>\$ 8,360,592</u>	<u>\$ 72,245,000</u>	<u>\$ 29,695,411</u>	<u>\$ 39,471</u>	<u>\$ 1,571</u>

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

B. Leases

Operating Leases

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

C. Compensated Absences

Vacation – employees accrue vacation at varying rates depending on the length of an employee's service. Upon termination unused vacation, up to accrual limits, is paid off in cash. Sick leave – all employees accrue sick leave at the rate of 15 days per year. Sick leave may be accrued without limit. Upon termination, unused sick leave will be applied toward length of service for retirement credit. Holidays must be taken within the calendar year and are not accruable. The County records the gross vacation liability. At fiscal year end, the total liability for compensated absences was \$4,064,242. The entire amount was considered current, based on experience.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 8: MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal law and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$18,605,495 reported as landfill closure/postclosure liability at June 30, 2014, 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 2014. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The following information pertains to the various landfills in the County:

<u>Location</u>	<u>Ownership of Landfill</u>	<u>Percent Filled</u>	<u>Expected Closure Date</u>	<u>Estimated Liability at June 30, 2014</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 3,164,354
South Coast Landfill	Mendocino County	100%	Closed	10,129,859
Laytonville Landfill	Mendocino County	100%	Closed	<u>5,311,282</u>
				<u>\$ 18,605,495</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, 2014, investments of \$2,975,429 are held for these purposes. The County intends to obtain either a grant or issue debt to fund the closure costs. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

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

NOTE 9: NET POSITION/FUND BALANCES

Net Position

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

- *Net Investment in Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2014

NOTE 9: **NET POSITION/FUND BALANCES** (CONTINUED)

Net Position (continued)

- *Unrestricted Net Position* – This category represents net position of the County, not restricted for any project or other purpose.

Fund Balances

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

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

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 9: NET POSITION/FUND BALANCES (continued)

Fund Balances (continued)

The following is a summary of fund balances at June 30, 2014:

	General Fund	Debt Service	Pension Obligation Bonds	Mental Health Services	Road Fund	Other Governmental Funds	Total
Nonspendable:							
Prepays and inventory	\$ 90,586	\$ --	\$ --	\$ --	\$ 650,603	\$ --	\$ 741,189
Total Nonspendable	<u>90,586</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>650,603</u>	<u>--</u>	<u>741,189</u>
Restricted for:							
Road Projects	--	--	--	--	6,127,361	--	6,127,361
Mental Health	--	--	--	5,184,545	--	--	5,184,545
Special Districts	--	--	--	--	--	1,415,903	1,415,903
Various Grant Programs	--	--	--	--	--	2,986,297	2,986,297
Endowments	--	--	--	--	--	1,100,339	1,100,339
Debt Service	--	2,170,624	6,296,325	--	--	--	8,466,949
Total Restricted	<u>--</u>	<u>2,170,624</u>	<u>6,296,325</u>	<u>5,184,545</u>	<u>6,127,361</u>	<u>5,502,539</u>	<u>25,281,394</u>
Assigned to:							
Agriculture	1,882	--	--	--	--	--	1,882
Animal Care	420,314	--	--	--	--	--	420,314
Environmental Health	355,634	--	--	--	--	--	355,634
General Reserve	8,790,508	--	--	--	--	--	8,790,508
Mental Health	1,000,000	--	--	--	--	--	1,000,000
Planning	937,045	--	--	--	--	--	937,045
Public Health	662,764	--	--	--	--	--	662,764
Sheriff	886,265	--	--	--	--	--	886,265
Social Services	2,517,845	--	--	--	--	--	2,517,845
Total Assigned	<u>15,572,257</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>15,572,257</u>
Unassigned	11,693,461	--	--	--	--	(9,692)	11,683,769
Total Fund Balance	<u>\$ 27,356,304</u>	<u>\$ 2,170,624</u>	<u>\$ 6,296,325</u>	<u>\$ 5,184,545</u>	<u>\$ 6,777,964</u>	<u>\$ 5,492,847</u>	<u>\$ 53,278,609</u>

NOTE 10: 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.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 10: COUNTY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (CONTINUED)

Funding Policy

Employees of the County and the special districts contribute to the plan. County contributions for the plan's year ended June 30, 2014, were \$14,324,752; contributions by the employees of the County, special districts, and the Courts were \$4,575,895.

Annual Pension Cost

The Retirement Association uses an entry age normal method with a supplemental present value for its actuarial computations. Significant actuarial assumptions used to determine the standardized measure of the pension benefit obligations are a) a rate of return on current and future investments of 7.75 percent compounded annually, b) projected salary increases of 0.50 percent per year attributable to merit/longevity, and c) additional projected salary increases of 3.5 percent per year attributable to inflation.

