

COUNTY OF MENDOCINO

AUDIT REPORT

JUNE 30, 2004

**COUNTY OF MENDOCINO
AUDIT REPORT
For the Year Ended June 30, 2004**

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INTRODUCTORY SECTION



ADMINISTRATIVE OFFICE

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May 26, 2005

To The Honorable Members of the Board of Supervisors of Mendocino County:

State law requires that all general-purpose local governments publish within nine (9) months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Effective with the Fiscal Year 2001-2002 budget, regulations were passed (Governmental Accounting Standards Board (GASB)) establishing uniform financial reporting rules for all state and local governments. The new rules for government accounting were established to move government to a higher level of accountability, aiming it easier for our constituents to understand the financial activities of the County. Two major goals were accomplished with these regulations:

1. Required disclosure of the value of the County's infrastructure (roads, buildings, bridges, etc.) including reporting of reduction in value of those assets over time, thereby indicating future costs of replacing infrastructure.
2. Required comprehensive (consolidated) annual report of the County's financial circumstances (Government-Wide Financial Statement).

Pursuant to that requirement, attached please find the comprehensive annual financial report of the County of Mendocino for the fiscal year ended June 30, 2004.

This report consists of the Chief Executive Officer (CEO) and Auditor/Controller's representations concerning the finances of Mendocino County. Consequently, the CEO and Auditor/Controller assume full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, the CEO and Auditor/Controller have established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's

financial statements in conformity with GAAP. Because the cost of internal control should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As the CEO and Auditor/Controller, we attest that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Mendocino County's financial statements have been audited by Bartig, Basler & Ray, CPAs Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of Mendocino County for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The firm of Bartig, Basler & Ray concluded, based upon the audit, that there was a reasonable basis for rendering a qualified opinion that Mendocino County's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements for Mendocino County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of the federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP require that the CEO and Auditor/Controller provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Mendocino County's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The County of Mendocino was one of California's original 27 counties, created in 1850 by the State Legislature and remains a political subdivision, or unit, of the State. Its name is derived from Cape Mendocino, which lies northward of its northern boundary. Cape Mendocino was given its name by a famous Spanish navigator of the 16th century, Juan Rodriguez Cabrillo. Cabrillo discovered it in 1542 while on voyage of discovery along the Pacific Coast and named it in honor of Don Antonio de Mendoza, the first Viceroy of New Spain (Mexico), and the patron of the voyageur. The County of Mendocino currently occupies a land area of 3,510 square miles and serves a population of approximately 89,751. The County of Mendocino is empowered to levy a property tax on both real and personal properties located within its boundaries.

The County of Mendocino is a general law County. The Board of Supervisors which serves as the legislative and executive body of the County government and many special districts is comprised of five, full-time members elected by their respective districts. Pursuant to the California Government Code, the Board enacts legislation governing Mendocino County and determines overall policies for County departments and various special districts, adopts the annual budget and fixes salaries.

The Board also hears appeals from decisions for the Planning Commission, considers General Plan amendments, and sits as the Board of Equalization to provide taxpayers with a system for appealing the valuation placed on their property by the Assessor. The Chief Executive Officer is appointed by the Board and is responsible for day-to-day administration of County affairs.

The County of Mendocino provides a full range of services, including public protection; public ways and facilities; health and sanitation; public assistance; education; and recreation and culture. There are also lighting districts, a sanitation district, an air quality management district and public facilities corporation, which are considered components of the County and therefore have been included as an integral part of the County of Mendocino's financial statements. Additional information on these legally separate entities can be found in Note 1 in the notes to financial statements.

The annual budget serves as the foundation for the County of Mendocino's financial planning and control. All departments of the County of Mendocino are required to submit requests for appropriations to the Chief Executive Officer. The Executive Officer uses these requests as the starting point for developing a proposed budget. The Chief Executive officer then presents this proposed budget to the Board of Supervisors for review in late June each year. The Board is required to hold public hearings on the proposed budget and to adopt a final budget no later than October 1st of each year. The appropriated budget is prepared by fund, function (e.g., public protection), and department (e.g., Probation Department). Department Heads may make transfers of appropriations within a department with the Chief Executive Officer's approval. The Chief Executive Officer is also authorized to approve transfers of appropriations between departments in an amount not to exceed \$10,000. Transfer requests in excess of \$10,000 require the special approval of the Board of Supervisors. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on pages 58-59 as part of the basic financial statements for the governmental funds. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 60.

Factors Affecting Financial Condition

Local Economy. The County of Mendocino typically has had a thriving economy. The service industry is the largest and fastest growing segment of its economy with the County's traditional economic base – agriculture, the timber industry and other natural resource based industries – continuing to play a large role in the County's economy. Manufacturing is the second largest

earner in the County and is the fourth largest employer. The influence of agriculture on this sector is easily seen in the significant growth of wine and food product manufacturing. The tourism industry, always an important contributor to the coastal economy, is becoming a larger economic force throughout the entire County. The increase in tourism has a positive impact on retail trade, which is already the County's second largest employer. The County's third largest employer is the government sector.

Long-term Financial Planning

While, the County's annual budgets must be responsive to local economic conditions and actions of the State, thereby limiting its ability to develop long-term plans to address all contingencies. The County of Mendocino has been fiscally prudent in the establishment of various reserves to allow maintaining strong financial and asset foundations. Those reserves include: General Reserve (\$2.7 million), Information Technology Reserve, Building Maintenance Reserve, Vehicle Replacement Reserve.

The County uses a conservative method of Net County Cost basis of budgeting. In recent years, the County of Mendocino has experienced significant fund balances. Those available, unreserved fund balances were used to help finance either new or on-going levels of service or programs. However, due to this year's economic down turn and reductions in nonrecurring revenues, the County has eliminated its dependence on fund balance carry-forward, and budgets based on matching recurring revenues with recurring expenses.

Other financial planning efforts established and designed to avoid significant fluctuations in the demand upon the County's General Fund include:

- Establishment of multi-year Memorandum of Understandings with bargaining units to set County obligations at a specific level, one that is within projected revenue growth.
- Establishment of a trend adjustment for health care premiums to address the inflationary costs of employee health care.
- Establishment of a temporary reserve to address IHSS provider of record costs until such a time (2 fiscal years) as the costs are addressed within the state allocation to the County.
- Maintaining of the General Reserve, Building Maintenance Reserve, IT Reserve, Vehicle Replacement Fund, Reserve for Debt Management, and Unfunded Accrued Actuarial Liability (UAAL), a new policy, aimed at controlling the growth in UAAL within the Employees' Retirement Fund.
- Reductions in Force through maintaining existing vacancies, planning for and maintaining future vacancies (salary savings), voluntary time off (VTO), furloughs, and/or layoffs.

Cash Management Policies and Practices. Cash temporarily idle during the year was invested in medium-term notes, negotiable certificates of deposit, federal agency obligations, commercial paper, the State Local Agency Investment Fund, and mutual funds. The maturities of the

investments range from one (1) day to fifteen (15) years, with an average maturity of eight (8) months. The average yield on investments was 4.42% for the County. Investment income includes appreciation in the fair market value of investments. Increases in fair market value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair market value of investments that the governments intends to hold to maturity.

Risk Management. The County has three (3) risk management funds to administer the County's insurance programs that are fully or partially self-insured. The fourth risk management fund, Workers' Compensation fund, is a fully funded program. Fund revenues are primarily premium charges to other departments and funds are planned to equal estimated expenses resulting from the self-insurance program including claims expenses, 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:

- ❖ Unemployment Insurance – the County is self-insured.
- ❖ General Liability Insurance – the County maintains a self-insured retention of \$200,000 per occurrence for this program. Losses which exceed the self-insured retention are covered by excess insurance obtained through CSAC – Excess Insurance Authority.
- ❖ Workers' Compensation – fully funded program.
- ❖ Health Insurance – the County maintains a self-insured retention of \$175,000 per year for each enrollee. Losses which exceed the self-insured retention are covered by excess insurance. The program is administered by the County's Risk Management, assisted by health plan consultants, Driver Alliant Insurance Services.

Additional information on the County of Mendocino's risk management activity can be found in Note 17 of the notes to the financial statement.

Pension and Other Post Employment Benefits

The County of Mendocino participates in the Mendocino County Retirement Association, a multiple employer defined benefit pension plan, which serves the employees of the County and two special districts. It was established under the County Employee Retirement Act of 1937. The Association uses an entry age normal method with a supplemental present value for its actuarial computations.

The County of Mendocino also provides postretirement medical benefits for retirees who have at least ten years of County service. As of the end of the current fiscal year, there were 751 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information about pension benefits can be found in Notes 14 and 15 to the financial statements.

Respectfully submitted,

/s/ Alison Glassey

/s/ Dennis Huey

Alison Glassey
Interim Chief Executive Officer

Dennis Huey
Auditor-Controller

FINANCIAL SECTION

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Brad W. Constantine
Bruce W. Stephenson
Roseanne M. Lopez
Jason J. Cardinet
Tyler K. Hunt

Curtis A. Orgill
M. Elba Zuniga

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the County of Mendocino, California, (the County), as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pension Trust Fund, a Fiduciary Fund, which statements reflect total assets of \$260,638,435 as of June 30, 2004, and total operating revenues of \$47,637,729 million for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included in the Pension Trust Fund, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The County has not recorded interfund liabilities in the amount of \$7,973,639 to reflect the Mental Health, Pension Obligation Bonds and Miscellaneous Grants funds' overdrawn share of the internal investment pool. In accordance with accounting principles generally accepted in the United States of America, an interfund liability should be recorded when a fund has overdrawn its share of an internal investment pool, and an interfund receivable should be recorded in the fund where the County's management deems to have loaned the amount to the overdrawn fund. If the financial statements were corrected for the departure from accounting principles generally accepted in the United States of America, the Mental Health, Pension Obligation Bonds, and Miscellaneous Grants funds would not report deficit cash balances and instead report interfund liabilities in the aggregate of \$7,973,639.

To the Board of Supervisors and Grand Jury
County of Mendocino

In our opinion, based on our audit, and the report of the other auditors, except for the effects of not recording interfund liabilities for the primary government's overdrawn share of the County's internal cash and investment pool, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated November 3, 2004, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD & A) and the required supplementary information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the County of Mendocino's basic financial statements. The accompanying information identified in the table of contents as combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

Roseville, California
November 3, 2004

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

Prepared By: Alison Glassey, Interim Chief Executive Officer
Dennis Huey, Auditor-Controller

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, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-vi).

Financial Highlights

- ❖ The County of Mendocino's liabilities exceeded its assets at the close of the most recent fiscal year by \$58,537,205 (net assets). Of this amount (\$122,016,700) (unrestricted net assets) was available to meet the County's ongoing obligations to citizens and creditors.
- ❖ The County's total net assets decreased by \$1,397,510. The reasons for the decrease were the under-realization of general purpose revenues, and increase in program activity costs, as compared to 2002/2003 Fiscal Year.
- ❖ At the close of the current fiscal year, the County's combined (all funds) ending fund balance was \$5,397,155. This was a decrease of \$14,331,568 in comparison with the prior year. Approximately 0% of this total amount is available for spending at the government's discretion, since the fund balance is in a negative status (\$2,218,557).
- ❖ Unreserved fund balance for the General Fund at the close of the current fiscal year was \$(1,675,056) or 0% of total general fund expenditures.
- ❖ Total debt decreased by \$5,659,022 (3.8%) during the 2003/04 Fiscal Year.

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

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

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

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

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

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

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

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

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

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

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

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

The County of Mendocino maintains twenty-five individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund, the road fund, the debt service fund and the pension obligation bonds fund, all of which are considered to be major funds. Data from the other twenty-one 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 statement (page 57) has been provided for the general fund to demonstrate compliance with this budget.

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

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

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

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

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

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

Notes to Financial Statements. The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-56 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 57-62 of this report.

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The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual funds statements and Oschedules can be found on pages 63-94 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Mendocino, liabilities exceeded assets by \$58,537,205 at the close of the 2003/2004 Fiscal Year.

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

County of Mendocino's Net Assets

	Governmental Activities	
	2004	2003
Current and other assets	\$ 26,708,421	\$ 34,408,533
Capital assets	85,220,610	80,893,457
Total Assets	111,929,031	115,301,990
Long-term liabilities - outstanding	131,108,820	140,999,477
Other liabilities	39,357,416	31,442,228
Total Liabilities	170,466,236	172,441,705
Net Assets:		
Invest in capital assets, net of related debt	53,286,339	48,291,551
Restricted	10,193,156	14,667,513
Unrestricted	(122,016,700)	(120,098,759)
Total Net Assets	\$ (58,537,205)	\$ (57,139,695)

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

Investments in capital assets are subject to various external restrictions on how they may be used. The remaining negative balance of unrestricted net assets in the amount of (\$122,016,700) cannot be used to meet the County's ongoing obligations to citizens and creditors.

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Governmental Activities. Governmental activities decreased the County's net assets by \$1,397,510. Key elements of this decrease are the under-realization of general purpose revenues and increases in program activity costs, as compared with the 2002/03 fiscal year.

County of Mendocino's Changes in Net Assets

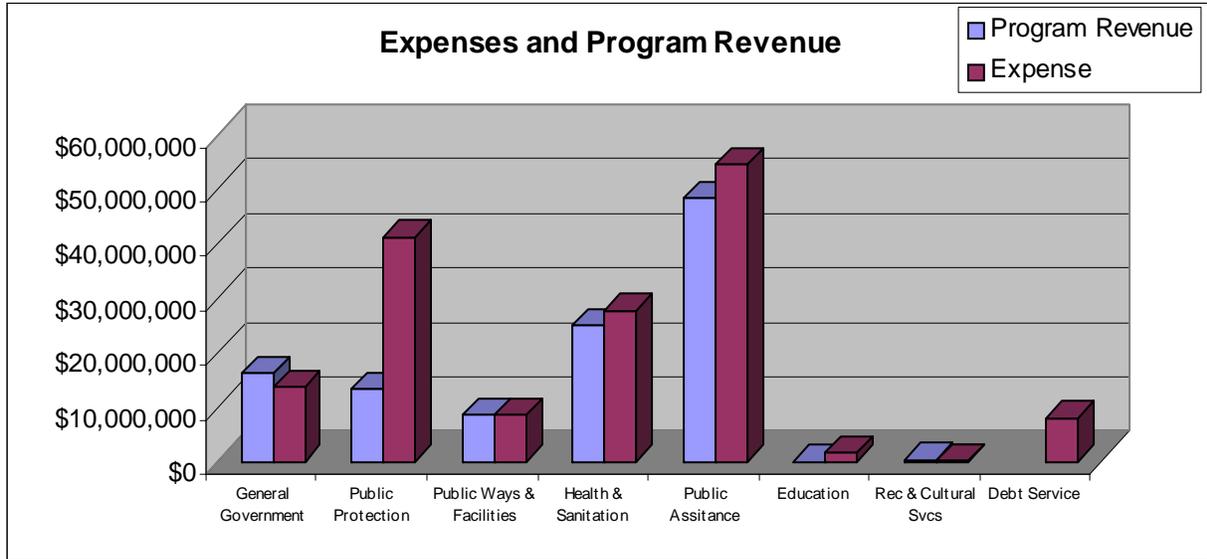
	Governmental Activities	
	2004	2003
Revenues		
Program Revenues:		
Charges for services	\$ 16,953,186	\$ 19,144,937
Operating grants & contributions	92,454,273	91,883,587
Capital grants & contributions	1,989,607	2,324,198
General Revenues:		
Property taxes	21,975,200	20,653,506
Sales & use taxes	10,011,437	9,305,238
Unrestricted Interest & Investment Earnings	788,380	1,264,767
Other	4,053,745	4,637,886
Miscellaneous	4,125,386	4,568,663
Total Revenues	152,351,214	153,782,782
Expenses		
Expenses:		
General government	13,634,772	91,568,879
Public protection	41,228,176	41,493,135
Public ways & facilities	8,427,070	7,800,554
Health & sanitation	27,560,741	30,146,085
Public assistance	54,493,812	53,617,596
Recreation and cultural services	104,711	327,221
Interest on long-term debt	7,859,907	7,576,855
Education	1,572,419	1,532,052
Total Expenses	154,881,608	234,062,377
Change in Net Assets Before Transfers	(2,530,394)	(80,279,595)
Prior Period Adjustment	1,132,884	(5,756,516)
Beginning Net Assets	(57,139,695)	28,896,416
Ending Net Assets	\$ (58,537,205)	\$ (57,139,695)

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

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

- ❖ Property taxes increased by \$1,321,694 (6.4%) during the year. Most of this increase is attributable to growth in secured property-assessed valuation.

