

COUNTY OF MENDOCINO

AUDIT REPORT

JUNE 30, 2002

**COUNTY OF MENDOCINO
AUDIT REPORT
For the Year Ended June 30, 2002**

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INTRODUCTORY SECTION

James M. Andersen
County Administrative Officer



COUNTY OF MENDOCINO
ADMINISTRATIVE OFFICE
501 Low Gap Road • Room 1010
Ukiah, California 95482
(707) 463-4441
Fax: (707) 463-5649

July, 2003

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

State law requires that all general-purpose local governments publish within nine 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, making 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 on 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 ending June 30, 2002.

This report consists of the County Administrative Officer (CAO) and Auditor/Controller's representations concerning the finances of Mendocino County. Consequently, the CAO 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 CAO 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 CAO 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, 2002, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; 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 an unqualified opinion that Mendocino County's financial statements for the fiscal year ended June 30, 2002, 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 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 CAO 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 86,265. 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 County Administrative Officer is appointed by the Board and serves as the chief executive officer 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.A 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 County Administrative Officer. The Administrative Officer uses these requests as the starting point for developing a proposed budget. The County's Administrative 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 County Administrative Officer's approval. The County Administrative 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 page 53 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 55.

Factors Affecting Financial Condition

Two years ago, our nation suffered tragic terrorist attacks in New York City and Washington D.C., and we continue to face economic uncertainty. Consumer demand for services and goods has decreased resulting in declines in tax revenue such as sales tax, transient occupancy tax, vehicle license tax and property tax which typically support County programs and services.

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the County of Mendocino operates.

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 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.
- 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.

- Directed issuance of Pension Obligation Bonds in the full amount of our UAAL, coincident with the policy described above.

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% percent 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 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 \$150,000 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 Department, 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 12 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 467 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 Note 9 to the financial statements.

Respectfully submitted,

James M. Andersen
County Administrative Officer

Dennis Huey
Auditor-Controller

FINANCIAL SECTION

Bartig, Basler & Ray

A Professional Corporation

Certified Public Accountants and Management Consultants

Frank V. Trythall
Kenneth E. Pope
Brad W. Constantine
Theril H. Lund
Bruce W. Stephenson
Roseanne M. Lopez

Curtis A. Orgill
M. Elba Zúñiga

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the governmental activities, the business-type 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, 2002, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2002, 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.

As described in Note 2, the County adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of July 1, 2001. In addition, as described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as of July 1, 2001.

To the Board of Supervisors and Grand Jury
County of Mendocino

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated September 5, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD & A) and the required supplementary information other than MD & A on pages 3 and 52, 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.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler & Ray, CPAs, Inc.

September 5, 2002
Roseville, California

Mendocino County Management's Discussion and Analysis

**Prepared By: Jim Andersen, County Administrative 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, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-vi).

Financial Highlights

- ❖ The County of Mendocino's assets exceeded its liabilities at the close of the most recent fiscal year by \$28,896,416 (net assets). Of this amount (\$28,040,738) (unrestricted net assets) was available to meet the County's ongoing obligations to citizens and creditors.
- ❖ The County's total net assets decreased by \$6,250,126. The primary causes for the decrease resulted from (1) recognition of approximately \$3.9 million in depreciation expense, (2) recognition of approximately \$750,000 in net operating losses of the County's internal service funds and (3) recognition of additional expenses related to the County's landfill closure/post closure liability of \$1.5 million.
- ❖ At the close of the current fiscal year, the County's combined (all funds) ending fund balance was \$22,461,000. This was a decrease of \$14,009,971 in comparison with the prior year. Approximately 69% of this total amount or \$15,480,335 is available for spending at the government's discretion.
- ❖ Unreserved fund balance for the General Fund at the close of the current fiscal year was \$8,536,005 or 7% of total general fund expenditures.
- ❖ Total debt decreased by \$489,756 (0.7%) during the 2001/02 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).

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 and 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.

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

The basic Governmental Fund Financial Statements can be found on pages 15-18 of this report.

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

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

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

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

The basic Fiduciary Fund Financial Statement can be found on pages 23 and 24 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-51 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's

progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information can be found on pages 52-56 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual funds statements and schedules can be found on pages 57-87 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County of Mendocino, assets exceeded liabilities by \$28,896,416 at the close of the 2001/2002 Fiscal Year.