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

The County's annual pension cost and prepaid pension asset, computed in accordance with GASB 27, *Accounting for Pensions by State and Local Governmental Employers*, for the year ended June 30, 2014, were as follows (in thousands):

Annual required contribution (County fiscal year basis)	\$	14,325
Interest on beginning pension asset		(3,328)
Adjustment to the annual required contribution		13,864
Annual pension cost		24,861
Contributions made		14,325
Increase (decrease) in pension asset		(10,536)
Net pension asset, beginning of year		41,592
Net pension asset, end of year	\$	31,056

The following table shows the County's annual pension cost and the percentage contributed for the fiscal year 2013-2014 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
2012	\$ 18,645	\$ 11,811	63%	\$ 50,111
2013	22,779	14,260	63%	41,592
2014	24,861	14,325	58%	31,056

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 10: COUNTY EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PENSION PLAN) (CONTINUED)

Annual Pension Cost (continued)

The following is the funded status information for the plan as of June 30, 2013, the most recent actuarial valuation date (dollar amounts in thousands):

Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
\$ 510,461	\$ 378,777	\$ 131,684	74.2%	\$ 56,464	232.2%

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

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

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

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

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (CONTINUED)

Funding Policy

The contribution requirements of the plan members and the County are established and may be amended by the County. The contribution is based on pay-as-you-go financing requirements and is determined based on historical and estimated costs and is paid annually. For fiscal year 2013-14, the County contributed \$234,279 to the Retiree Health Plan.

The annual required contribution (ARC) is an amount determined in accordance with the parameters of GASB Statement 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension*. The County elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The County’s ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost until the anticipated ending of the plan. The following table shows the components of the County’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County’s net OPEB obligation to the Retiree Health Plan (dollar amount in thousands):

Annual required contribution	\$ 686
Annual OPEB cost (expense)	686
Contributions made	(234)
Change in liability estimate	<u>(1,138)</u>
Decrease in net OPEB obligation	(686)
Net OPEB obligation - beginning of year	686
Net OPEB obligation - end of year	<u><u>\$ --</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 2011-12 through 2013-14 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>
6/30/12	\$ 1,681	\$ 1,534	91.26%	\$ 2,054
6/30/13	1,370	778	56.84%	686
6/30/14	686	234	34.11%	-

Note: Retiree health coverage was discontinued on December 31, 2013.

NOTE 12: CONTINGENCIES

A. Litigation

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

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 12: **CONTINGENCIES** (CONTINUED)

B. Grants

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. The County has received notice of audit findings related to its state-funded mental health program that call into question approximately \$1,000,000 of expenditures from the 2004-2005 and 2005-2006 fiscal years. However, the County is actively disputing this amount and the outcome is uncertain. As of June 30, 2014, significant amounts of grant expenditures have not been audited, but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

C. Teeter Obligation

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

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

	<u>June 30, 2014</u>
Negative cash in tax resources fund	\$ (2,275,444)
Less:	
Positive cash in tax loss reserve fund	1,262,715
Receivable: Secured taxes	11,040,610
Receivable: Penalties and interest	<u>1,282,482</u>
Excess receivables over net cash deficit	<u>\$ 11,310,363</u>

The County has determined (1) the net deficit cash of \$1,012,729 reported in the Teeter Funds (Teeter obligation) at June 30, 2014 is currently an obligation of the property owners and not of the General Fund based on the property taxes receivable balance of \$12,323,092 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, 2014 though the County continues to annually appropriate funds in excess of the tax delinquencies collected to pay down the Teeter obligation.

In an effort to reduce the teeter obligation, the County has adopted a budget unit within the General Fund to budget for accelerated payments on the Teeter obligation each year. During the year ended June 30, 2014, the County paid \$769,205 over tax delinquencies collected from the General Fund to the Tax Resources Fund.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 12: **CONTINGENCIES** (CONTINUED)

C. **Teeter Obligation** (continued)

The County's tentative payment schedule for the next year is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2015	<u>\$ 1,273,585</u>

NOTE 13: **RISK MANAGEMENT**

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

A. **Unemployment Insurance**

The County is fully self-insured for this program. The estimated claims liability at fiscal year-end was \$426,725.

B. **General Liability Insurance**

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

The administration of this program is a joint effort between the Risk Management Division and the Office of the County Counsel. The liability for unpaid claims was based on actual outstanding claims at June 30, 2014, 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 \$894,368 includes incurred but not reported claims.

C. **Workers' Compensation**

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

D. **Health Insurance**

The County is fully self-insured and administers the program. The County has hired Keenan Associates as a health plan consultant/actuary to review the health plan on an annual basis, and determine by how much County and employee share in premiums should be increased. The estimated claims liability at fiscal year end was \$1,621,554.

COUNTY OF MENDOCINO

**Notes to the Basic Financial Statements
For the Year Ended June 30, 2014**

NOTE 13: **RISK MANAGEMENT** (CONTINUED)

D. **Health Insurance** (continued)

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, 2012	\$ 609,515	\$ 465,557	\$ 2,237,669	\$ 3,312,741
Current year claims and changes in estimates	(33,763)	722,110	8,499,821	9,188,168
Claims payments	<u>(185,571)</u>	<u>(137,951)</u>	<u>(9,176,921)</u>	<u>(9,500,443)</u>
Claims liability, June 30, 2013	<u>\$ 390,181</u>	<u>\$ 1,049,716</u>	<u>\$ 1,560,569</u>	<u>\$ 3,000,466</u>
Claims liability, July 1, 2013	\$ 390,181	\$ 1,049,716	\$ 1,560,569	\$ 3,000,466
Current year claims and changes in estimates	235,470	27,307	11,027,955	11,290,732
Claims payments	<u>(198,926)</u>	<u>(182,655)</u>	<u>(10,966,970)</u>	<u>(11,348,551)</u>
Claims liability, June 30, 2014	<u>\$ 426,725</u>	<u>\$ 894,368</u>	<u>\$ 1,621,554</u>	<u>\$ 2,942,647</u>