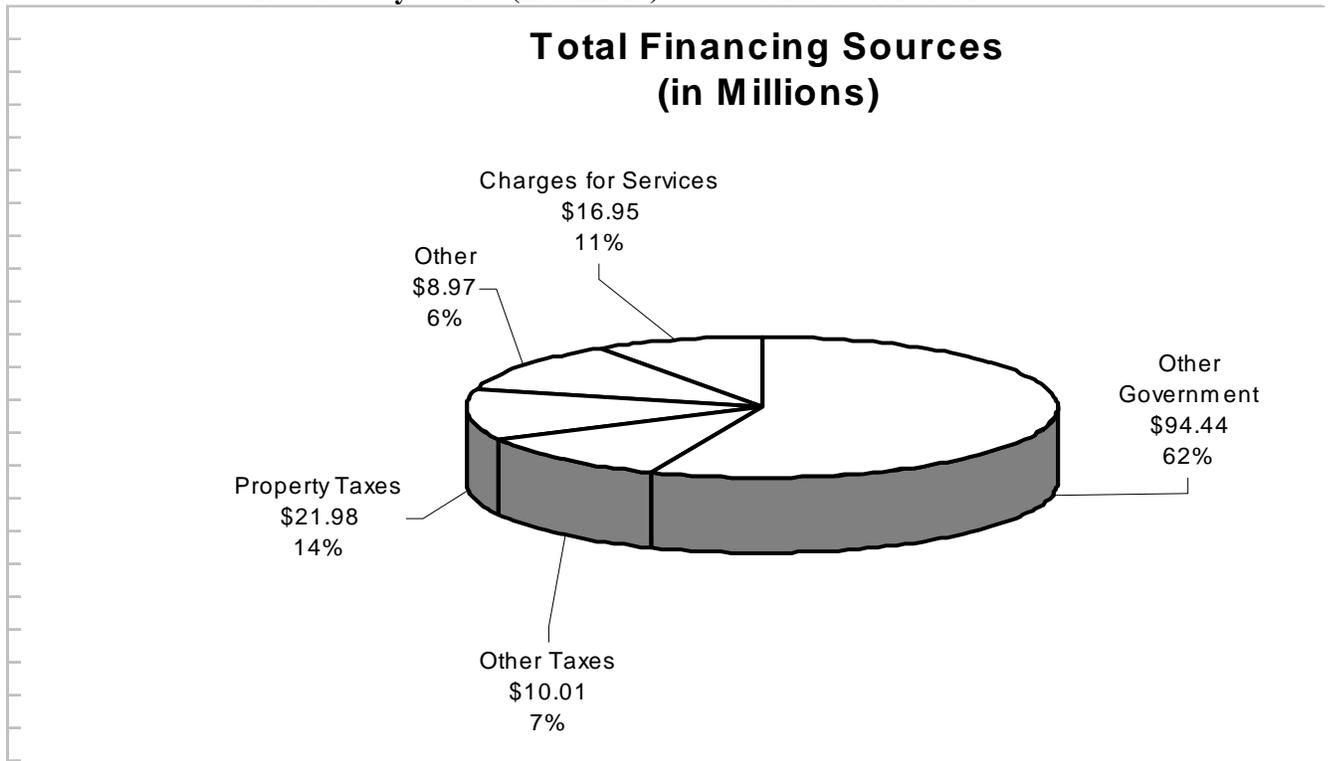
Expenses and Program Revenues – Governmental Activities



Governmental Funds	Program Revenue	Expense
General Government	\$16,187,229	\$13,634,772
Public Protection	\$13,176,292	\$41,228,176
Public Ways & Facilities	\$8,510,576	\$8,427,070
Health & Sanitation	\$24,929,493	\$27,560,741
Public Assistance	\$48,292,364	\$54,493,812
Education	\$5,174	\$1,572,419
Rec & Cultural Svcs	\$295,938	\$104,711
Debt Service		\$7,859,907

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

Revenues by Source (in millions) – Governmental Activities



The largest portion of revenue received by the County comes from Federal and State sources (approximately 62%). The second largest source comes from property taxes (14%). 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 30% 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. A noteworthy exception, however, was in the area of General Government. In this instance, the decrease in expenses of \$77,934,107 reflects the one-time expenditure to the Mendocino Employee's Retirement Association for FY 2002/2003 for the County's pension obligation.

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.

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

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 \$5,397,155, a decrease of \$14,331,568 from the prior year. Some of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$245,640); 2) to pay debt service (\$6,440,475); 3) for a variety of other restricted purposes (\$929,597).

The general fund is the chief operating fund of the County of Mendocino. At the end of the current fiscal year, unreserved fund balance of the general fund was \$(1,675,056), while total fund balance reached \$(1,284,915).

The fund balance of the County of Mendocino's general fund decreased by \$8,052,773 during the 2003/04 Fiscal Year. The key factor in this decrease is the under-realization of general-purpose revenues, due to a reduction at the state level, which, in turn, is due to a flagging economy.

The debt service fund had a total fund balance of \$2,666,684, all of which is reserved for the payment of debt service. The net decrease in fund balance during the current year in the debt service fund was \$467,099. Interest expenditures, however, also decreased during the current period (\$23,845).

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

Unrestricted net assets of the internal service funds at the end of the year amounted to (\$5,964,503).

General Fund Budgetary Highlights. Differences between the original budget and the final amended budget are summarized below:

- ❖ Appropriated \$270,000 of District Attorney's unanticipated revenue.
- ❖ Appropriated \$600,583 for a new mandated Social Services program.
- ❖ Appropriated \$53,824 of Sheriff's asset forfeiture funds.

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

Capital Asset and Debt Administration

Capital assets. The County of Mendocino's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$85,220,610 (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 5%. See footnote 9 for additional details of capital assets.

Major capital asset events during the current fiscal year included the following:

- Completion of the Willits Integrated Services Center
- Completion of the Museum's Exhibition and Learning Center
- Completion of the Museum's Artifacts Storage Building
- Completion of a new Animal Shelter
- Remodel of Low Gap Road/North Bush Street Building

County of Mendocino's Capital Assets - Governmental Activities
(Net of Depreciation)

	2004	2003
Land	\$ 3,298,969	\$ 2,848,274
Building and system	42,134,365	38,380,577
Improvements other than buildings	141,917	246,819
Machinery and equipment	8,694,266	9,424,905
Infrastructure	24,372,126	24,702,985
Construction in progress	6,578,967	5,289,897
Total	\$ 85,220,610	\$ 80,893,457

Long-term debt. At the end of the current fiscal year, the County of Mendocino has total debt outstanding of \$142,635,443.

County of Mendocino's Outstanding Debt
General Obligation and Revenue Bonds

	2004	2003
General obligation bonds	\$ 102,270,000	\$ 104,495,000
Certificates of Participation - other	29,800,000	30,540,000
Other (capital leases, comp balances, landfill closure, loans, general liability)	10,565,443	13,259,465
Total	\$ 142,635,443	\$ 148,294,465

MENDOCINO COUNTY
Management's Discussion and Analysis
June 30, 2004

The County of Mendocino's total debt decreased by \$5,659,022 (3.8%) during the current fiscal year. The key factor in this decrease was the recent refinancing of a previously higher rate certificate of participation issue.

The County of Mendocino maintains an "AAA" rating from Standard and Poor's and Fitch.

State statutes limit the amount of general obligation debt a governmental entity may issue at 10% percent of its total assessed valuation. The current debt limitation for the County of Mendocino is \$632,329,466, 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 footnote 10 on pages 39-42 of this report.

Economic Factors which Impacted Budget. All of the factors listed below were considered in preparing the County of Mendocino's budget for the 2003-2004 fiscal year.

- ❖ The unemployment rate for the County of Mendocino is currently 6.2%, which is significantly higher than the annual national average of 5.8%.
- ❖ Continued sluggish recovery of national, state & local economies. Specifically, State's budget deficit (54% of County revenues come from Federal/State sources).
- ❖ Continued reductions in the County's portion of property, sales and use taxes, room occupancy taxes and timber yield taxes.
- ❖ Increased expenses to employee salaries and benefits due to escalating health and workers compensation insurance costs.

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 Auditor/Controller, 501 Low Gap Road, County of Mendocino, Ukiah, California, 95482.

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

COUNTY OF MENDOCINO

Statement of Net Assets June 30, 2004

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Pooled cash and investments in county treasury	\$ (4,093,426)
Restricted Assets:	
Cash with fiscal agent	9,476,402
Imprest cash	11,728
Accounts receivable	1,060,876
Property taxes receivable	2,341,136
Interest receivable	62,648
Due from other governments	14,523,115
Inventory	923,303
Deferred charges	2,402,589
Internal balances	--
Other assets	50
Total Current Assets	<u>26,708,421</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	9,877,936
Depreciable, net	<u>75,342,674</u>
Total Noncurrent Assets	<u>85,220,610</u>
Total Assets	<u><u>\$ 111,929,031</u></u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	\$ 4,208,544
Accrued salaries and benefits	2,488,900
Due to other governmental agencies	4,968,617
Deferred revenues	6,532,295
Interest payable	3,749,646
Loans payable	16,052
Bonds payable	2,340,000
Certificate of participation	570,000
Liability for unpaid claims	4,094,505
Compensated absences	4,028,329
Capital lease obligation	477,737
Total Current Liabilities	<u>33,474,625</u>
Long-term liabilities, due beyond one year	131,108,820
Accrued landfill closure/postclosure care costs	<u>5,882,791</u>
Total Liabilities	<u>170,466,236</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	53,286,339
Restricted for:	
Capital projects	223,076
Debt service	6,122,864
Other purposes	3,847,216
Unrestricted	<u>(122,016,700)</u>
Total Net Assets	<u>(58,537,205)</u>
Total Liabilities and Net Assets	<u><u>\$ 111,929,031</u></u>

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

COUNTY OF MENDOCINO

Statement of Activities For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 13,634,772	\$ 4,712,899	\$ 11,474,330	\$ --	\$ 2,552,457
Public protection	41,228,176	7,970,742	5,205,550	--	(28,051,884)
Public ways and facilities	8,427,070	517,214	6,003,755	1,989,607	83,506
Health and sanitation	27,560,741	3,594,583	21,334,910	--	(2,631,248)
Public assistance	54,493,812	134,372	48,157,992	--	(6,201,448)
Education	1,572,419	--	5,174	--	(1,567,245)
Recreation and cultural services	104,711	23,376	272,562	--	191,227
Debt Service:					
Interest	7,859,907	--	--	--	(7,859,907)
Total Governmental Activities	\$ 154,881,608	\$ 16,953,186	\$ 92,454,273	\$ 1,989,607	(43,484,542)
General Revenues:					
Taxes:					
Property taxes					21,975,200
Sales and use taxes					10,011,437
Other					4,053,745
Unrestricted interest and investment earnings					788,380
Miscellaneous					4,125,386
Total General Revenues					40,954,148
Change in Net Assets					(2,530,394)
Net assets - July 1					(57,139,695)
Prior period adjustments					1,132,884
Net assets - June 30					\$ (58,537,205)

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

COUNTY OF MENDOCINO

Balance Sheet
Governmental Funds
June 30, 2004

	General	Debt Service	Pension Obligation Bonds
<u>ASSETS</u>			
Pooled cash and investments in county treasury	\$ 88,637	\$ 11,784	\$ (1,373,045)
Restricted Assets:			
Cash with fiscal agent	--	2,813,415	6,662,930
Imprest cash	11,311	--	--
Accounts receivable	461,115	5,776	207,651
Property taxes receivable	2,338,994	--	--
Interest receivable	62,648	--	--
Due from other governments	8,294,393	--	--
Due from other funds	663,500	--	--
Inventory	303,870	--	--
Other assets	50	--	--
Total Assets	\$ 12,224,518	\$ 2,830,975	\$ 5,497,536
<u>LIABILITIES</u>			
Accounts payable	\$ 1,115,427	\$ --	\$ --
Due to other funds	--	--	1,585,000
Accrued salaries and benefits	2,042,448	--	--
Matured principal and interest payable	--	164,291	138,745
Deferred revenues	5,382,941	--	--
Due to other governmental agencies	--	--	--
Advances from other funds	4,968,617	--	--
Total Liabilities	13,509,433	164,291	1,723,745
<u>FUND BALANCES</u>			
Reserved:			
Encumbrances	80,451	--	--
Inventory	303,870	--	--
Imprest cash	11,311	--	--
Debt service	--	2,666,684	3,773,791
Capital projects	--	--	--
Unreserved, reported in:			
General fund	(1,680,547)	--	--
Special revenue funds	--	--	--
Capital project funds	--	--	--
Debt service funds	--	--	--
Total Fund Balances	(1,284,915)	2,666,684	3,773,791
Total Liabilities and Fund Balances	\$ 12,224,518	\$ 2,830,975	\$ 5,497,536

continued

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

COUNTY OF MENDOCINO

Balance Sheet (continued)
Governmental Funds
June 30, 2004

	Mental Health Services	Other Governmental Funds	Total
	<u> </u>	<u> </u>	<u> </u>
<u>ASSETS</u>			
Pooled cash and investments in county treasury	\$ (6,057,516)	\$ 3,236,622	\$ (4,093,518)
Restricted Assets:			
Cash with fiscal agent	--	57	9,476,402
Imprest cash	--	417	11,728
Accounts receivable	80,258	137,579	892,379
Property taxes receivable	--	2,142	2,341,136
Interest receivable	--	--	62,648
Due from other governments	4,789,726	1,277,428	14,361,547
Due from other funds	--	2,047,550	2,711,050
Inventory	--	619,433	923,303
Other assets	--	--	50
Total Assets	<u>\$ (1,187,532)</u>	<u>\$ 7,321,228</u>	<u>\$ 26,686,725</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 490,702	\$ 910,630	\$ 2,516,759
Due to other funds	--	640,950	2,225,950
Accrued salaries and benefits	203,290	233,098	2,478,836
Matured principal and interest payable	--	--	303,036
Deferred revenues	1,629,562	1,783,869	8,796,372
Due to other governmental agencies	--	--	--
Advances from other funds	--	--	4,968,617
Total Liabilities	<u>2,323,554</u>	<u>3,568,547</u>	<u>21,289,570</u>
<u>FUND BALANCES</u>			
Reserved:			
Encumbrances	--	165,189	245,640
Inventory	--	619,433	923,303
Imprest cash	--	417	11,728
Debt service	--	--	6,440,475
Capital projects	--	57	57
Unreserved, reported in:			
General fund	--	--	(1,680,547)
Special revenue funds	(3,511,086)	3,062,177	(448,909)
Capital project funds	--	223,019	223,019
Debt service funds	--	(317,611)	(317,611)
Total Fund Balances	<u>(3,511,086)</u>	<u>3,752,681</u>	<u>5,397,155</u>
 Total Liabilities and Fund Balances	 <u>\$ (1,187,532)</u>	 <u>\$ 7,321,228</u>	 <u>\$ 26,686,725</u>

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

COUNTY OF MENDOCINO

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities June 30, 2004

Fund Balance - total governmental funds (page 16)	\$ 5,397,155
Amounts reported for governmental activities in the statement of net assets are different because:	
Deferred charges in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,402,589
Deferred revenues represent amounts that are not available to fund current expenditures and, therefore, are not reported in the governmental funds.	2,264,077
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	84,209,086
Internal service funds are used by the County to charge the cost of unemployment insurance, dental insurance, fleet services and telephone services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets are:	(4,952,979)
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of June 30, 2004 are:	
Loans payable	(308,338)
Bonds payable	(102,270,000)
Certificates of participation	(29,800,000)
Capital leases	(2,134,271)
Accrued interest on long-term debt	(3,446,610)
Compensated absences	(4,015,123)
Landfill closure/post closure care costs	<u>(5,882,791)</u>
Net assets of governmental activities (page 13)	<u>\$ (58,537,205)</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, 2004

	General	Debt Service	Pension Obligation Bonds
Revenues:			
Taxes	\$ 35,807,073	\$ --	\$ --
Licenses, permits and franchises	2,564,759	--	--
Intergovernmental	62,166,192	--	--
Revenue from use of money and property	771,840	28,354	--
Fines, forfeitures and penalties	1,399,743	--	--
Charges for services	9,890,795	--	7,905,042
Other revenue	3,134,679	9,754	--
Total Revenues	115,735,081	38,108	7,905,042
Expenditures:			
Current:			
General government	13,523,860	9,382	5,965
Public protection	38,905,502	--	--
Public ways and facilities	257,332	--	--
Health and sanitation	11,641,740	--	--
Public assistance	50,321,733	--	--
Education	233,840	--	--
Recreation and culture services	288,719	--	--
Debt service - principal	--	740,000	2,225,000
Debt service - interest	610,612	1,506,608	5,967,428
Capital outlay	811,479	--	--
Total Expenditures	116,594,817	2,255,990	8,198,393
Excess (Deficiency) of Revenues Over (Under) Expenditures	(859,736)	(2,217,882)	(293,351)
Other Financing Sources (Uses):			
Transfers in	575,360	1,750,783	--
Transfers out	(7,768,397)	--	--
Capital leases	--	--	--
Total Other Financing Sources (Uses)	(7,193,037)	1,750,783	--
Net change in fund balances	(8,052,773)	(467,099)	(293,351)
Fund balances - beginning	5,099,203	3,133,783	4,067,142
Prior period adjustment	1,668,655	--	--
Fund balances, restated, beginning	6,767,858	3,133,783	4,067,142
Fund balances - ending	\$ (1,284,915)	\$ 2,666,684	\$ 3,773,791

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, 2004

	Mental Health Services	Other Governmental Funds	Totals
Revenues:			
Taxes	\$ --	\$ 233,309	\$ 36,040,382
Licenses, permits and franchises	--	371,901	2,936,660
Intergovernmental	10,743,173	14,968,902	87,878,267
Revenue from use of money and property	(70,239)	75,089	805,044
Fines, forfeitures and penalties	--	704,990	2,104,733
Charges for services	80,813	718,246	18,594,896
Other revenue	482,875	236,814	3,864,122
Total Revenues	<u>11,236,622</u>	<u>17,309,251</u>	<u>152,224,104</u>
Expenditures:			
Current:			
General government	--	213,104	13,752,311
Public protection	--	2,635,679	41,541,181
Public ways and facilities	--	10,098,673	10,356,005
Health and sanitation	13,015,666	4,252,570	28,909,976
Public assistance	--	3,366,187	53,687,920
Education	--	1,248,551	1,482,391
Recreation and culture services	--	36,274	324,993
Debt service - principal	--	--	2,965,000
Debt service - interest	--	--	8,084,648
Capital outlay	14,223	5,382,891	6,208,593
Total Expenditures	<u>13,029,889</u>	<u>27,233,929</u>	<u>167,313,018</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,793,267)</u>	<u>(9,924,678)</u>	<u>(15,088,914)</u>
Other Financing Sources (Uses):			
Transfers in	--	6,074,152	8,400,295
Transfers out	(49,164)	(403,515)	(8,221,076)
Capital leases	--	578,127	578,127
Total Other Financing Sources (Uses)	<u>(49,164)</u>	<u>6,248,764</u>	<u>757,346</u>
Net change in fund balances	<u>(1,842,431)</u>	<u>(3,675,914)</u>	<u>(14,331,568)</u>
Fund balances - beginning	--	7,428,595	19,728,723
Prior period adjustment	(1,668,655)	--	--
Fund balances, restated, beginning	<u>(1,668,655)</u>	<u>7,428,595</u>	<u>19,728,723</u>
Fund balances - ending	<u>\$ (3,511,086)</u>	<u>\$ 3,752,681</u>	<u>\$ 5,397,155</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, 2004

Net change to fund balance - total governmental funds (page 19)		\$ (14,331,568)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	8,583,623	
Less current year depreciation	<u>(4,894,365)</u>	3,689,258
<p>In the statement of activities, the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the assets.</p>		
		(317,217)
<p>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.</p>		
		7,075,578
<p>Loan proceeds and new capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.</p>		
		(828,127)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal and refunded debt repayments:		
Capital leases	429,240	
Loans payable	15,576	
Bonds payable and certificates of participation	<u>2,965,000</u>	3,409,816
<p>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. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.</p>		
Change in accrued interest on long-term debt	248,091	
Amortization of bond issuance costs	(23,350)	
Change in compensated absences	(109,583)	
Change in liability for closure/post closure care	<u>1,475,223</u>	1,590,381
<p>Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of the internal service funds is reported with governmental activities.</p>		
		<u>(2,818,515)</u>
Change in net assets of governmental activities (page 14)		<u>\$ (2,530,394)</u>

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

COUNTY OF MENDOCINO

Statement of Fund Net Assets
Proprietary Funds
June 30, 2004

	<u>Governmental Activities</u> Internal Service Funds
ASSETS	
Current Assets:	
Cash and investments	\$ 92
Accounts receivable	330,065
Due from other funds	745,938
Total Current Assets	<u>1,076,095</u>
Noncurrent Assets:	
Capital Assets:	
Depreciable:	
Equipment	3,950,520
Accumulated depreciation	<u>(2,938,996)</u>
Total Noncurrent Assets	<u>1,011,524</u>
Total Assets	<u><u>\$ 2,087,619</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 1,691,785
Accrued salaries and benefits	10,064
Compensated absences payable	13,206
Due to other funds	1,231,038
Liability for unpaid claims	4,094,505
Total Current Liabilities	<u>7,040,598</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,011,524
Unrestricted	<u>(5,964,503)</u>
Total Net Assets	<u>(4,952,979)</u>
Total Liabilities and Net Assets	<u><u>\$ 2,087,619</u></u>

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

COUNTY OF MENDOCINO

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Governmental Activities Internal Service Funds</u>
Operating Revenues:	
Charges for services	\$ 15,883,044
Other revenue	1,300
Total Operating Revenues	<u>15,884,344</u>
Operating Expenses:	
Salaries and employee benefits	300,743
Maintenance and repairs	1,651
Services and supplies	11,214,646
Insurance	5,252,492
Depreciation	584,400
Claims and judgments	1,158,971
Total Operating Expenses	<u>18,512,903</u>
Operating Income (Loss)	<u>(2,628,559)</u>
Non-Operating Revenues (Expenses):	
Interest income (expense)	(16,664)
Sale of capital assets	5,927
Total Non-Operating Revenues (Expenses)	<u>(10,737)</u>
Net Income (Loss) Before Transfers	(2,639,296)
Transfers out	<u>(179,219)</u>
Change in Net Assets	(2,818,515)
Net Assets - Beginning of Year	<u>(2,134,464)</u>
Net Assets - End of Year	<u><u>\$ (4,952,979)</u></u>

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

COUNTY OF MENDOCINO

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from interfund services provided	\$ 15,715,129
Cash paid to suppliers for goods and services	(15,158,146)
Cash paid to employees for services	<u>(294,216)</u>
Net Cash Provided (Used) by Operating Activities	<u>262,767</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers out	(179,219)
Interest payments	<u>(23,360)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(202,579)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from sales of capital assets	94,311
Purchase of capital assets	<u>(421,097)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(326,786)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>6,696</u>
Net Cash Provided by Investing Activities	<u>6,696</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(259,902)
Cash and Cash Equivalents, Beginning of Year	<u>259,994</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 92</u></u>

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

continued

COUNTY OF MENDOCINO

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Investment Trust	Agency Funds	Pension Trust Fund	Total
ASSETS				
Cash and investments in County Treasury	\$ 63,731,454	\$ 8,414,050	\$ 5,791,416	\$ 77,936,920
Imprest cash	38,551	--	--	38,551
Accounts receivable	459,157	--	4,011,314	4,470,471
Taxes receivable	--	5,027,646	--	5,027,646
Advances to other funds	--	4,968,617	--	4,968,617
Other investments	--	--	250,835,705	250,835,705
Total Current Assets	<u>\$ 64,229,162</u>	<u>\$ 18,410,313</u>	<u>\$ 260,638,435</u>	<u>\$ 343,277,910</u>
LIABILITIES				
Accounts payable	\$ 187,915	\$ --	\$ 121,638	309,553
Accrued payroll and benefits	143,476	--	--	143,476
Investment purchases	--	--	2,486,052	2,486,052
Agency funds held for others	--	18,410,313	--	18,410,313
Total Liabilities	<u>331,391</u>	<u>18,410,313</u>	<u>2,607,690</u>	<u>21,349,394</u>
NET ASSETS				
Net Assets held in trust for:				
Retirement system	--	--	258,030,745	258,030,745
Investment pool participants	63,897,771	--	--	63,897,771
Total Net Assets	<u>63,897,771</u>	<u>--</u>	<u>258,030,745</u>	<u>321,928,516</u>
Total Liabilities and Net Assets	<u>\$ 64,229,162</u>	<u>\$ 18,410,313</u>	<u>\$ 260,638,435</u>	<u>\$ 343,277,910</u>

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

COUNTY OF MENDOCINO

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2004

	Pension Trust	Investment Trust
Additions:		
Contributions:		
Employer contributions	\$ 4,220,141	\$ --
Member contributions	6,648,590	--
Other income	2,281,907	--
Contributions on pooled investments	--	63,140,154
Interest and investment income (net)	34,487,091	1,122,635
Total Additions	47,637,729	64,262,789
Deductions:		
Benefit payments	12,992,449	--
Refunds of contributions	728,369	--
Distributions from investment pool	--	67,796,370
Administrative expense	360,445	--
Total Deductions	14,081,263	67,796,370
Change in net assets	33,556,466	(3,533,581)
Net assets, beginning	224,474,279	67,431,352
Net assets, ending	\$ 258,030,745	\$ 63,897,771

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 1: **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, Meadowbrook Manor Sanitation District, Mendocino County Air Quality Management District, and Mendocino County Public Facilities Corporation are districts and 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.

Note 2: **Summary of Significant Accounting Policies**

A. **Basis of Presentation**

Government-Wide Financial Statements

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

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

Government-Wide Financial Statements (continued)

activities, generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. At June 30, 2004, the County had no business-type activities.

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

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

Fund Financial Statements

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

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

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

Fund Financial Statements (continued)

The County reports the following major governmental funds:

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

The County reports the following additional fund types:

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

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

Fund Financial Statements (continued)

- The *Agency Funds* account for assets held by the County as an agent for various local governments.

B. **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 eligible 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 financial sources.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

B. Measurement Focus and Basis of Accounting (continued)

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

C. Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

D. Cash and Investments

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

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

E. Cash and Cash Equivalents

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

F. Receivables

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

G. Inventories

Inventories are valued at average cost (first-in, first-out). 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 a fund balance reservation to indicate that portion of fund balance not available for future appropriations.

H. Property Tax Revenue

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

Alternative Method of Distribution of Tax Levies

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

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

I. Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, bridges, water/sewer, lighting system, drainage systems, and flood control. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

I. **Capital Assets** (continued)

The estimated useful lives are as follows:

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

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

J. **Other Assets**

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are also used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets.

Recognition of governmental fund type revenues represented by non-current receivables is deferred until they become current receivables. Non-current portions of long-term loans receivable are offset by fund balance reserve accounts.

Special reporting treatments are also applied to governmental fund inventories to indicate that they do not represent “available spendable resources,” even though they are a component of net current assets. Such amounts are generally offset by fund balance reserve accounts.

K. **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, 2004

Note 2: **Summary of Significant Accounting Policies** (continued)

K. 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.

L. Estimates

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

Note 3: **Restatements of Net Asset and Fund Balances**

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

Fund Reclassifications

Mental Health Fund – Mental Health Fund was reclassified from the General Fund.

Capital Assets

A prior period adjustment of \$1,482,968 was made to record Construction in Progress not previously recorded by the County. A prior period adjustment of \$(276,170) was recorded to correct prior year ending capital assets accumulated depreciation balances.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 3: **Restatements of Net Asset and Fund Balances** (continued)

Other Restatements

A prior period adjustment of \$(73,914) was made to record a loan not previously recorded in the financial statements.

	<u>Government-Wide Statement of Activities</u>	<u>Fund Financial Statements</u>	
	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Mental Health Services</u>
Net assets/fund balance – June 30, 2003, as previously Reported	\$ (57,139,695)	\$ 5,099,203	\$ --
Adjustment associated with: Fund reclassification:			
Mental Health	--	1,668,655	(1,668,655)
Capital assets	1,206,798	--	--
Other adjustments	(73,914)	--	--
Total adjustments	<u>1,132,884</u>	<u>1,668,655</u>	<u>(1,668,655)</u>
Net assets/fund balance – July 1, 2003, as restated	\$ (56,006,811)	\$ 6,767,858	\$ (1,668,655)

Note 4: **Stewardship, Compliance and Accountability**

Deficit Fund Equity

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

<u>Fund</u>	<u>Deficit</u>
General Fund	\$ 1,284,915
Mental Health Services	3,511,086
Accumulated Capital Outlay	444,449
Miscellaneous Grants	557,623
Health Insurance	3,239,134
General Liability Insurance	1,987,950
Unemployment Insurance	796,061
Worker's Compensation	279,980
Retiree Health Administration	35,184
Lighting Special District – Alexander Estates	15,447
Lighting Special District – Noyo	1,124
Redevelopment Agency	317,611

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 4: **Stewardship, Compliance and Accountability** (continued)

Deficit Fund Equity (continued)

During the County's final budget hearings held in August 2004, the County adopted a final budget for fiscal year 04/05 incorporating the General Fund's negative fund balance amount into the balanced budget plans. Thus far for this year, the County appears to be performing better than original budget targets and it hopes to close the June 30, 2005 year with a positive fund balance carryover in the estimated amount of \$500,000 to \$1,000,000 range. The principal reasons for this appears to be in two areas: (1) unanticipated salary savings resulting from the County's inability to retain or attract personnel at the salary levels being offered by the County and (2) unanticipated increases in its discretionary property tax revenue resulting from higher than expected activity in its supplemental tax roll changes of ownership (and therefore its property tax revenue as well) along with a higher than expected increase in its assessed property valuations due to the higher market values for residential homes. Whereas the County typically budgets for a normal five percent growth from year to year, net year it anticipates the increase to approach double digits.