REQUIRED SUPPLEMENTARY INFORMATION

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COUNTY OF MENDOCINO

Required Supplementary Information
For the Year Ended June 30, 2014

SCHEDULE OF FUNDING PROGRESS – RETIREMENT PLAN

The table below shows a two-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, 2013 and 2012 (in thousands). An actuarial analysis as of June 30, 2014 was not available during the time of the audit.

<u>Valuation Date</u>	<u>Entry Age Actuarial Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll⁽¹⁾</u>	<u>UAAL as a % of Payroll</u>
6/30/12	\$ 489,014	\$ 362,487	\$ 126,527	74.1%	\$ 56,596	223.6%
6/30/13	510,461	378,777	131,684	74.2%	56,464	233.2%

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

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 61,533,236	\$ 61,533,236	\$ 62,325,334	\$ 792,098
Licenses and permits	2,404,270	2,404,270	2,564,397	160,127
Fines, forfeits and penalties	2,217,346	2,513,861	2,793,487	279,626
Revenue from use of money and property	239,218	239,218	236,151	(3,067)
Intergovernmental	79,548,783	79,745,109	73,165,382	(6,579,727)
Charges for services	8,690,978	8,940,402	9,696,237	755,835
Other revenue	1,056,991	1,061,619	1,202,788	141,169
Total Revenues	<u>155,690,822</u>	<u>156,437,715</u>	<u>151,983,776</u>	<u>(4,453,939)</u>
Expenditures:				
Current:				
General government	15,489,136	15,558,548	14,370,839	1,187,709
Public protection	50,748,495	51,482,001	49,474,286	2,007,715
Public way and facilities	1,718,876	1,718,876	166,759	1,552,117
Health and sanitation	11,725,503	11,730,837	8,578,742	3,152,095
Public assistance	64,616,298	64,711,383	56,833,716	7,877,667
Education	199,864	199,864	155,413	44,451
Recreation and cultural services	294,730	294,730	272,555	22,175
Debt Service:				
Principal	5,394,205	5,394,205	5,626,611	(232,406)
Interest and fiscal charges	75,000	75,000	41,845	33,155
Total Expenditures	<u>150,262,107</u>	<u>151,165,444</u>	<u>135,520,766</u>	<u>15,644,678</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,428,715</u>	<u>5,272,271</u>	<u>16,463,010</u>	<u>11,190,739</u>
Other Financing Sources (Uses):				
Transfers in	863,824	863,824	580,557	(283,267)
Transfers out	(10,074,710)	(10,274,710)	(9,954,816)	319,894
Total Other Financing Sources (Uses)	<u>(9,210,886)</u>	<u>(9,410,886)</u>	<u>(9,374,259)</u>	<u>36,627</u>
Net Change in Fund Balances	(3,782,171)	(4,138,615)	7,088,751	11,227,366
Budgetary Fund Balances - Beginning of Year	<u>14,983,974</u>	<u>14,983,974</u>	<u>14,983,974</u>	<u>--</u>
Budgetary Fund Balances - End of Year	<u>\$ 11,201,803</u>	<u>\$ 10,845,359</u>	<u>\$ 22,072,725</u>	<u>\$ 11,227,366</u>

continued

COUNTY OF MENDOCINO

Budgetary Comparison Schedule (continued)
General Fund
For the Year Ended June 30, 2014