The deficit fund equity in the Mental Health Services fund is due to several years of excess expenditures over revenues. The Board of Supervisors permitted the accumulated deficit to be separated from the General Fund so as to limit the fiscal impact to the Mental Health Fund solely. The Director of Mental health is currently working closely with Administration and the Auditor-Controller under a plan to defease the deficit over a period of three years. It is anticipated that the deficit at June 30, 2005 will be less than \$1.5 million through a combination of a reduction in hours, other costs cutbacks in non-mandated services as well as the receipt of unanticipated revenues. It should also be noted that by the end of fiscal year 2004-2005, the outstanding SB90 state mandated cost claim owing to the County of Mendocino Mental Health Department will be approximately \$1.6 million and, if paid in accordance with the recent passage of Proposition 1A, will greatly assist in the elimination of the deficit beginning in 2006.

The deficit fund equity in the Accumulated Capital Outlay fund was brought about by reimbursements for project costs which failed to materialize. As a result, the General Fund will absorb this deficit, and the appropriate transfers will be made when the County closes its books at June 30, 2005.

The deficit fund equity in the Miscellaneous Grants fund came about as a result of the County advancing and paying for costs in anticipation of reimbursements from the grantor agencies. Those costs creating the deficits were in fact reimbursed to the County during fiscal year 04/05.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 4: **Stewardship, Compliance and Accountability** (continued)

Deficit Fund Equity (continued)

The Internal Service Funds for insurance (health, general liability, unemployment and worker's compensation) had a deficit fund equity at year-end because of the increase in insurance premiums and cost of health care during the year. Also, no contributions were received in current year for unemployment. The County is partially self-insuring its insurance coverage and intends to progressively raise the amount of insurance contributions charged.

The deficit fund equity in the Lighting Special District funds was due to an excess of expenditures over taxes assessed and received in couple districts. The Alexander Estates district used to have an additional direct assessment to make up for the excess expenditures. However, this assessment expired a few years ago and has not been replaced. Because the lighting districts are all controlled by the County Board of Supervisors, the County is considering grouping all districts in one fund.

The deficit fund equity in the Redevelopment Agency debt service fund is due to excess expenditures over revenues. The Agency has not started receiving tax increments yet, but is annually incurring expenditures, and will be until the plan is put in place in the fiscal year ended June 30, 2005.

Note 5: **Cash and Investments**

Cash in Treasury

The County's investment policy is governed by the California Government Code. Under the parameters established by the California Government Code, the County may purchase: obligations issued by the United States Treasury; obligations, participations, or other instruments of or issued by a federal agency or a United States government sponsored enterprise; obligations of state and local agencies of this state; bankers acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term corporate notes; as well as other investments established by the California Government Code.

The County maintains a combined pool with cash and investments which provide cash flow for the funding needs of the County and local agencies required by law to keep funds in the Treasury. The pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by the California Government Code Section 27143.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 5: **Cash and Investments** (continued)

Cash in Treasury (continued)

The combined pool's investments are valued using the amortized cost method (which approximates fair value) and includes accrued interest. This pool, which is available to all funds, has deposits and investments with a weighted-average maturity of less than one year. Interest is apportioned to the separate funds based on the individual fund's average daily balance.

Deposits: At year end the carrying amount of the County's Treasury deposits was \$7,938,005, which was maintained in financial institutions. Of the balance in financial institutions, \$100,000 was covered by federal depository insurance and \$7,838,005 was covered by collateral having a market value of at least 10% in excess of total amount on deposit as governed by the Administrator of Local Agency Security of the State of California. The County's deposits are considered to be in risk categories 1 during the fiscal year.

Under the California Government Code, a financial institution is required to secure deposits in excess of \$100,000 made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities on the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of those deposits. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the County's name.

GASB 31 requires governmental external investment pools to report certain investments at fair value in the financial statements and report the change in the fair value of investments in the year in which the change occurred. In compliance with these requirements, the fair value of the County's combined pool is determined annually and is based on current market prices received from the securities custodian, broker bids, and LAIF, except for instruments which are carried at amortized cost plus accrued interest. The fair value of the participants' position in the pool is the same as the carrying value of the pool shares. The County Treasury has provided a dollar factor in the Quarterly Report of Investments, which can be used for financial reporting by the pool participants. As of June 30, 2004, the fair values are 99.39% of the carrying value and are deemed to not represent a material difference.

The County's combined pool has invested in the State Local Agency Investment Fund (LAIF). The fair value of the investments in LAIF is the same value of the pool shares. Market valuation is conducted quarterly, the factor of which is provided by LAIF are authorized under Government Code Section 16430 and 16480.4, in line with the goals of safety, liquidity and yield. As of June 30, 2004, the LAIF pool includes structured notes

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 5: **Cash and Investments** (continued)

Cash in Treasury (continued)

and asset-backed securities, which total 1.603% of the total portfolio. LAIF has oversight by the Local Investment Advisory Board (LIAB), which consists of five members as designated by statute. The Chairman of the LIAB is the State Treasurer or his designated representative.

Investment: The County's investments are detailed below. In order to standardize the reporting of risk categories as they pertain to the investment of public funds, as outlined by GASB 3, each type of investment is classified into one of three categories. Category 1 pertains to securities insured or registered, or securities held by the County or its agent in the County's name. Category 2 refers to uninsured and unregistered securities held by the counter party's trust department or agent in the County's name. Category 3 includes uninsured and unregistered securities held by the counterparty, or its trust department or agent but not in the County's name. All of the County's investments during the fiscal year were in Category 1. The County's investments by category as of June 30, 2004, are as follows:

	<u>Maturity Dates</u>	<u>Stated Interest Rates</u>	<u>Category 1</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Par Value</u>
Commercial Paper	7/14/04	1.10%	\$ 2,995,050	\$ 2,995,050	\$ 2,998,808	\$ 3,000,000
Medium-Term Notes	1/13/05 – 9/1/05	1.12 – 2.56%	15,024,676	15,024,676	15,062,432	15,000,000
Federal Agency Obligations	6/23/06 – 9/15/17	1.57 – 10%	<u>8,094,622</u>	<u>8,094,622</u>	<u>8,099,735</u>	<u>8,098,252</u>
			<u>\$ 26,114,348</u>	26,114,348	26,160,975	26,098,252
Investment in State Treasurer's Investment Pool				33,000,000	32,946,678	33,000,000
Mendocino County Delinquent Tax and Revenue Anticipation Note				10,726,496	10,726,496	10,726,496
Mutual Fund				7,735,701	7,292,462	7,292,462
Cash in Bank				7,938,005	7,938,005	7,938,005
Cash on Hand				<u>1,372,098</u>	<u>1,372,098</u>	<u>1,372,098</u>
Total Investments in County Treasury				86,886,648	86,436,714	86,427,313
Outstanding Warrants				(13,998,140)	(13,998,140)	(13,998,140)
Miscellaneous Reconciling Items				<u>954,986</u>	<u>954,986</u>	<u>954,986</u>
Total Cash and Cash Equivalents in Treasury				<u>\$ 73,843,494</u>	<u>\$ 73,393,560</u>	<u>\$ 73,384,159</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 5: **Cash and Investments** (continued)

Cash in Treasury (continued)

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2004:

COUNTY OF MENDOCINO

Pooled Treasury

Statement of Net Assets

June 30, 2004

Assets:	
Pooled cash and investments	<u>\$ 73,843,494</u>
Net Assets:	
Equity of Internal Pool participants	\$ 10,112,040
Equity of External Pool participants (voluntary and involuntary)	<u>63,731,454</u>
Total Net Assets	<u>\$ 73,843,494</u>

COUNTY OF MENDOCINO

Pooled Treasury

Statement of Changes in Net Assets

For the Year Ended June 30, 2004

Net investment income (loss) for the year	\$ (1,018,086)
Net additional contributions (withdrawals) by pool participants	<u>(11,441,473)</u>
Net increase (decrease) for the year	(12,459,559)
Net assets, July 1, 2003	<u>86,303,053</u>
Net assets, June 30, 2004	<u>\$ 73,843,494</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 5: **Cash and Investments** (continued)

Restricted Cash with Fiscal Agent

Cash and investments at June 30, 2004 that are restricted by legal or contractual requirements are comprised of the following:

Capital Projects Funds	\$	57
Debt Service Fund		2,813,415
Pension Obligation Bonds		<u>6,662,930</u>
 Total Restricted Cash		 <u>\$ 9,476,402</u>

Note 6: **Deferred Revenues**

Governmental funds report deferred revenue in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of June 30, 2004, the various components of unavailable deferred revenue and unearned revenue reported were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Governmental Activities:			
Government-wide Statements:			
Advance from fiscal agent for interest on 2002 bonds	\$ --	\$ 4,602,304	\$ 4,602,304
Various grants and charges	--	<u>1,929,991</u>	<u>1,929,991</u>
	<u>\$ --</u>	<u>\$ 6,532,295</u>	<u>\$ 6,532,295</u>
Fund Statements:			
General Fund:			
Various grants and charges	\$ 4,436,849	\$ 946,092	\$ 5,382,941
Mental Health Services:			
Various grants and charges	1,629,562	--	1,629,562
Other Governmental Funds:			
Various grants and charges	<u>799,970</u>	<u>983,899</u>	<u>1,783,869</u>
 Total Governmental Activities	 <u>\$ 6,866,381</u>	 <u>\$ 1,929,991</u>	 <u>\$ 8,796,372</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 7: **Short-Term Note Payable**

On July 1, 2003, the County issued a \$22,243,540 tax and revenue anticipation note to manage the temporary cash flow deficits that occur when the timing of required expenditures does not coincide with the timing of the collection of taxes and other revenues. The note was issued in anticipation of collection of taxes and other revenues to be received during the fiscal year ended June 30, 2004 and was repaid with taxes and other revenues by June 30, 2004.

Short-term note payable activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2004</u>
Short-term note payable	\$ <u> --</u>	\$ <u>22,243,540</u>	\$ <u>22,243,540</u>	\$ <u> --</u>

Note 8: **Interfund Transactions**

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2004 are as follows:

Advances from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Agency Fund	General Fund	\$ <u>4,968,617</u>

Prior year secured taxes (delinquent) have been deposited in the General Fund instead of the Tax Resource Fund over the years. The balance of the advances is the estimated amount of taxes owed by the General Fund to the Tax Resource Fund.

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Funds	Internal Service Funds	\$ <u>745,938</u>
General Fund	Other Governmental Funds	178,100
	Internal Service Funds	<u>485,100</u>
		<u>663,500</u>
Other Governmental Funds	Pension Obligation Bond	1,585,000
	Other Governmental Funds	<u>462,550</u>
		<u>2,047,550</u>
		\$ <u>3,456,988</u>

The above balances reflect temporary cash advances.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 8: **Interfund Transactions** (continued)

Interfund Receivables/Payables (continued)

Transfers:

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various County operations and re-allocations of special revenues. The following schedule briefly summarizes the County's transfer activity:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General Fund	Debt Service	\$ 1,694,879
	Other Governmental Funds	<u>6,073,518</u>
		<u>7,768,397</u>
Mental Health Services Fund	Debt Service Fund	55,904
	Other Governmental Funds	<u>(6,740)</u>
		<u>49,164</u>
Internal Service Funds	General Fund	<u>179,219</u>
		<u>179,219</u>
Other Governmental Funds	Other Governmental Funds	7,374
	General Fund	<u>396,141</u>
		<u>403,515</u>
		<u>\$ 8,400,295</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 9: **Capital Assets**

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2004</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 2,848,274	\$ 450,695	\$ --	\$ --	\$ 3,298,969
Construction in progress	<u>5,289,897</u>	<u>5,041,080</u>	<u>--</u>	<u>(3,752,010)</u>	<u>6,578,967</u>
Total capital assets, not being depreciated	<u>8,138,171</u>	<u>5,491,775</u>	<u>--</u>	<u>(3,752,010)</u>	<u>9,877,936</u>
Capital assets, being depreciated:					
Infrastructure	40,832,239	--	--	1,040,799	41,873,038
Structures and improvements	54,844,156	1,275,027	--	4,192,879	60,312,062
Equipment	25,785,336	2,170,023	(1,193,850)	(51,842)	26,709,667
Improvements other than buildings	<u>2,513,719</u>	<u>69,197</u>	<u>--</u>	<u>--</u>	<u>2,582,916</u>
Total capital assets, being depreciated	<u>123,975,450</u>	<u>3,514,247</u>	<u>(1,193,850)</u>	<u>5,181,836</u>	<u>131,477,683</u>
Less accumulated depreciation for:					
Infrastructure	(16,129,254)	(1,293,416)	--	(78,242)	(17,500,912)
Structures and improvements	(16,463,579)	(1,609,677)	--	(104,441)	(18,177,697)
Equipment	(16,360,431)	(2,414,690)	840,135	(80,415)	(18,015,401)
Improvements other than buildings	<u>(2,266,900)</u>	<u>(160,983)</u>	<u>--</u>	<u>(13,116)</u>	<u>(2,440,999)</u>
Total accumulated depreciation	<u>(51,220,164)</u>	<u>(5,478,766)</u>	<u>840,135</u>	<u>(276,214)</u>	<u>(56,135,009)</u>
Total capital assets, being depreciated, net	<u>72,755,286</u>	<u>(1,964,519)</u>	<u>(353,715)</u>	<u>4,905,622</u>	<u>75,342,674</u>
Government activities capital assets, net	<u>\$ 80,893,457</u>	<u>\$ 3,527,256</u>	<u>\$ (353,715)</u>	<u>\$ 1,153,612</u>	<u>\$ 85,220,610</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 709,790
Public protection	1,105,487
Public ways	1,724,647
Health and sanitation	656,671
Public assistance	527,896
Education	92,089
Recreation and culture	77,786
Depreciation on capital assets held by the County's internal service funds are charged to various functions based on their usage of the assets	<u>584,400</u>
Total Depreciation Expense – Governmental Functions	<u>\$ 5,478,766</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 10: Long-Term Liabilities

Long-term liabilities at June 30, 2004 consisted of the following:

<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, 2004</u>
Loans Payable					
California Energy Commission Loan – 2002	12/22/02-12/22/07	3.00%	\$5,000-\$9,000	\$ 96,884	\$ 58,338
California Energy Commission Loan – 2003	12/22/05-12/22/16	3.95%	\$3,000-\$14,000	<u>250,000</u>	<u>250,000</u>
				<u>\$ 346,884</u>	<u>\$ 308,338</u>
Taxable Pension Obligation Bonds					
1996 Series (Issued to meet net pension obligation of the County's retirement plan)	7/01/03-7/01/09	5.54%-6.97%	\$2,225,000-\$4,770,000	<u>\$ 30,720,000</u>	<u>\$ 10,325,000</u>
2002 Series (Issued to partially refund the 1996 Series and to meet the net pension obligation of the County's retirement plan)	7/01/04-7/01/26	2.07%-5.77%	\$885,000-\$7,560,000	<u>91,945,000</u>	<u>91,945,000</u>
				<u>\$ 122,665,000</u>	<u>\$ 102,270,000</u>
Certificates of Participation					
1998 Issue (defeased the 1989 refunding Certificates of Participation)					
Serial Current Interest Certificates	8/15/03-8/15/06	4.05%-4.30%	\$275,000-\$490,000	<u>\$ 8,600,000</u>	<u>\$ 1,115,000</u>
2000 Issue (Refunding of 1998 COPs)					
Serial Current Interest Certificates	6/01/04-6/01/16	4.10%-5.0%	\$75,000-\$535,000	6,120,000	5,130,000
Term Current Interest Certificates	6/1/2030	5.25%	\$570,000-\$1,905,000	<u>16,360,000</u>	<u>16,360,000</u>
2000 Issue				<u>22,480,000</u>	<u>21,490,000</u>
2001 Issue (Refunding of 1993 certificates)					
Serial Current Interest Certificates	6/01/04-6/01/21	3.5%-4.8%	\$240,000-\$460,000	6,455,000	5,685,000
Term Current Interest Certificates	6/01/2024	4.98%	\$480,000-\$525,000	<u>1,510,000</u>	<u>1,510,000</u>
2001 Issue				<u>7,965,000</u>	<u>7,195,000</u>
				<u>\$ 39,045,000</u>	<u>\$ 29,800,000</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 10: **Long-Term Liabilities** (continued)

A. Summary of Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2004:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers & Adjustments</u>	Balance <u>June 30, 2004</u>	Amounts Due Within <u>One Year</u>
Governmental Activities:						
Bonds payable	\$ 104,495,000	\$ --	\$ 2,225,000	\$ --	\$ 102,270,000	\$ 2,340,000
Loans payable	--	250,000	15,576	73,914	308,338	16,052
Certificates of Participation	30,540,000	--	740,000	--	29,800,000	570,000
Capital leases	1,985,384	578,127	439,150	9,910	2,134,271	477,737
Compensated absences	3,916,067	112,262	--	--	4,028,329	4,028,329
Liability for unpaid claims	<u>3,032,521</u>	<u>11,345,039</u>	<u>10,283,055</u>	<u>--</u>	<u>4,094,505</u>	<u>4,094,505</u>
Total Governmental Activities	<u>\$ 143,968,972</u>	<u>\$12,285,428</u>	<u>\$13,702,781</u>	<u>\$ 83,824</u>	<u>\$ 142,635,443</u>	<u>\$11,526,623</u>

As of June 30, 2004, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending <u>June 30</u>	Governmental Activities					
	<u>Bonds Payable</u>		<u>Certificates of Participation</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 2,340,000	\$ 5,598,896	\$ 570,000	\$ 1,463,451	\$ 16,052	\$ 1,630
2006	2,455,000	5,476,315	885,000	1,434,403	19,440	27,227
2007	2,585,000	5,339,767	1,470,000	1,398,263	36,449	10,218
2008	2,730,000	5,189,341	635,000	1,347,308	28,873	8,951
2009	2,885,000	5,025,709	660,000	1,320,428	20,991	7,993
2010-2014	17,030,000	22,519,114	3,825,000	6,127,084	118,183	26,730
2015-2019	21,995,000	17,383,108	4,780,000	5,134,610	68,350	4,107
2020-2024	28,780,000	10,407,915	6,895,000	3,809,122	--	--
2025-2029	21,470,000	1,904,389	8,175,000	1,830,898	--	--
2030-2034	<u>--</u>	<u>--</u>	<u>1,905,000</u>	<u>100,012</u>	<u>--</u>	<u>--</u>
	<u>\$102,270,000</u>	<u>\$ 78,844,552</u>	<u>\$ 29,800,000</u>	<u>\$ 23,965,579</u>	<u>\$ 308,338</u>	<u>\$ 86,856</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 10: **Long-Term Liabilities** (continued)

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

New Debt

In July of 2003, the County obtained another loan from the California Energy Commission for \$250,000. The proceeds of this loan were used for energy retrofitting of lighting for seven County buildings. Principal and interest payments on the loan are being paid semi-annually at a rate of 3.95% on June 22 and December 22 of each year through 2016.

Debt Service Forward Agreement

In December 2002, the County entered into a debt service forward agreement with the fiscal agent related to the 2002 Bonds. The County received \$4,811,500 in advance for interest to be earned on the required reserves deposited with the fiscal agent over the life of the bonds. The amount which previously was recognized by the General Fund as other revenue in the fund statements, and as is currently being recognized as deferred revenue to be amortized over the life of the bonds in the government-wide statement of net assets. At fiscal year end, the amount of unamortized interest was \$4,602,304.

B. **Leases**

Operating Leases

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

Capital Leases

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

	<u>Governmental Activities</u>
Equipment	\$ 3,409,324
Less: accumulated amortization	<u>(996,379)</u>
Net Value	<u>\$ 2,412,945</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 10: **Long-Term Liabilities** (continued)

B. Leases (continued)

Capital Leases (continued)

The County has entered into lease agreements for data processing systems, copy machines, and other equipment. The original cost of all leased equipment was \$3,409,324. The minimum future lease commitments on these leases are as follows:

Fiscal Year Ending June 30,	<u>Payments</u>
2005	\$ 559,025
2006	451,870
2007	449,154
2008	352,083
2009	290,507
2010-2011	<u>275,599</u>
Total Minimum Lease Payments	2,378,238
Less Amount Representing Interest	<u>(243,967)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 2,134,271</u>

C. Compensated Absences

Vacation – employees accrue vacation at varying rates depending on the length of an employee’s service. Upon termination unused vacation, up to accrual limits, is paid off in cash. Sick leave – all employees accrue sick leave at the rate of 15 days per year. Sick leave may be accrued without limit. Upon termination, unused sick leave will be applied toward length of service for retirement credit. Holidays must be taken within the calendar year and are not accruable. The County records the gross vacation liability. At fiscal year end, the total liability for compensated absences was \$4,028,328. The entire amount was considered current, based on experience.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 11: **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 \$5,882,791 reported as landfill closure/postclosure liability at June 30, 2004 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 2004. The County expects to close all landfills by the fiscal year ended June 30, 2005. 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, 2004</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed 2005	\$ 606,600 3,630,066
South Coast Landfill	Mendocino County	N/A	Closed	<u>1,646,125</u>
Laytonville Landfill	Mendocino County	100%	Closed	<u>\$ 5,882,791</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, 2004, investments of \$1,287,575 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.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 12: **Construction Commitments**

At June 30, 2004, the County had ongoing construction commitments that totaled approximately \$1.3 million.

Note 13: **Net Assets/Fund Balances**

Net Assets

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

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

Fund Balances

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2004, reservations of fund balance are described below:

The term “reserved” is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The County’s management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 13: **Net Assets/Fund Balances** (continued)

Fund Balances (continued)

The County has “reserved” fund balances as follows:

- *Reserve for Imprest Cash* was created to represent the portion of the fund balance that is not available for expenditure because the County maintains various levels of revolving funds for daily operations.
- *Reserve for Encumbrances* was created to represent encumbrances outstanding at the end of the year based on purchase order and contracts signed by the County but not yet completed as of the close of the final year.
- *Reserve for Debt Service and Capital Projects* was created to represent cash held with fiscal agent for debt service and capital projects. The portion of fund balance representing the reserve does not represent an available spendable resource.
- *Reserve for Inventory* was created to represent the balance of inventory that is not available for expenditure.

Note 14: **County Employees Retirement Plan (Defined Benefit Pension Plan)**

Plan Description

The Mendocino County 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, one member is elected by county retirees, and one member is the County Treasurer who is an ex-officio board member and administrator of the retirement system.

Funding Policy

Employees of the County and the special districts contribute to the plan. County contributions for the plan’s year ended June 30, 2004 were \$4,220,141 and contributions by the employees of the County and the special districts were \$6,648,590.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 14: **County Employees Retirement Plan (Defined Benefit Pension Plan)** (continued)

Annual Pension Cost

The Retirement Association uses an entry age normal method with a supplemental present value for its actuarial computations. Significant actuarial assumptions used to determine the standardized measure of the pension benefit obligations are a) a rate of return on current and future investments of 8.0 percent compounded annually, b) projected salary increases of 5.75 percent per year attributable to merit/longevity, and c) additional projected salary increases of 4.75 percent per year attributable to inflation.

The Association was audited by other auditors. The last audit performed was for the year ended June 30, 2004. A complete financial statement of the Association is available at the Auditor-Controller's Office of the County of Mendocino.

Note 15: **Post-Retirement Benefits**

The County pays in accordance with County ordinance, post-retirement medical benefits for retirees who have at least ten years of County service. If the retiree has less than ten years of service, then the retiree pays a percentage of the medical benefits. The benefits paid by the County are funded on a pay-as-you-go basis. At fiscal year end, there were 751 County retirees, of which, 577 received healthcare benefits totaling \$3,076,816 for the year ended June 30, 2004.

Note 16: **Contingencies**

A. **Litigation**

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

B. **Grants**

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. As of June 30, 2004, 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.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 17: **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 reestimations 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 \$533,196.

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, 2004, plus an amount for "incurred but not reported claims." The liability is based on the estimated ultimate cost of settling the claims within the program's self-insured retention. The liability of \$1,761,309 includes incurred but not reported claims.

The County maintains an SIR of \$200,000 per occurrence for this program. Losses which exceed the SIR are covered by an excess insurance policy purchased through CSAC-Excess Insurance Authority. The County contracts with Claims Management, Inc., a third party administrator, to provide claims services for the program. The liability for unpaid claims was based on an actuarial study prepared by Pacific Actuarial Consultants. The liability is based on the estimated ultimate cost of settling the claims within the program's self-insured retention. The County has elected to become fully insured through CSAC-Excess Insurance Authority on July 1, 1997.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2004

Note 17: **Risk Management** (continued)

C. Health Insurance

The County is fully self-insured and administers the program. The County has hired Driver Alliant 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 \$1,800,000.

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

	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>	<u>Health Insurance</u>	<u>Total</u>
Claims liability, 07/01/02	\$ --	\$ 208,573	\$ 1,347,000	\$ 1,555,573
Current year claims and changes in estimates	806,340	1,311,116	9,722,759	11,840,215
Claims payment	<u>(197,486)</u>	<u>(476,022)</u>	<u>(9,689,759)</u>	<u>(10,363,267)</u>
Claims liability, 06/30/03 as restated	<u>\$ 608,854</u>	<u>\$ 1,043,667</u>	<u>\$ 1,380,000</u>	<u>\$ 3,032,521</u>
Claims liability, 07/01/03	\$ 608,854	\$ 1,043,667	\$ 1,380,000	\$ 3,032,521
Current year claims and changes in estimates	308,684	1,161,308	9,875,047	11,345,039
Claims payments	<u>(384,342)</u>	<u>(443,666)</u>	<u>(9,455,047)</u>	<u>(10,283,055)</u>
Claims liability, 06/30/04	<u>\$ 533,196</u>	<u>\$ 1,761,309</u>	<u>\$ 1,800,000</u>	<u>\$ 4,094,505</u>

Note 18: **Excess Expenditures Over Budget**

The following funds had excess expenditures over budget:

	<u>Budget</u>	<u>Expenditure</u>	<u>Variance</u>
Mental Health Services	\$ 11,575,544	\$ 13,029,889	\$ 1,454,355
Accumulated Capital Outlay	1,358,978	1,686,734	327,756
Fish and Game	54,852	61,215	6,363
Museum Bookstore and Special Projects	18,975	21,038	2,063
Pension Obligation Bonds	8,122,957	8,198,393	75,436
Vehicle Replacement	394,000	580,870	186,870
Unemployment Insurance	201,500	312,539	110,859
General Liability Insurance	1,427,503	2,065,528	638,025
Health Insurance	10,529,869	10,916,397	386,528
Worker's Compensation	3,596,704	4,047,119	450,415

Note 19: **Subsequent Events**

On July 1, 2004, the County issued a \$22,304,480 tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable June 24, 2005 and carries a 3.0% interest rate.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2004

Note 20: **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) recently released several new accounting and financial reporting standards. Four of the new standards, GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions (OPEB)*, may have a significant impact on the County's financial reporting process.

GASB Statement No. 40 modifies previous custodial credit risk disclosure requirements and establishes more comprehensive disclosure requirements relating to other common risks of investments such as credit risk, concentration of credit risk and interest rate risk. GASB Statement No. 40 will be implemented in the financial statements for the year ending June 30, 2005.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB No. 42 will be effective for the fiscal year ending June 30, 2006.

GASB Statement No. 44 guides the preparation of supplementary information included in the statistical section. This new statement provides specific requirements for the information presented in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and will enhance comparability among governments presenting a statistical section. GASB No. 44 will be effective for the fiscal year ending June 30, 2006.

GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expenses/expenditures, related assets and liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of state and local government employers. GASB No. 45 will be effective for the fiscal year ending June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MENDOCINO

**Required Supplementary Information
For the Fiscal Year Ended June 30, 2004**

SCHEDULE OF FUNDING PROGRESS

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

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability (AAL)</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ (Overfunded) Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Payroll</u>
6/30/02	\$ 226,883,000	\$ 158,115,000	\$ 68,768,000	69.7%	\$ 57,701,000	119.2%
6/30/03	242,342,000	233,764,000	9,578,000	96.1%	59,865,000	16.0%
6/30/04	265,141,000	239,191,000	25,950,000	90.2%	59,075,000	43.9%

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ 5,099,203	\$ 5,099,203	\$ 5,099,203	\$ --
Resources (inflows):				
Taxes	38,350,852	38,350,852	35,807,073	(2,543,779)
Licenses and permits	2,588,260	2,588,260	2,564,759	(23,501)
Fines, forfeits and penalties	1,225,429	1,360,212	1,399,743	39,531
Revenue from use of money and property	2,073,217	2,073,217	771,840	(1,301,377)
Aid from other governments	68,007,260	68,874,923	62,166,192	(6,708,731)
Charges for services	9,696,595	9,696,595	9,890,795	194,200
Miscellaneous revenue	3,358,015	3,358,837	3,134,679	(224,158)
Other financing sources	1,573,781	1,573,781	575,360	(998,421)
Amounts available for appropriation	<u>126,873,409</u>	<u>127,876,677</u>	<u>116,310,441</u>	<u>(11,566,236)</u>
Charges to appropriations (outflows):				
Current:				
General government	14,943,952	16,158,015	13,604,311	2,553,704
Public protection	39,512,720	39,665,492	38,905,502	759,990
Public way and facilities	727,150	427,150	257,332	169,818
Health and sanitation	12,926,916	12,875,928	11,641,740	1,234,188
Public assistance	54,245,376	54,265,625	50,321,733	3,943,892
Education	234,288	234,288	233,840	448
Recreation and cultural services	306,612	307,148	288,719	18,429
Debt service - interest	--	--	610,612	(610,612)
Capital outlay	742,220	742,220	811,479	(69,259)
Other financing uses	6,975,649	6,975,649	7,768,397	(792,748)
Total charges to appropriations	<u>130,614,883</u>	<u>131,651,515</u>	<u>124,443,665</u>	<u>7,207,850</u>
Budgetary fund balances, June 30	<u>\$ 1,357,729</u>	<u>\$ 1,324,365</u>	<u>\$ (3,034,021)</u>	<u>\$ (4,358,386)</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement \$ 116,310,441

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for budgetary purposes (575,360)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 115,735,081

continued

COUNTY OF MENDOCINO

**Budgetary Comparison Schedule (continued)
General Fund
For the Year Ended June 30, 2004**

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$ 124,443,665
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for budgetary purposes	(7,768,397)
Encumbrances for supplies and services ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes	<u>(80,451)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 116,594,817</u></u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Mental Health Services Fund
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ --	\$ --	\$ --	\$ --
Resources (inflows):				
Revenue from use of money and property	--	--	(70,239)	(70,239)
Aid from other governments	12,138,445	12,138,445	10,743,173	(1,395,272)
Charges for services	136,385	136,385	80,813	(55,572)
Miscellaneous revenue	<u>58,000</u>	<u>58,000</u>	<u>482,875</u>	<u>424,875</u>
Amounts available for appropriation	<u>12,332,830</u>	<u>12,332,830</u>	<u>11,236,622</u>	<u>(1,096,208)</u>
Charges to appropriations (outflows):				
Current:				
Health and sanitation	11,559,903	11,559,903	13,015,666	(1,455,763)
Capital outlay	15,641	15,641	14,223	1,418
Other financing uses	<u>412,642</u>	<u>412,642</u>	<u>49,164</u>	<u>363,478</u>
Total charges to appropriations	<u>11,988,186</u>	<u>11,988,186</u>	<u>13,079,053</u>	<u>(1,090,867)</u>
Budgetary fund balances, June 30	<u>\$ 344,644</u>	<u>\$ 344,644</u>	<u>\$ (1,842,431)</u>	<u>\$ (2,187,075)</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement	<u>\$ 11,236,622</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 11,236,622</u>

continued

COUNTY OF MENDOCINO

**Budgetary Comparison Schedule (continued)
Mental Health Services Fund
For the Year Ended June 30, 2004**

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$ 13,079,053
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for budgetary purposes	<u>(49,164)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 13,029,889</u>

COUNTY OF MENDOCINO

Note to Required Supplementary Information For the Year Ended June 30, 2004

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. Encumbrances are combined with expenditures for budgetary comparison purposes. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward in the ensuing year's budget.