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

Total revenues from the budgetary comparison schedule:	\$ 151,983,776
Revenues from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	750,527
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>(5,626,611)</u>
Total revenues from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 147,107,692</u>
Total expenditures from the budgetary comparison schedule:	\$ 135,520,766
The County budgets transfers to the Pension Obligation Fund as functional expenditures.	(6,462,963)
Expenditures from funds combined with the General Fund, previously reported as special revenue funds prior to implementation of GASB 54	1,325,808
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>(5,626,611)</u>
Total expenditures from the statement of revenues, expenditures and changes in fund balance - General Fund	<u>\$ 124,757,000</u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Mental Health Services Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Revenue from use of money and property	\$ (30,000)	\$ (30,000)	\$ 2,254	\$ 32,254
Intergovernmental	23,015,100	23,015,100	17,936,861	(5,078,239)
Charges for services	727,102	727,102	119,050	(608,052)
Other revenues	--	--	24,724	24,724
Total Revenues	<u>23,712,202</u>	<u>23,712,202</u>	<u>18,082,889</u>	<u>(5,629,313)</u>
Expenditures:				
Current:				
Health and sanitation	<u>26,029,078</u>	<u>26,029,078</u>	<u>17,921,428</u>	<u>8,107,650</u>
Total Expenditures	<u>26,029,078</u>	<u>26,029,078</u>	<u>17,921,428</u>	<u>8,107,650</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,316,876)</u>	<u>(2,316,876)</u>	<u>161,461</u>	<u>2,478,337</u>
Other Financing Sources (Uses):				
Transfers in	--	--	1,169,018	1,169,018
Transfers out	<u>(485,893)</u>	<u>(485,893)</u>	<u>(695,089)</u>	<u>(209,196)</u>
Total Other Financing Sources (Uses)	<u>(485,893)</u>	<u>(485,893)</u>	<u>473,929</u>	<u>959,822</u>
Net Change in Fund Balances	(2,802,769)	(2,802,769)	635,390	3,438,159
Fund Balances - Beginning of Year	<u>1,311,619</u>	<u>1,311,619</u>	<u>4,549,155</u>	<u>3,237,536</u>
Fund Balances - End of Year	<u><u>\$ (1,491,150)</u></u>	<u><u>\$ (1,491,150)</u></u>	<u><u>\$ 5,184,545</u></u>	<u><u>\$ 6,675,695</u></u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Road Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 85,000	\$ 85,000	\$ 146,794	61,794
Licenses, permits and franchises	52,300	52,300	51,801	(499)
Revenue from use of money and property	15,000	15,000	19,081	4,081
Fines, forfeitures and penalties	50,000	50,000	52,461	2,461
Intergovernmental	19,909,923	19,909,923	13,075,918	(6,834,005)
Charges for services	150,529	150,529	163,314	12,785
Other revenues	2,500	2,500	41,217	38,717
Total Revenues	<u>20,265,252</u>	<u>20,265,252</u>	<u>13,550,586</u>	<u>(6,714,666)</u>
Expenditures:				
Current:				
Public ways and facilities	<u>27,416,007</u>	<u>27,971,215</u>	<u>13,908,851</u>	<u>14,062,364</u>
Total Expenditures	<u>27,416,007</u>	<u>27,971,215</u>	<u>13,908,851</u>	<u>14,062,364</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,150,755)</u>	<u>(7,705,963)</u>	<u>(358,265)</u>	<u>7,347,698</u>
Other Financing Sources (Uses):				
Transfers in	3,295,428	3,295,428	3,295,428	--
Transfers out	<u>(160,000)</u>	<u>(160,000)</u>	<u>(437,547)</u>	<u>(277,547)</u>
Total Other Financing Sources (Uses)	<u>3,135,428</u>	<u>3,135,428</u>	<u>2,857,881</u>	<u>(277,547)</u>
Net Change in Fund Balances	(4,015,327)	(4,570,535)	2,499,616	7,070,151
Fund Balances - Beginning of Year	<u>6,397,331</u>	<u>6,397,331</u>	<u>4,278,348</u>	<u>(2,118,983)</u>
Fund Balances - End of Year	<u>\$ 2,382,004</u>	<u>\$ 1,826,796</u>	<u>\$ 6,777,964</u>	<u>\$ 4,951,168</u>

COUNTY OF MENDOCINO

Required Supplementary Information
For the Year Ended June 30, 2014

BUDGETARY BASIS OF ACCOUNTING

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

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

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

Budgets are adopted for the general fund, debt service funds and most special revenue funds. Accounting principles applied for purposes of developing data on a budgetary basis are materially the same as those used to present financial statements in conformity with GAAP.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2014, expenditures exceeded appropriations in the following budget units:

<u>Fund</u>	<u>Budget Unit</u>	<u>Excess of Expenditures Over Appropriations</u>
General Fund	Debt Service: Principal	232,406

SUPPLEMENTAL INFORMATION

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COUNTY OF MENDOCINO

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
<u>Assets</u>				
Cash and investments in County Treasury	\$ 1,500,325	\$ 141,492	\$ 130,060	\$ 56,760
Imprest Cash	280	--	--	--
Accounts receivable	17,344	--	--	--
Due from other governmental agencies	276,300	--	--	--
Total Assets	\$ 1,794,249	\$ 141,492	\$ 130,060	\$ 56,760
<u>Liabilities</u>				
Accounts payable	\$ 165,995	\$ 1,167	\$ --	\$ --
Accrued salaries and benefits	32,222	--	--	1,898
Due to other funds	--	--	--	--
Total Liabilities	198,217	1,167	--	1,898
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	--	--	--	--
<u>Fund Balance</u>				
Restricted	1,596,032	140,325	130,060	54,862
Unassigned	--	--	--	--
Total Fund Balances	1,596,032	140,325	130,060	54,862
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 \$ 1,794,249	 \$ 141,492	 \$ 130,060	 \$ 56,760

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2014

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
<u>Assets</u>				
Cash and investments in County Treasury	\$ 181,439	\$ 45,365	\$ 100,262	\$ 1,327
Imprest Cash	--	--	--	--
Accounts receivable	--	--	479	161
Due from other governmental agencies	41,437	--	--	--
Total Assets	<u>\$ 222,876</u>	<u>\$ 45,365</u>	<u>\$ 100,741</u>	<u>\$ 1,488</u>
<u>Liabilities</u>				
Accounts payable	\$ --	\$ 182	\$ --	\$ 48
Accrued salaries and benefits	--	--	--	1,488
Due to other funds	--	--	--	--
Total Liabilities	<u>--</u>	<u>182</u>	<u>--</u>	<u>1,536</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>Fund Balance</u>				
Restricted	222,876	45,183	100,741	--
Unassigned	--	--	--	(48)
Total Fund Balances	<u>222,876</u>	<u>45,183</u>	<u>100,741</u>	<u>(48)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 222,876</u>	<u>\$ 45,365</u>	<u>\$ 100,741</u>	<u>\$ 1,488</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2014

	Special Revenue		
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other
<u>Assets</u>			
Cash and investments in County Treasury	\$ --	\$ 336,707	\$ 1,116,337
Imprest Cash	--	--	200
Accounts receivable	5,396	--	--
Due from other governmental agencies	1,831,629	--	--
Total Assets	<u>\$ 1,837,025</u>	<u>\$ 336,707</u>	<u>\$ 1,116,537</u>
<u>Liabilities</u>			
Accounts payable	\$ 275,673	\$ 390	\$ 22,889
Accrued salaries and benefits	32,964	--	14,062
Due to other funds	373,351	--	--
Total Liabilities	<u>681,988</u>	<u>390</u>	<u>36,951</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	<u>458,819</u>	<u>--</u>	<u>--</u>
<u>Fund Balance</u>			
Restricted	696,218	336,317	1,079,586
Unassigned	--	--	--
Total Fund Balances	<u>696,218</u>	<u>336,317</u>	<u>1,079,586</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,837,025</u>	<u>\$ 336,707</u>	<u>\$ 1,116,537</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Governmental Funds
 June 30, 2014

	<u>Capital Projects</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Endowment Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments in County Treasury	\$ --	\$ 1,100,339	\$ 4,710,413
Imprest Cash	--	--	480
Accounts receivable	--	--	23,380
Due from other governmental agencies	208,684	--	2,358,050
Total Assets	<u>\$ 208,684</u>	<u>\$ 1,100,339</u>	<u>\$ 7,092,323</u>
<u>Liabilities</u>			
Accounts payable	\$ 4,673	\$ --	\$ 471,017
Accrued salaries and benefits	--	--	82,634
Due to other funds	213,655	--	587,006
Total Liabilities	<u>218,328</u>	<u>--</u>	<u>1,140,657</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	--	--	458,819
<u>Fund Balance</u>			
Restricted	--	1,100,339	5,502,539
Unassigned	(9,644)	--	(9,692)
Total Fund Balances	<u>(9,644)</u>	<u>1,100,339</u>	<u>5,492,847</u>
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 <u>\$ 208,684</u>	 <u>\$ 1,100,339</u>	 <u>\$ 7,092,323</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	Special Revenue			Supplemental Law Enforcement
	Library	Fish and Game	Special Aviation	
Revenues:				
Taxes	\$ 1,686,374	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	--	--	--	131,632
Revenue from use of money and property	6,319	542	--	230
Fines, forfeitures and penalties	--	36,925	--	--
Charges for services	49,160	--	--	--
Other revenue	9,295	--	--	--
Total Revenues	<u>1,751,148</u>	<u>37,467</u>	<u>--</u>	<u>131,862</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	--	8,463	--	110,847
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	2,308,537	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>2,308,537</u>	<u>8,463</u>	<u>--</u>	<u>110,847</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(557,389)</u>	<u>29,004</u>	<u>--</u>	<u>21,015</u>
Other Financing Sources (Uses):				
Transfers in	1,207,102	--	--	--
Transfers out	(209,562)	--	--	(7,517)
Total Other Financing Sources (Uses)	<u>997,540</u>	<u>--</u>	<u>--</u>	<u>(7,517)</u>
Net Change in Fund Balances	440,151	29,004	--	13,498
Fund Balances - Beginning of Year	<u>1,155,881</u>	<u>111,321</u>	<u>130,060</u>	<u>41,364</u>
Fund Balances - End of Year	<u>\$ 1,596,032</u>	<u>\$ 140,325</u>	<u>\$ 130,060</u>	<u>\$ 54,862</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, 2014

	Special Revenue			
	COPS AB 1913	Sheriff Special Projects	Recorder Modernization	Micrographics
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Aid from other governmental agencies	263,995	--	--	--
Revenue from use of money and property	876	316	485	(42)
Fines, forfeitures and penalties	--	--	--	--
Charges for services	--	--	38,936	50,867
Other revenue	--	21,433	--	24,409
Total Revenues	<u>264,871</u>	<u>21,749</u>	<u>39,421</u>	<u>75,234</u>
Expenditures:				
Current:				
General government	--	--	38,536	70,549
Public protection	192,658	43,965	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>192,658</u>	<u>43,965</u>	<u>38,536</u>	<u>70,549</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>72,213</u>	<u>(22,216)</u>	<u>885</u>	<u>4,685</u>
Other Financing Sources (Uses):				
Transfers in	--	--	--	--
Transfers out	--	--	--	(4,733)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(4,733)</u>
Net Change in Fund Balances	72,213	(22,216)	885	(48)
Fund Balances - Beginning of Year	<u>150,663</u>	<u>67,399</u>	<u>99,856</u>	<u>--</u>
Fund Balances - End of Year	<u>\$ 222,876</u>	<u>\$ 45,183</u>	<u>\$ 100,741</u>	<u>\$ (48)</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, 2014