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

The budgets for the governmental funds may include an object level known as "intrafund transfers" in the charges for appropriations. This object level is an accounting mechanism used by the County to show reimbursements between operations within the same fund (an example would be the General Fund).

The amounts reported in the budgetary basis differ from the basis used to present the basic financial statements in accordance with generally accepted accounting principles (GAAP). Annual budgets are prepared on the modified accrual basis of accounting except that current year encumbrances are budgeted as expenditures.

SUPPLEMENTAL INFORMATION

COUNTY OF MENDOCINO

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Special Revenue	Capital Projects	Debt Service	Total
<u>Assets</u>				
Cash and investments in County Treasury	\$ 3,236,519	\$ 14	\$ 89	\$ 3,236,622
Cash held with fiscal agent	--	57	--	57
Imprest cash	417	--	--	417
Due from other governmental agencies	1,277,428	--	--	1,277,428
Due from other funds	1,603,250	444,300	--	2,047,550
Accounts receivable	137,579	--	--	137,579
Taxes receivable	2,142	--	--	2,142
Inventory of supplies, at cost	619,433	--	--	619,433
Total Assets	\$ 6,876,768	\$ 444,371	\$ 89	\$ 7,321,228
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 689,335	\$ 221,295	\$ --	\$ 910,630
Accrued salaries and benefits	233,098	--	--	233,098
Due to other funds	323,250	--	317,700	640,950
Deferred revenues	1,783,869	--	--	1,783,869
Total Liabilities	3,029,552	221,295	317,700	3,568,547
 Fund Balances:				
Reserved for:				
Encumbrances	165,189	--	--	165,189
Inventory	619,433	--	--	619,433
Imprest cash	417	--	--	417
Capital projects	--	57	--	57
Unreserved, reported in:				
Special revenue funds	3,062,177	--	--	3,062,177
Debt service funds	--	--	(317,611)	(317,611)
Capital project funds	--	223,019	--	223,019
Total Equities	3,847,216	223,076	(317,611)	3,752,681
 Total Liabilities and Fund Balances	 \$ 6,876,768	 \$ 444,371	 \$ 89	 \$ 7,321,228

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2004

	Special Revenue	Capital Projects	Debt Service	Total
Revenues:				
Taxes	\$ 233,309	\$ --	\$ --	\$ 233,309
Licenses, permits and franchises	371,901	--	--	371,901
Fines, forfeitures and penalties	704,990	--	--	704,990
Revenue from use of money and property	63,622	15,061	(3,594)	75,089
Aid from other governmental agencies	14,968,902	--	--	14,968,902
Charges for services	718,246	--	--	718,246
Other revenue	234,954	1,860	--	236,814
Total Revenues	<u>17,295,924</u>	<u>16,921</u>	<u>(3,594)</u>	<u>17,309,251</u>
Expenditures:				
Current:				
General government	184,853	--	28,251	213,104
Public protection	2,635,679	--	--	2,635,679
Public ways and facilities	10,098,673	--	--	10,098,673
Health and sanitation	4,252,570	--	--	4,252,570
Public assistance	3,366,187	--	--	3,366,187
Education	1,248,551	--	--	1,248,551
Recreation and culture services	36,274	--	--	36,274
Capital outlay	2,813,528	2,569,363	--	5,382,891
Total Expenditures	<u>24,636,315</u>	<u>2,569,363</u>	<u>28,251</u>	<u>27,233,929</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,340,391)</u>	<u>(2,552,442)</u>	<u>(31,845)</u>	<u>(9,924,678)</u>
Other Financing Sources (Uses):				
Capital leases	578,127	--	--	578,127
Transfers In	5,947,154	126,998	--	6,074,152
Transfers Out	(403,515)	--	--	(403,515)
Total Other Financing Sources (Uses)	<u>6,121,766</u>	<u>126,998</u>	<u>--</u>	<u>6,248,764</u>
Net Change in Fund Balances	(1,218,625)	(2,425,444)	(31,845)	(3,675,914)
Fund Balances, Beginning	<u>5,065,841</u>	<u>2,648,520</u>	<u>(285,766)</u>	<u>7,428,595</u>
Fund Balances, Ending	<u>\$ 3,847,216</u>	<u>\$ 223,076</u>	<u>\$ (317,611)</u>	<u>\$ 3,752,681</u>

COUNTY OF MENDOCINO

Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

	<u>Road</u>	Accumulative <u>Capital Outlay</u>	<u>Library</u>	<u>Fish and Game</u>	<u>Special Aviation</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 458,867	\$ 677	\$ 95,218	\$ 112,076	\$ 226,468
Imprest cash	50	--	217	--	--
Due from other governmental agencies	1,080,615	113,702	52,651	--	--
Due from other funds	--	--	--	--	--
Accounts receivable	4,864	--	2,799	--	--
Taxes receivable	--	--	--	--	--
Inventory of supplies, at cost	619,433	--	--	--	--
Total Assets	<u>\$ 2,163,829</u>	<u>\$ 114,379</u>	<u>\$ 150,885</u>	<u>\$ 112,076</u>	<u>\$ 226,468</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 484,656	\$ 140,126	\$ 10,943	\$ --	\$ 500
Accrued salaries and benefits	148,502	--	24,919	--	--
Due to other funds	--	305,000	--	--	--
Deferred revenues	686,268	113,702	--	--	--
Total Liabilities	<u>1,319,426</u>	<u>558,828</u>	<u>35,862</u>	<u>--</u>	<u>500</u>
Fund Balances:					
Reserved for:					
Encumbrances	6,260	--	--	--	88,282
Inventory	619,433	--	--	--	--
Imprest cash	50	--	217	--	--
Unreserved:					
Designated	--	--	55,014	--	--
Undesignated	218,660	(444,449)	59,792	112,076	137,686
Total Fund Balances	<u>844,403</u>	<u>(444,449)</u>	<u>115,023</u>	<u>112,076</u>	<u>225,968</u>
Total Liabilities and Fund Balances	<u>\$ 2,163,829</u>	<u>\$ 114,379</u>	<u>\$ 150,885</u>	<u>\$ 112,076</u>	<u>\$ 226,468</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2004

	<u>Supplemental Law Enforcement</u>	<u>COPS AB 1913</u>	<u>Sheriff Special Projects</u>	<u>Mobile Spay/ Neuter</u>	<u>Museum Bookstore/ Projects</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 59,298	\$ 317,730	\$ 107,188	\$ 22,000	\$ 107,117
Imprest cash	--	--	--	--	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	--	--	--	--	--
Accounts receivable	--	--	--	3,733	3,463
Taxes receivable	--	--	--	--	--
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 59,298</u>	<u>\$ 317,730</u>	<u>\$ 107,188</u>	<u>\$ 25,733</u>	<u>\$ 110,580</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 4,057	\$ --	\$ --	\$ --	\$ 1,156
Accrued salaries and benefits	1,039	3,588	--	--	--
Due to other funds	--	--	--	--	--
Deferred revenues	--	--	--	--	--
Total Liabilities	<u>5,096</u>	<u>3,588</u>	<u>--</u>	<u>--</u>	<u>1,156</u>
Fund Balances:					
Reserved for:					
Encumbrances	3,647	67,000	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved:					
Designated	--	--	--	--	--
Undesignated	50,555	247,142	107,188	25,733	109,424
Total Fund Balances	<u>54,202</u>	<u>314,142</u>	<u>107,188</u>	<u>25,733</u>	<u>109,424</u>
Total Liabilities and Fund Balances	<u>\$ 59,298</u>	<u>\$ 317,730</u>	<u>\$ 107,188</u>	<u>\$ 25,733</u>	<u>\$ 110,580</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2004

	Recorder Modernization	Micrographics	Assessor	Realignment
<u>Assets</u>				
Cash and investments in County Treasury	\$ 25,340	\$ 711	\$ 118,554	\$ 983,899
Imprest cash	--	--	--	--
Due from other governmental agencies	--	--	--	--
Due from other funds	305,000	--	--	--
Accounts receivable	1,709	834	--	--
Taxes receivable	--	--	--	--
Inventory of supplies, at cost	--	--	--	--
Total Assets	\$ 332,049	\$ 1,545	\$ 118,554	\$ 983,899
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 1,331	\$ --	\$ --	\$ --
Accrued salaries and benefits	--	1,545	--	--
Due to other funds	--	--	--	--
Deferred revenues	--	--	--	983,899
Total Liabilities	1,331	1,545	--	983,899
Fund Balances:				
Reserved for:				
Encumbrances	--	--	--	--
Inventory	--	--	--	--
Imprest cash	--	--	--	--
Unreserved:				
Designated	--	--	--	--
Undesignated	330,718	--	118,554	--
Total Fund Balances	330,718	--	118,554	--
Total Liabilities and Fund Balances	\$ 332,049	\$ 1,545	\$ 118,554	\$ 983,899

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2004

	<u>Redwood Valley Park Endowment</u>	<u>Walker Endowment</u>	<u>Fort Bragg Library Endowment</u>	<u>Museum Endowment</u>
<u>Assets</u>				
Cash and investments in County Treasury	\$ 62,811	\$ 3,509	\$ 26,766	\$ 133,650
Imprest cash	--	--	--	--
Due from other governmental agencies	--	--	--	--
Due from other funds	--	--	--	--
Accounts receivable	--	--	--	--
Taxes receivable	--	--	--	--
Inventory of supplies, at cost	--	--	--	--
Total Assets	<u>\$ 62,811</u>	<u>\$ 3,509</u>	<u>\$ 26,766</u>	<u>\$ 133,650</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ --
Accrued salaries and benefits	--	--	--	--
Due to other funds	--	--	--	--
Deferred revenues	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Reserved for:				
Encumbrances	--	--	--	--
Inventory	--	--	--	--
Imprest cash	--	--	--	--
Unreserved:				
Designated	--	--	--	--
Undesignated	62,811	3,509	26,766	133,650
Total Fund Balances	<u>62,811</u>	<u>3,509</u>	<u>26,766</u>	<u>133,650</u>
Total Liabilities and Fund Balances	<u>\$ 62,811</u>	<u>\$ 3,509</u>	<u>\$ 26,766</u>	<u>\$ 133,650</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2004

	<u>Ukiah Library Endowment</u>	<u>Low Gap Park Endowment</u>	<u>Bookmobile Endowment</u>	<u>Willits Library Endowment</u>	<u>Mobile Spay/Neuter Endowment</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ 136,031	\$ 24,443	\$ 6,179	\$ 5,208	\$ 12,286
Imprest cash	--	--	--	--	--
Due from other governmental agencies	--	--	--	--	--
Due from other funds	--	--	--	--	--
Accounts receivable	--	--	--	--	--
Taxes receivable	--	--	--	--	--
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 136,031</u>	<u>\$ 24,443</u>	<u>\$ 6,179</u>	<u>\$ 5,208</u>	<u>\$ 12,286</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ --	\$ --
Accrued salaries and benefits	--	--	--	--	--
Due to other funds	--	--	--	--	--
Deferred revenues	--	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved:					
Designated	--	--	--	--	--
Undesignated	136,031	24,443	6,179	5,208	12,286
Total Fund Balances	<u>136,031</u>	<u>24,443</u>	<u>6,179</u>	<u>5,208</u>	<u>12,286</u>
Total Liabilities and Fund Balances	<u>\$ 136,031</u>	<u>\$ 24,443</u>	<u>\$ 6,179</u>	<u>\$ 5,208</u>	<u>\$ 12,286</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Special Revenue Funds
 June 30, 2004

	<u>Miscellaneous Grants</u>	<u>Landfill Closure</u>	<u>Special Districts Lighting</u>	<u>Special Districts Other</u>	<u>Total</u>
<u>Assets</u>					
Cash and investments in County Treasury	\$ (543,078)	\$ 7,575	\$ 106,909	\$ 619,087	\$ 3,236,519
Imprest cash	50	--	--	100	417
Due from other governmental agencies	--	--	--	30,460	1,277,428
Due from other funds	--	1,280,000	18,250	--	1,603,250
Accounts receivable	25,745	91,657	--	2,775	137,579
Taxes receivable	--	--	1,599	543	2,142
Inventory of supplies, at cost	--	--	--	--	619,433
Total Assets	<u>\$ (517,283)</u>	<u>\$ 1,379,232</u>	<u>\$ 126,758</u>	<u>\$ 652,965</u>	<u>\$ 6,876,768</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 12,818	\$ 10,200	\$ --	\$ 23,548	\$ 689,335
Accrued salaries and benefits	27,522	--	--	25,983	233,098
Due to other funds	--	--	18,250	--	323,250
Deferred revenues	--	--	--	--	1,783,869
Total Liabilities	<u>40,340</u>	<u>10,200</u>	<u>18,250</u>	<u>49,531</u>	<u>3,029,552</u>
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	165,189
Inventory	--	--	--	--	619,433
Imprest cash	50	--	--	100	417
Unreserved:					
Designated	--	--	--	--	55,014
Undesignated	(557,673)	1,369,032	108,508	603,334	3,007,163
Total Fund Balances	<u>(557,623)</u>	<u>1,369,032</u>	<u>108,508</u>	<u>603,434</u>	<u>3,847,216</u>
Total Liabilities and Fund Balances	<u>\$ (517,283)</u>	<u>\$ 1,379,232</u>	<u>\$ 126,758</u>	<u>\$ 652,965</u>	<u>\$ 6,876,768</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Special Revenue Funds For the Year Ended June 30, 2004

	Road	Accumulative Capital Outlay	Library	Fish and Game	Special Aviation
Revenues:					
Taxes	\$ 75,979	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	162,626	--	--	--	--
Fines, forfeitures and penalties	62,053	214,104	--	14,270	--
Revenue from use of money and property	8,438	(627)	3,008	1,544	--
Aid from other governmental agencies	5,463,998	250,001	272,562	--	20,000
Charges for services	78,431	--	23,376	--	--
Other revenue	47,743	480	56,875	--	--
Total Revenues	5,899,268	463,958	355,821	15,814	20,000
Expenditures:					
Current:					
General government	--	--	--	--	--
Public protection	--	--	--	61,215	--
Public ways and facilities	9,923,875	--	--	--	1,952
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	1,248,551	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	718,691	1,686,734	1,119	--	--
Total Expenditures	10,642,566	1,686,734	1,249,670	61,215	1,952
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,743,298)</u>	<u>(1,222,776)</u>	<u>(893,849)</u>	<u>(45,401)</u>	<u>18,048</u>
Other Financing Sources (Uses):					
Capital leases	578,127	--	--	--	--
Transfers In	3,133,314	367,371	893,979	--	--
Transfers Out	--	--	--	--	--
Total Other Financing Sources (Uses)	3,711,441	367,371	893,979	--	--
Net Change in Fund Balances	(1,031,857)	(855,405)	130	(45,401)	18,048
Fund Balances, Beginning	<u>1,876,260</u>	<u>410,956</u>	<u>114,893</u>	<u>157,477</u>	<u>207,920</u>
Fund Balances, Ending	<u><u>\$ 844,403</u></u>	<u><u>\$ (444,449)</u></u>	<u><u>\$ 115,023</u></u>	<u><u>\$ 112,076</u></u>	<u><u>\$ 225,968</u></u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Nonmajor Special Revenue Funds For the Year Ended June 30, 2004