	Special Revenue		
	Miscellaneous Grants	Special Districts Lighting	Special Districts Other
Revenues:			
Taxes	\$ --	\$ 66,887	\$ 130,993
Licenses, permits and franchises	--	--	297,047
Aid from other governmental agencies	4,312,396	2,664	602,171
Revenue from use of money and property	--	5	4,168
Fines, forfeitures and penalties	104,511	--	18,322
Charges for services	--	--	13,165
Other revenue	6,979	--	450
Total Revenues	<u>4,423,886</u>	<u>69,556</u>	<u>1,066,316</u>
Expenditures:			
Current:			
General government	--	--	--
Public protection	590,744	--	94,956
Public ways and facilities	--	42,689	--
Health and sanitation	1,469,623	--	683,019
Public assistance	1,409,106	--	--
Education	--	--	--
Capital outlay	--	--	--
Total Expenditures	<u>3,469,473</u>	<u>42,689</u>	<u>777,975</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>954,413</u>	<u>26,867</u>	<u>288,341</u>
Other Financing Sources (Uses):			
Transfers in	140,982	--	--
Transfers out	(889,372)	--	(40,211)
Total Other Financing Sources (Uses)	<u>(748,390)</u>	<u>--</u>	<u>(40,211)</u>
Net Change in Fund Balances	206,023	26,867	248,130
Fund Balances - Beginning of Year	<u>490,195</u>	<u>309,450</u>	<u>831,456</u>
Fund Balances - End of Year	<u>\$ 696,218</u>	<u>\$ 336,317</u>	<u>\$ 1,079,586</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, 2014

	<u>Capital Projects</u>	<u>Permanent Fund</u>	
	<u>Capital Projects</u>	<u>Endowment Funds</u>	<u>Total</u>
Revenues:			
Taxes	\$ --	\$ --	\$ 1,884,254
Licenses, permits and franchises	--	--	297,047
Aid from other governmental agencies	208,684	--	5,521,542
Revenue from use of money and property	(67)	4,779	17,611
Fines, forfeitures and penalties	--	--	159,758
Charges for services	--	--	152,128
Other revenue	--	20,382	82,948
Total Revenues	<u>208,617</u>	<u>25,161</u>	<u>8,115,288</u>
Expenditures:			
Current:			
General government	--	1,000	110,085
Public protection	--	--	1,041,633
Public ways and facilities	--	--	42,689
Health and sanitation	--	--	2,152,642
Public assistance	--	--	1,409,106
Education	--	--	2,308,537
Capital outlay	208,684	--	208,684
Total Expenditures	<u>208,684</u>	<u>1,000</u>	<u>7,273,376</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(67)</u>	<u>24,161</u>	<u>841,912</u>
Other Financing Sources (Uses):			
Transfers in	--	--	1,348,084
Transfers out	--	--	(1,151,395)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>196,689</u>
Net Change in Fund Balances	(67)	24,161	1,038,601
Fund Balances - Beginning of Year	<u>(9,577)</u>	<u>1,076,178</u>	<u>4,454,246</u>
Fund Balances - End of Year	<u>\$ (9,644)</u>	<u>\$ 1,100,339</u>	<u>\$ 5,492,847</u>

COUNTY OF MENDOCINO

Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<u>Assets</u>				
Current Assets:				
Pooled cash and investments in county treasury	\$ 658,132	\$ 25,573	\$ 352,914	\$ 1,517,593
Other cash	--	--	--	--
Accounts receivable	--	--	--	4,310
Total Current Assets	<u>658,132</u>	<u>25,573</u>	<u>352,914</u>	<u>1,521,903</u>
Noncurrent assets:				
Capital assets:				
Depreciable, net	--	132,210	--	--
Total noncurrent assets	<u>--</u>	<u>132,210</u>	<u>--</u>	<u>--</u>
Total Assets	<u>658,132</u>	<u>157,783</u>	<u>352,914</u>	<u>1,521,903</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	19,457	33,570	--	13,529
Accrued salaries and benefits	--	--	--	4,114
Compensated absences payable	--	--	--	10,538
Liability for unpaid claims	--	--	426,725	894,368
Total current liabilities	<u>19,457</u>	<u>33,570</u>	<u>426,725</u>	<u>922,549</u>
Total Liabilities	<u>19,457</u>	<u>33,570</u>	<u>426,725</u>	<u>922,549</u>
<u>Net Position</u>				
Net Investment in capital assets	--	132,210	--	--
Unrestricted	<u>638,675</u>	<u>(7,997)</u>	<u>(73,811)</u>	<u>599,354</u>
Total Net Position	<u>\$ 638,675</u>	<u>\$ 124,213</u>	<u>\$ (73,811)</u>	<u>\$ 599,354</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Net Position (continued)
Internal Service Funds
June 30, 2014

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
<u>Assets</u>				
Current Assets:				
Pooled cash and investments in county treasury	\$ 121,561	\$ 7,090,961	\$ --	\$ 9,766,734
Other cash	--	52,037	54,585	106,622
Accounts receivable	--	3,000	86	7,396
Total Current Assets	<u>121,561</u>	<u>7,145,998</u>	<u>54,671</u>	<u>9,880,752</u>
Noncurrent assets:				
Capital assets:				
Depreciable, net	--	--	--	132,210
Total noncurrent assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>132,210</u>
Total Assets	<u>121,561</u>	<u>7,145,998</u>	<u>54,671</u>	<u>10,012,962</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts payable	1,209	63,763	--	131,528
Accrued salaries and benefits	4,889	9,035	--	18,038
Compensated absences payable	2,301	2,173	1,234	16,246
Liability for unpaid claims	--	1,621,554	--	2,942,647
Total current liabilities	<u>8,399</u>	<u>1,696,525</u>	<u>1,234</u>	<u>3,108,459</u>
Total Liabilities	<u>8,399</u>	<u>1,696,525</u>	<u>1,234</u>	<u>3,108,459</u>
<u>Net Position</u>				
Net Investment in capital assets	--	--	--	132,210
Unrestricted	<u>113,162</u>	<u>5,449,473</u>	<u>53,437</u>	<u>6,772,293</u>
Total Net Position	<u>\$ 113,162</u>	<u>\$ 5,449,473</u>	<u>\$ 53,437</u>	<u>\$ 6,904,503</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses and
Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2014

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	<u>\$ 52,000</u>	<u>\$ 137,210</u>	<u>\$ --</u>	<u>\$ 535,290</u>
Total Operating Revenues	<u>52,000</u>	<u>137,210</u>	<u>--</u>	<u>535,290</u>
Operating Expenses:				
Salaries and benefits	--	--	--	170,072
Services and supplies	110,756	228,885	861	301,685
Insurance	--	--	235,470	393,687
Depreciation	--	8,130	--	--
Claims and judgments	--	--	--	182,655
Total Operating Expenses	<u>110,756</u>	<u>237,015</u>	<u>236,331</u>	<u>1,048,099</u>
Operating Income (Loss)	<u>(58,756)</u>	<u>(99,805)</u>	<u>(236,331)</u>	<u>(512,809)</u>
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	<u>1,079</u>	<u>573</u>	<u>2,112</u>	<u>7,944</u>
Total Non-Operating Revenues	<u>1,079</u>	<u>573</u>	<u>2,112</u>	<u>7,944</u>
Income (Loss) Before Transfers:	<u>(57,677)</u>	<u>(99,232)</u>	<u>(234,219)</u>	<u>(504,865)</u>
Transfers in	500,000	140,000	--	--
Transfers out	<u>--</u>	<u>--</u>	<u>--</u>	<u>(14,416)</u>
Change in Net Position	442,323	40,768	(234,219)	(519,281)
Net Position - Beginning of Year	<u>196,352</u>	<u>83,445</u>	<u>160,408</u>	<u>1,118,635</u>
Net Position - End of Year	<u><u>\$ 638,675</u></u>	<u><u>\$ 124,213</u></u>	<u><u>\$ (73,811)</u></u>	<u><u>\$ 599,354</u></u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses and
Changes in Net Position (continued)
Internal Service Funds
For the Year Ended June 30, 2014

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Insurance</u>	<u>Total</u>
Operating Revenues:				
Charges and fees	<u>\$ 2,274,604</u>	<u>\$ 13,493,574</u>	<u>\$ 246,158</u>	<u>\$ 16,738,836</u>
Total Operating Revenues	<u>2,274,604</u>	<u>13,493,574</u>	<u>246,158</u>	<u>16,738,836</u>
Operating Expenses:				
Salaries and benefits	194,771	307,771	33,855	706,469
Services and supplies	9,818	11,593,990	182,520	12,428,515
Insurance	1,863,866	1,026,210	64,776	3,584,009
Depreciation	--	--	--	8,130
Claims and judgments	--	--	--	182,655
Total Operating Expenses	<u>2,068,455</u>	<u>12,927,971</u>	<u>281,151</u>	<u>16,909,778</u>
Operating Income (Loss)	<u>206,149</u>	<u>565,603</u>	<u>(34,993)</u>	<u>(170,942)</u>
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	<u>(4,049)</u>	<u>28,298</u>	<u>649</u>	<u>36,606</u>
Total Non-Operating Revenues	<u>(4,049)</u>	<u>28,298</u>	<u>649</u>	<u>36,606</u>
Income (Loss) Before Transfers:	202,100	593,901	(34,344)	(134,336)
Transfers in	--	--	--	640,000
Transfers out	<u>(66,852)</u>	<u>(211,485)</u>	<u>(105,398)</u>	<u>(398,151)</u>
Change in Net Position	135,248	382,416	(139,742)	107,513
Net Position - Beginning of Year	<u>(22,086)</u>	<u>5,067,057</u>	<u>193,179</u>	<u>6,796,990</u>
Net Position - End of Year	<u><u>\$ 113,162</u></u>	<u><u>\$ 5,449,473</u></u>	<u><u>\$ 53,437</u></u>	<u><u>\$ 6,904,503</u></u>