	Supplemental Law Enforcement	COPS AB 1913	Sheriff Special Projects	Mobile Spay/ Neuter	Museum Bookstore/ Projects
Revenues:					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--	--
Revenue from use of money and property	647	4,354	2,733	249	1,576
Aid from other governmental agencies	125,526	247,144	48,550	--	--
Charges for services	--	--	--	--	--
Other revenue	--	--	2,240	40,075	44,436
Total Revenues	<u>126,173</u>	<u>251,498</u>	<u>53,523</u>	<u>40,324</u>	<u>46,012</u>
Expenditures:					
Current:					
General government	--	--	--	--	--
Public protection	58,464	263,998	723	33,375	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	36,274
Capital outlay	25,081	--	46,070	1,491	--
Total Expenditures	<u>83,545</u>	<u>263,998</u>	<u>46,793</u>	<u>34,866</u>	<u>36,274</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>42,628</u>	<u>(12,500)</u>	<u>6,730</u>	<u>5,458</u>	<u>9,738</u>
Other Financing Sources (Uses):					
Capital leases	--	--	--	--	--
Transfers In	--	--	--	--	--
Transfers Out	(650)	--	(276,586)	--	--
Total Other Financing Sources (Uses)	<u>(650)</u>	<u>--</u>	<u>(276,586)</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	41,978	(12,500)	(269,856)	5,458	9,738
Fund Balances, Beginning	<u>12,224</u>	<u>326,642</u>	<u>377,044</u>	<u>20,275</u>	<u>99,686</u>
Fund Balances, Ending	<u>\$ 54,202</u>	<u>\$ 314,142</u>	<u>\$ 107,188</u>	<u>\$ 25,733</u>	<u>\$ 109,424</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued) Nonmajor Special Revenue Funds For the Year Ended June 30, 2003

	Recorder Modernization	Micrographics	Assessor	Realignment
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--
Revenue from use of money and property	4,691	59	2,283	--
Aid from other governmental agencies	--	--	160,435	--
Charges for services	156,541	48,945	--	--
Other revenue	--	24,526	14,379	--
Total Revenues	<u>161,232</u>	<u>73,530</u>	<u>177,097</u>	<u>--</u>
Expenditures:				
Current:				
General government	108,391	73,533	2,929	--
Public protection	--	--	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	74,540	--	1,596	--
Total Expenditures	<u>182,931</u>	<u>73,533</u>	<u>4,525</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(21,699)</u>	<u>(3)</u>	<u>172,572</u>	<u>--</u>
Other Financing Sources (Uses):				
Capital leases	--	--	--	--
Transfers In	--	--	--	--
Transfers Out	--	--	(96,170)	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(96,170)</u>	<u>--</u>
Net Change in Fund Balances	(21,699)	(3)	76,402	--
Fund Balances, Beginning	<u>352,417</u>	<u>3</u>	<u>42,152</u>	<u>--</u>
Fund Balances, Ending	<u>\$ 330,718</u>	<u>\$ --</u>	<u>\$ 118,554</u>	<u>\$ --</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Nonmajor Special Revenue Funds
 For the Year Ended June 30, 2003

	Redwood Valley Park Endowment	Walker Endowment	Fort Bragg Library Endowment	Museum Endowment
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--
Revenue from use of money and property	730	41	311	9,317
Aid from other governmental agencies	--	--	--	--
Charges for services	--	--	--	--
Other revenue	--	--	--	--
Total Revenues	<u>730</u>	<u>41</u>	<u>311</u>	<u>9,317</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	--	--	--	--
Public ways and facilities	--	--	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>730</u>	<u>41</u>	<u>311</u>	<u>9,317</u>
Other Financing Sources (Uses):				
Capital leases	--	--	--	--
Transfers In	--	--	--	--
Transfers Out	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	730	41	311	9,317
Fund Balances, Beginning	<u>62,081</u>	<u>3,468</u>	<u>26,455</u>	<u>124,333</u>
Fund Balances, Ending	<u>\$ 62,811</u>	<u>\$ 3,509</u>	<u>\$ 26,766</u>	<u>\$ 133,650</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Nonmajor Special Revenue Funds
 For the Year Ended June 30, 2003

	Ukiah Library Endowment	Low Gap Park Endowment	Bookmobile Endowment	Willits Library Endowment	Mobile Spay/Neuter Endowment
Revenues:					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--	--
Revenue from use of money and property	1,583	284	72	61	143
Aid from other governmental agencies	--	--	--	--	--
Charges for services	--	--	--	--	--
Other revenue	--	--	--	--	--
Total Revenues	<u>1,583</u>	<u>284</u>	<u>72</u>	<u>61</u>	<u>143</u>
Expenditures:					
Current:					
General government	--	--	--	--	--
Public protection	--	--	--	--	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	--	--	--	--
Capital outlay	--	--	--	--	--
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,583</u>	<u>284</u>	<u>72</u>	<u>61</u>	<u>143</u>
Other Financing Sources (Uses):					
Capital leases	--	--	--	--	--
Transfers In	--	--	--	--	--
Transfers Out	--	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	1,583	284	72	61	143
Fund Balances, Beginning	<u>134,448</u>	<u>24,159</u>	<u>6,107</u>	<u>5,147</u>	<u>12,143</u>
Fund Balances, Ending	<u>\$ 136,031</u>	<u>\$ 24,443</u>	<u>\$ 6,179</u>	<u>\$ 5,208</u>	<u>\$ 12,286</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)

Nonmajor Special Revenue Funds For the Year Ended June 30, 2003

	Miscellaneous Grants	Landfill Closure	Special Districts Lighting	Special Districts Other	Total
Revenues:					
Taxes	\$ --	\$ --	\$ 47,938	\$ 109,392	\$ 233,309
Licenses, permits and franchises	--	--	--	209,275	371,901
Fines, forfeitures and penalties	--	--	--	414,563	704,990
Revenue from use of money and property	--	14,652	--	7,473	63,622
Aid from other governmental agencies	8,335,456	--	768	44,462	14,968,902
Charges for services	--	373,045	--	37,908	718,246
Other revenue	--	--	--	4,200	234,954
Total Revenues	8,335,456	387,697	48,706	827,273	17,295,924
Expenditures:					
Current:					
General government	--	--	--	--	184,853
Public protection	1,903,026	--	--	314,878	2,635,679
Public ways and facilities	134,459	--	38,387	--	10,098,673
Health and sanitation	3,388,798	236,155	--	627,617	4,252,570
Public assistance	3,366,187	--	--	--	3,366,187
Education	--	--	--	--	1,248,551
Recreation and culture services	--	--	--	--	36,274
Capital outlay	224,729	--	--	33,477	2,813,528
Total Expenditures	9,017,199	236,155	38,387	975,972	24,636,315
Excess (Deficiency) of Revenues Over (Under) Expenditures	(681,743)	151,542	10,319	(148,699)	(7,340,391)
Other Financing Sources (Uses):					
Capital leases	--	--	--	--	578,127
Transfers In	--	1,217,490	--	335,000	5,947,154
Transfers Out	(7,375)	--	--	(22,734)	(403,515)
Total Other Financing Sources (Uses)	(7,375)	1,217,490	--	312,266	6,121,766
Net Change in Fund Balances	(689,118)	1,369,032	10,319	163,567	(1,218,625)
Fund Balances, Beginning	131,495	--	98,189	439,867	5,065,841
Fund Balances, Ending	<u>\$ (557,623)</u>	<u>\$ 1,369,032</u>	<u>\$ 108,508</u>	<u>\$ 603,434</u>	<u>\$ 3,847,216</u>

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors
 June 30, 2004

	<u>Alexander</u> <u>Estates</u>	<u>Covelo</u>	<u>Fairview</u> <u>Acres</u>	<u>Hopland</u>
<u>Assets</u>				
Cash and investments in County treasury	\$ 53	\$ 6,978	\$ 4,576	\$ 18,479
Taxes receivable	--	--	--	--
Deue from other funds	--	--	--	18,250
Total Assets	<u>\$ 53</u>	<u>\$ 6,978</u>	<u>\$ 4,576</u>	<u>\$ 36,729</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	\$ 15,500	\$ --	\$ --	\$ --
Total Liabilities	<u>15,500</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Unreserved:				
Undesignated	<u>(15,447)</u>	<u>6,978</u>	<u>4,576</u>	<u>36,729</u>
Total Fund Balances	<u>(15,447)</u>	<u>6,978</u>	<u>4,576</u>	<u>36,729</u>
Total Liabilities and Fund Balances	<u>\$ 53</u>	<u>\$ 6,978</u>	<u>\$ 4,576</u>	<u>\$ 36,729</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors
 June 30, 2004

	<u>Laytonville</u>	<u>Noyo</u>	<u>Oak Knoll</u>	<u>Riverwood Terrace</u>
<u>Assets</u>				
Cash and investments in County treasury	\$ 6,593	\$ 27	\$ 32,655	\$ 8,061
Taxes receivable	--	1,599	--	--
Deue from other funds	--	--	--	--
Total Assets	<u>\$ 6,593</u>	<u>\$ 1,626</u>	<u>\$ 32,655</u>	<u>\$ 8,061</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	\$ --	\$ 2,750	\$ --	\$ --
Total Liabilities	<u>--</u>	<u>2,750</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Unreserved:				
Undesignated	<u>6,593</u>	<u>(1,124)</u>	<u>32,655</u>	<u>8,061</u>
Total Fund Balances	<u>6,593</u>	<u>(1,124)</u>	<u>32,655</u>	<u>8,061</u>
Total Liabilities and Fund Balances	<u>\$ 6,593</u>	<u>\$ 1,626</u>	<u>\$ 32,655</u>	<u>\$ 8,061</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors
 June 30, 2004

	Ukiah Village	West Talmage	Total
<u>Assets</u>			
Cash and investments in County treasury	\$ 18,089	\$ 11,398	\$ 106,909
Taxes receivable	--	--	1,599
Deue from other funds	--	--	18,250
Total Assets	\$ 18,089	\$ 11,398	\$ 126,758
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other funds	\$ --	\$ --	\$ 18,250
Total Liabilities	--	--	18,250
 Fund Balances:			
Unreserved:			
Undesignated	18,089	11,398	108,508
Total Fund Balances	18,089	11,398	108,508
Total Liabilities and Fund Balances	\$ 18,089	\$ 11,398	\$ 126,758

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Lighting Special Districts Governed by the Board of Supervisors
For the Year Ended June 30, 2004

	<u>Alexander</u> <u>Estates</u>	<u>Covelo</u>	<u>Fairview</u> <u>Acres</u>	<u>Hopland</u>
Revenues:				
Taxes	\$ 6,438	\$ 5,769	\$ 1,411	\$ 10,668
Aid from other governmental agencies	104	90	23	173
Total Revenues	<u>6,542</u>	<u>5,859</u>	<u>1,434</u>	<u>10,841</u>
Expenditures:				
Current:				
Public ways and facilities	<u>9,378</u>	<u>5,345</u>	<u>922</u>	<u>5,620</u>
Total Expenditures	<u>9,378</u>	<u>5,345</u>	<u>922</u>	<u>5,620</u>
Net change in fund balances	(2,836)	514	512	5,221
Fund Balances, Beginning	<u>(12,611)</u>	<u>6,464</u>	<u>4,064</u>	<u>31,508</u>
Fund Balances, Ending	<u><u>\$ (15,447)</u></u>	<u><u>\$ 6,978</u></u>	<u><u>\$ 4,576</u></u>	<u><u>\$ 36,729</u></u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (continued)
Nonmajor Lighting Special Districts Governed by the Board of Supervisors
For the Year Ended June 30, 2004

	<u>Laytonville</u>	<u>Noyo</u>	<u>Oak Knoll</u>	<u>Riverwood Terrance</u>
Revenues:				
Taxes	\$ 2,893	\$ 2,970	\$ 6,834	\$ 1,790
Aid from other governmental agencies	45	44	111	29
Total Revenues	<u>2,938</u>	<u>3,014</u>	<u>6,945</u>	<u>1,819</u>
Expenditures:				
Current:				
Public ways and facilities	<u>2,537</u>	<u>3,652</u>	<u>3,896</u>	<u>692</u>
Total Expenditures	<u>2,537</u>	<u>3,652</u>	<u>3,896</u>	<u>692</u>
Net change in fund balances	401	(638)	3,049	1,127
Fund Balances, Beginning	<u>6,192</u>	<u>(486)</u>	<u>29,606</u>	<u>6,934</u>
Fund Balances, Ending	<u>\$ 6,593</u>	<u>\$ (1,124)</u>	<u>\$ 32,655</u>	<u>\$ 8,061</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (continued)
Nonmajor Lighting Special Districts Governed by the Board of Supervisors
For the Year Ended June 30, 2004

	<u>Ukiah Village</u>	<u>West Talmage</u>	<u>Total</u>
Revenues:			
Taxes	\$ 6,412	\$ 2,753	\$ 47,938
Aid from other governmental agencies	104	45	768
Total Revenues	<u>6,516</u>	<u>2,798</u>	<u>48,706</u>
Expenditures:			
Current:			
Public ways and facilities	<u>4,579</u>	<u>1,766</u>	<u>38,387</u>
Total Expenditures	<u>4,579</u>	<u>1,766</u>	<u>38,387</u>
Net change in fund balances	1,937	1,032	10,319
Fund Balances, Beginning	<u>16,152</u>	<u>10,366</u>	<u>98,189</u>
Fund Balances, Ending	<u>\$ 18,089</u>	<u>\$ 11,398</u>	<u>\$ 108,508</u>

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Other Special Districts Governed by the Board of Supervisors
 June 30, 2004

	Meadowbrook Manor Station	Mendocino County Water Agency
	<hr/>	<hr/>
<u>Assets</u>		
Cash and investments in County Treasury	\$ 11,271	\$ 184,587
Imprest cash	--	--
Accounts receivable	--	--
Taxes receivable	--	543
Due from other governments	--	--
Total Assets	<hr/> <u>\$ 11,271</u>	<hr/> <u>\$ 185,130</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ --	\$ 23,016
Accrued salaries and benefits	--	8,785
Total Liabilities	<hr/> <u>--</u>	<hr/> <u>31,801</u>
Fund Balances:		
Reserved:		
Imprest cash	--	--
Unreserved:		
Undesignated	<hr/> 11,271	<hr/> 153,329
Total Fund Balances	<hr/> <u>11,271</u>	<hr/> <u>153,329</u>
 Total Liabilities and Fund Balances	 <hr/> <u>\$ 11,271</u>	 <hr/> <u>\$ 185,130</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Other Special Districts Governed by the Board of Supervisors
 June 30, 2004

	Air Quality Management	Total
<u>Assets</u>		
Cash and investments in County Treasury	\$ 423,229	\$ 619,087
Imprest cash	100	100
Accounts receivable	2,775	2,775
Taxes receivable	--	543
Due from other governments	30,460	30,460
Total Assets	<u>\$ 456,564</u>	<u>\$ 652,965</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ 532	\$ 23,548
Accrued salaries and benefits	17,198	25,983
Total Liabilities	<u>17,730</u>	<u>49,531</u>
Fund Balances:		
Reserved:		
Imprest cash	100	100
Unreserved:		
Undesignated	438,734	603,334
Total Fund Balances	<u>438,834</u>	<u>603,434</u>
Total Liabilities and Fund Balances	<u>\$ 456,564</u>	<u>\$ 652,965</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Other Special Districts Governed by the Board of Supervisors
For the Year Ended June 30, 2004