COUNTY OF MENDOCINO

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2014

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from interfund services provided	\$ 52,000	\$ 137,210	\$ --	\$ 532,892
Cash paid to employees for services	--	--	--	(168,749)
Cash paid to suppliers for goods and services	<u>(91,299)</u>	<u>(195,315)</u>	<u>(199,787)</u>	<u>(1,033,441)</u>
Net Cash Provided (Used) by Operating Activities	<u>(39,299)</u>	<u>(58,105)</u>	<u>(199,787)</u>	<u>(669,298)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans	--	--	--	--
Transfers in	500,000	140,000	--	--
Transfers out	--	--	--	(14,416)
Net Cash Provided (Used) by Investing Activities	<u>500,000</u>	<u>140,000</u>	<u>--</u>	<u>(14,416)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	--	(140,340)	--	--
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>--</u>	<u>(140,340)</u>	<u>--</u>	<u>--</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	1,079	573	2,112	7,944
Net Cash Provided (Used) by Investing Activities	<u>1,079</u>	<u>573</u>	<u>2,112</u>	<u>7,944</u>
Net Increase (Decrease) in Cash and Cash Equivalents	461,780	(57,872)	(197,675)	(675,770)
Cash and Cash Equivalents, Beginning of Year	<u>196,352</u>	<u>83,445</u>	<u>550,589</u>	<u>2,193,363</u>
Cash and Cash Equivalents, End of Year	<u>\$ 658,132</u>	<u>\$ 25,573</u>	<u>\$ 352,914</u>	<u>\$ 1,517,593</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (58,756)	\$ (99,805)	\$ (236,331)	\$ (512,809)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	--	8,130	--	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	(2,398)
Increase (decrease) in:				
Accounts payable	19,457	33,570	--	(66)
Accrued salaries	--	--	--	673
Compensated absences	--	--	--	650
Claims liability	--	--	36,544	(155,348)
Net Cash Provided (Used) by Operating Activities	<u>\$ (39,299)</u>	<u>\$ (58,105)</u>	<u>\$ (199,787)</u>	<u>\$ (669,298)</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Cash Flows (continued)
Internal Service Funds
For the Year Ended June 30, 2014

	Worker's Compensation	Health Insurance	Retiree Health Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from interfund services provided	\$ 2,274,604	\$ 13,563,065	\$ 250,690	\$ 16,810,461
Cash paid to employees for services	(195,466)	(302,444)	(34,951)	(701,610)
Cash paid to suppliers for goods and services	(1,874,764)	(12,528,610)	(247,399)	(16,170,615)
	<u>204,374</u>	<u>732,011</u>	<u>(31,660)</u>	<u>(61,764)</u>
Net Cash Provided (Used) by Operating Activities				
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund loans	(11,912)	210,349	--	198,437
Transfers in	--	--	--	640,000
Transfers out	(66,852)	(211,485)	(105,398)	(398,151)
	<u>(78,764)</u>	<u>(1,136)</u>	<u>(105,398)</u>	<u>440,286</u>
Net Cash Provided (Used) by Investing Activities				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	--	--	--	(140,340)
	<u>--</u>	<u>--</u>	<u>--</u>	<u>(140,340)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received (paid)	(4,049)	28,298	649	36,606
	<u>(4,049)</u>	<u>28,298</u>	<u>649</u>	<u>36,606</u>
Net Cash Provided (Used) by Investing Activities				
Net Increase (Decrease) in Cash and Cash Equivalents	121,561	759,173	(136,409)	274,788
Cash and Cash Equivalents, Beginning of Year	--	6,383,825	190,994	9,598,568
Cash and Cash Equivalents, End of Year	<u>\$ 121,561</u>	<u>\$ 7,142,998</u>	<u>\$ 54,585</u>	<u>\$ 9,873,356</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 206,149	\$ 565,603	\$ (34,993)	\$ (170,942)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	--	--	--	8,130
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	69,491	4,532	71,625
Increase (decrease) in:				
Accounts payable	(1,080)	30,605	(103)	82,383
Accrued salaries	1,244	3,511	(1,367)	4,061
Compensated absences	(1,939)	1,816	271	798
Claims liability	--	60,985	--	(57,819)
	<u>--</u>	<u>60,985</u>	<u>--</u>	<u>(57,819)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 204,374</u>	<u>\$ 732,011</u>	<u>\$ (31,660)</u>	<u>\$ (61,764)</u>

COUNTY OF MENDOCINO

Combining Statement of Fiduciary Net Position
Investment Trust Fund
June 30, 2014

	Special Districts Local Boards	School Districts	Total
<u>Assets</u>			
Cash and investments in County Treasury	<u>\$ 13,248,835</u>	<u>\$ 97,156,655</u>	<u>\$ 110,405,490</u>
<u>Net Position</u>			
Reserved for pool participants	<u>\$ 13,248,835</u>	<u>\$ 97,156,655</u>	<u>\$ 110,405,490</u>