	Meadowbrook Manor Station	Mendocino County Water Agency
	<hr/>	<hr/>
Revenues:		
Taxes	\$ 1,318	\$ 108,074
Licenses, permits and franchises	--	--
Fines, forfeitures and penalties	21	1,462
Revenue from use of money and property	--	2,099
Aid from other governmental agencies	--	--
Charges for services	--	24,292
Other revenue	--	3
Total Revenues	<hr/> 1,339 <hr/>	<hr/> 135,930 <hr/>
Expenditures:		
Current:		
Public protection	--	314,878
Health and sanitation	499	--
Capital outlay	--	19,300
Total Expenditures	<hr/> 499 <hr/>	<hr/> 334,178 <hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<hr/> 840 <hr/>	<hr/> (198,248) <hr/>
Other Financing Sources (Uses):		
Transfers in	--	335,000
Transfers out	--	--
Total Other Financing Sources (Uses)	<hr/> -- <hr/>	<hr/> 335,000 <hr/>
Net change in fund balances	840	136,752
Fund Balances, Beginning	<hr/> 10,431 <hr/>	<hr/> 16,577 <hr/>
Fund Balances, Ending	<hr/> <u>\$ 11,271</u> <hr/>	<hr/> <u>\$ 153,329</u> <hr/>

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances (continued)
Nonmajor Other Special Districts Governed by the Board of Supervisors
For the Year Ended June 30, 2004

	Air Quality Management	Total
Revenues:		
Taxes	\$ --	\$ 109,392
Licenses, permits and franchises	209,275	209,275
Fines, forfeitures and penalties	413,080	414,563
Revenue from use of money and property	5,374	7,473
Aid from other governmental agencies	44,462	44,462
Charges for services	13,616	37,908
Other revenue	4,197	4,200
Total Revenues	<u>690,004</u>	<u>827,273</u>
Expenditures:		
Current:		
Public protection	--	314,878
Health and sanitation	627,118	627,617
Capital outlay	14,177	33,477
Total Expenditures	<u>641,295</u>	<u>975,972</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>48,709</u>	<u>(148,699)</u>
Other Financing Sources (Uses):		
Transfers in	--	335,000
Transfers out	(22,734)	(22,734)
Total Other Financing Sources (Uses)	<u>(22,734)</u>	<u>312,266</u>
Net change in fund balances	25,975	163,567
Fund Balances, Beginning	<u>412,859</u>	<u>439,867</u>
Fund Balances, Ending	<u>\$ 438,834</u>	<u>\$ 603,434</u>

COUNTY OF MENDOCINO

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2004

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<u>Assets</u>				
Current Assets:				
Cash	\$ --	\$ --	\$ --	\$ --
Accounts receivable	--	--	--	12,083
Due from other funds	<u>327,282</u>	<u>418,656</u>	--	--
Total current assets	<u>327,282</u>	<u>418,656</u>	--	<u>12,083</u>
Noncurrent assets:				
Depreciable:				
Equipment	39,518	3,885,258	--	12,246
Less accumulated depreciation	<u>(16,858)</u>	<u>(2,905,767)</u>	--	<u>(7,378)</u>
Total noncurrent assets	<u>22,660</u>	<u>979,491</u>	--	<u>4,868</u>
 Total Assets	 <u>\$ 349,942</u>	 <u>\$ 1,398,147</u>	 <u>\$ --</u>	 <u>\$ 16,951</u>
 <u>Liabilities</u>				
Accounts payable	\$ 251,667	\$ 111,092	\$ --	\$ 63,180
Accrued salaries and benefits	--	--	--	3,130
Compensated absences payable	--	--	--	12,130
Due to other funds	--	--	262,865	165,152
Liability for unpaid claims	--	--	533,196	1,761,309
 Total Liabilities	 <u>251,667</u>	 <u>111,092</u>	 <u>796,061</u>	 <u>2,004,901</u>
 <u>Net Assets</u>				
Invested in capital assets, net of related debt	22,660	979,491	--	4,868
Unrestricted	<u>75,615</u>	<u>307,564</u>	<u>(796,061)</u>	<u>(1,992,818)</u>
Total Net Assets	<u>98,275</u>	<u>1,287,055</u>	<u>(796,061)</u>	<u>(1,987,950)</u>
 Total Liabilities and Net Assets	 <u>\$ 349,942</u>	 <u>\$ 1,398,147</u>	 <u>\$ --</u>	 <u>\$ 16,951</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Fund Net Assets (continued)
Internal Service Funds
June 30, 2004

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Admin</u>	<u>Total</u>
<u>Assets</u>				
Current Assets:				
Cash	\$ --	\$ 92	\$ --	\$ 92
Accounts receivable	--	317,982	--	330,065
Due from other funds	--	--	--	745,938
Total current assets	<u>--</u>	<u>318,074</u>	<u>--</u>	<u>1,076,095</u>
Noncurrent assets:				
Depreciable:				
Equipment	11,240	2,258	--	3,950,520
Less accumulated depreciation	<u>(7,374)</u>	<u>(1,619)</u>	<u>--</u>	<u>(2,938,996)</u>
Total noncurrent assets	<u>3,866</u>	<u>639</u>	<u>--</u>	<u>1,011,524</u>
 Total Assets	 <u>\$ 3,866</u>	 <u>\$ 318,713</u>	 <u>\$ --</u>	 <u>\$ 2,087,619</u>
 <u>Liabilities</u>				
Accounts payable	\$ --	\$ 1,230,904	\$ 34,942	\$ 1,691,785
Accrued salaries and benefits	4,985	1,949	--	10,064
Compensated absences payable	1,076	--	--	13,206
Due to other funds	277,785	524,994	242	1,231,038
Liability for unpaid claims	--	1,800,000	--	4,094,505
 Total Liabilities	 <u>283,846</u>	 <u>3,557,847</u>	 <u>35,184</u>	 <u>7,040,598</u>
 <u>Net Assets</u>				
Invested in capital assets, net of related debt	3,866	639	--	1,011,524
Unrestricted	<u>(283,846)</u>	<u>(3,239,773)</u>	<u>(35,184)</u>	<u>(5,964,503)</u>
Total Net Assets	<u>(279,980)</u>	<u>(3,239,134)</u>	<u>(35,184)</u>	<u>(4,952,979)</u>
 Total Liabilities and Net Assets	 <u>\$ 3,866</u>	 <u>\$ 318,713</u>	 <u>\$ --</u>	 <u>\$ 2,087,619</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2004

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemploymen Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	\$ 585,219	\$ 414,784	\$ 199,815	\$ 1,386,203
Other	--	--	--	1,300
Total Operating Revenues	585,219	414,784	199,815	1,387,503
Operating Expenses:				
Salaries and benefits	--	--	--	100,929
Maintenance and repair	--	1,651	--	--
Services and supplies	544,547	10,140	(74,335)	258,668
Insurance	--	--	386,694	544,934
Depreciation	4,972	575,006	--	2,026
Claims and judgments	--	--	--	1,158,971
Total Operating Expenses	549,519	586,797	312,359	2,065,528
Operating Income (Loss)	35,700	(172,013)	(112,544)	(678,025)
Non-Operating Revenues (Expenses)				
Interest revenue (expense)	3,829	2,867	(1,411)	(636)
Sale of capital assets	--	5,927	--	--
Total Non-Operating Revenues (Expenses)	3,829	8,794	(1,411)	(636)
Income (Loss) Before Transfers	39,529	(163,219)	(113,955)	(678,661)
Transfers out	--	--	--	--
Change in net assets	39,529	(163,219)	(113,955)	(678,661)
Net Assets - Beginning	58,746	1,450,274	(682,106)	(1,309,289)
Net Assets - Ending	\$ 98,275	\$ 1,287,055	\$ (796,061)	\$ (1,987,950)

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets (continued)
Internal Service Funds
For the Year Ended June 30, 2004

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Admin</u>	<u>Total</u>
Operating Revenues:				
Charges and fees	\$ 3,739,865	\$ 9,557,158	\$ --	\$ 15,883,044
Other	--	--	--	1,300
Total Operating Revenues	3,739,865	9,557,158	--	15,884,344
Operating Expenses:				
Salaries and benefits	140,500	59,314	--	300,743
Maintenance and repair	--	--	--	1,651
Services and supplies	3,073	10,437,369	35,184	11,214,646
Insurance	3,901,601	419,263	--	5,252,492
Depreciation	1,945	451	--	584,400
Claims and judgments	--	--	--	1,158,971
Total Operating Expenses	4,047,119	10,916,397	35,184	18,512,903
Operating Income (Loss)	(307,254)	(1,359,239)	(35,184)	(2,628,559)
Non-Operating Revenues (Expenses)				
Interest revenue (expense)	(10,719)	(10,594)	--	(16,664)
Sale of capital assets	--	--	--	5,927
Total Non-Operating Revenues (Expenses)	(10,719)	(10,594)	--	(10,737)
Income (Loss) Before Transfers	(317,973)	(1,369,833)	(35,184)	(2,639,296)
Transfers out	--	(179,219)	--	(179,219)
Change in net assets	(317,973)	(1,549,052)	(35,184)	(2,818,515)
Net Assets - Beginning	37,993	(1,690,082)	--	(2,134,464)
Net Assets - Ending	\$ (279,980)	\$ (3,239,134)	\$ (35,184)	\$ (4,952,979)

COUNTY OF MENDOCINO

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2004

	<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	\$ 585,219	\$ 214,415	\$ 199,815	\$ 1,375,420
Cash paid to suppliers for goods and services	(620,162)	(71,170)	(198,404)	(1,286,882)
Cash paid to employees for services	--	--	--	(97,711)
	<u>(34,943)</u>	<u>143,245</u>	<u>1,411</u>	<u>(9,173)</u>
Net Cash Provided (Used) by Operating Activities				
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out	--	--	--	--
Interest payments	--	--	(1,411)	(636)
	<u>--</u>	<u>--</u>	<u>(1,411)</u>	<u>(636)</u>
Net Cash Provided (Used) by Noncapital Financing Activities				
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sales of capital assets	28,631	42,425	--	9,809
Purchase of capital assets	(15,712)	(405,385)	--	--
	<u>12,919</u>	<u>(362,960)</u>	<u>--</u>	<u>9,809</u>
Net Cash Provided (Used) by Capital and Related Financing Activities				
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	3,829	2,867	--	--
	<u>3,829</u>	<u>2,867</u>	<u>--</u>	<u>--</u>
Net Cash Provided (Used) by Investing Activities				
Net Increase (Decrease) in Cash and Cash Equivalents	(18,195)	(216,848)	--	--
Cash and Cash Equivalents, Beginning of Year	<u>18,195</u>	<u>216,848</u>	<u>--</u>	<u>--</u>
Cash and Cash Equivalents, End of Year	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ 35,700	\$ (172,013)	\$ (112,544)	\$ (678,025)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	4,972	575,006	--	2,026
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	(12,083)
Due from other funds	--	(200,369)	--	--
Increase (decrease) in:				
Accounts payable	251,667	(59,379)	--	39,959
Due to other funds	(327,282)	--	189,613	(81,910)
Accrued salaries	--	--	--	170
Compensated absences	--	--	--	3,048
Liability for self-insurance	--	--	(75,658)	717,642
	<u>(34,943)</u>	<u>143,245</u>	<u>1,411</u>	<u>(9,173)</u>
Net Cash Provided (Used) by Operating Activities				

continued

COUNTY OF MENDOCINO

Combining Statement of Cash Flows (continued)
Internal Service Funds
For the Year Ended June 30, 2004

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Retiree Health Administration</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from interfund services provided	\$ 3,739,865	\$ 9,600,395	\$ --	\$ 15,715,129
Cash paid to suppliers for goods and services	(3,626,889)	(9,354,639)	--	(15,158,146)
Cash paid to employees for services	<u>(138,394)</u>	<u>(58,111)</u>	--	<u>(294,216)</u>
Net Cash Provided (Used) by Operating Activities	<u>(25,418)</u>	<u>187,645</u>	--	<u>262,767</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers out	--	(179,219)	--	(179,219)
Interest payments	<u>(10,719)</u>	<u>(10,594)</u>	--	<u>(23,360)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(10,719)</u>	<u>(189,813)</u>	--	<u>(202,579)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sales of capital assets	11,186	2,260	--	94,311
Purchase of capital assets	<u>--</u>	<u>--</u>	<u>--</u>	<u>(421,097)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>11,186</u>	<u>2,260</u>	--	<u>(326,786)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	--	--	--	6,696
Net Cash Provided (Used) by Investing Activities	<u>--</u>	<u>--</u>	<u>--</u>	<u>6,696</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(24,951)	92	--	(259,902)
Cash and Cash Equivalents, Beginning of Year	<u>24,951</u>	--	--	<u>259,994</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ --</u></u>	<u><u>\$ 92</u></u>	<u><u>\$ --</u></u>	<u><u>\$ 92</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (307,254)	\$ (1,359,239)	\$ (35,184)	\$ (2,628,559)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,945	451	--	584,400
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	(102,879)	--	(114,962)
Due from other funds	--	146,116	--	(54,253)
Increase (decrease) in:				
Accounts payable	--	1,081,993	34,942	1,349,182
Due to other funds	277,785	--	242	58,448
Accrued salaries	2,475	1,203	--	3,848
Compensated absences	(369)	--	--	2,679
Liability for self-insurance	<u>--</u>	<u>420,000</u>	<u>--</u>	<u>1,061,984</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (25,418)</u></u>	<u><u>\$ 187,645</u></u>	<u><u>\$ --</u></u>	<u><u>\$ 262,767</u></u>

COUNTY OF MENDOCINO

Combining Balance Sheet
Fiduciary Funds
June 30, 2004

	<u>Pension Trust Funds</u>	<u>County Agency Funds</u>	<u>Special Districts Local Boards</u>
<u>Assets</u>			
Cash and investments in County Treasury	\$ 5,791,416	\$ 8,414,050	\$ 9,927,717
Imprest cash	--	--	38,551
Accounts receivable	--	--	459,157
Taxes receivable	--	5,027,646	--
Advances receivable	--	4,968,617	--
Total Assets	<u>\$ 5,791,416</u>	<u>\$ 18,410,313</u>	<u>\$ 10,425,425</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable	\$ --	\$ --	\$ 187,915
Accrued payroll and benefits	--	--	143,476
Agency funds held for others	--	18,410,313	--
Total Liabilities	<u>--</u>	<u>18,410,313</u>	<u>331,391</u>
Fund Balance:			
Reserved for pool participants	--	--	10,094,034
Reserved for retirement system	5,791,416	--	--
Total Fund Balance	<u>5,791,416</u>	<u>--</u>	<u>10,094,034</u>
Total Liabilities and Fund Balance	<u>\$ 5,791,416</u>	<u>\$ 18,410,313</u>	<u>\$ 10,425,425</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
Fiduciary Funds
June 30, 2004

	School Districts	Total
<u>Assets</u>		
Cash and investments in County Treasury	\$ 53,803,737	\$ 77,936,920
Imprest cash	--	38,551
Accounts receivable	--	459,157
Taxes receivable	--	5,027,646
Advances receivable	--	4,968,617
Total Assets	\$ 53,803,737	\$ 88,430,891
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accounts payable	\$ --	\$ 187,915
Accrued payroll and benefits	--	143,476
Agency obligations	--	18,410,313
Total Liabilities	--	18,741,704
 Fund Balance:		
Reserved for pool participants	53,803,737	63,897,771
Reserved for retirement system	--	5,791,416
Total Fund Balance	53,803,737	69,689,187
 Total Liabilities and Fund Balance	 \$ 53,803,737	 \$ 88,430,891