By far the largest portion of the County's net assets (51%) 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

	2002	2002	2002
Current and other assets	\$40,834,927	--	\$40,834,927
Capital assets	78,395,170	--	78,395,170
Total assets	119,230,097	--	119,230,097
Long-term liabilities - outstdg	55,408,798	--	55,408,798
Other liabilities	34,924,883	--	34,924,883
Total liabilities	90,333,681	--	90,333,681
Net assets:			
Invest in capital assets, net of related debt	45,964,609	--	45,964,609
Restricted	10,972,545	--	10,972,545
Unrestricted	(28,040,738)	--	(28,040,738)
Total net assets	\$28,896,416	--	\$28,896,416

*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 (\$28,040,738) cannot be used to meet the County's ongoing obligations to citizens and creditors.

The County's total net assets decreased by \$6,250,126. The primary causes for the decrease resulted from (1) recognition of approximately \$3.9 million in depreciation expense, (2) recognition of approximately \$750,000 in net operating losses of the County's internal service funds and (3) recognition of additional expenses related to the County's landfill closure/post closure liability of \$1.5 million.

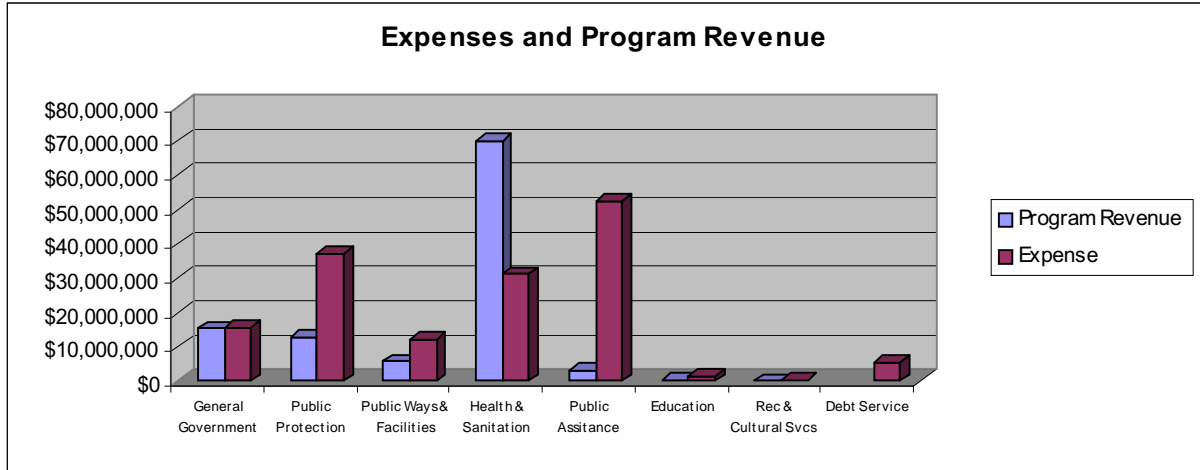
Governmental Activities. Governmental activities decreased the County's net assets by \$6,250,126. Key elements of this decrease are as follows:

	Governmental Activities 2002	Business-type Activities 2002*	Total 2002
Revenues			
Program revenues:			
Charges for services	\$ 17,135,676		\$ 17,135,676
Operating grants & contributions	90,096,779		90,096,779
Capital grants & contributions	476,240		476,240
General revenues:			
Property taxes	21,455,633		21,455,633
Sales & Use taxes	8,752,809		8,752,809
Unrestricted Interest & Investment	3,197,797		3,197,797
Other	4,442,664		4,442,664
Miscellaneous	4,148,167		4,148,167
Total Revenues	149,705,765		149,705,765
Expenses			
Expenses:			
General Government	15,708,479		15,708,479
Public Protection	37,114,587		37,114,587
Public Ways & Facilities	12,171,744		12,171,744
Health & Sanitation	31,212,234		31,212,234
Public Assistance	52,577,506		52,577,506
Recreation and Cultural Services	255,970		255,970
Interest on Long-Term Debt	5,350,390		5,350,390
Education	1,564,981		1,564,981
Total Expenses	155,955,891		155,955,891
Change in Net Assets	(6,250,126)		(6,250,126)
Net Assets – 7/1/2001	35,146,542		35,146,542
Net Assets – 6/30/2002	\$ 28,896,416		\$ 28,896,416

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

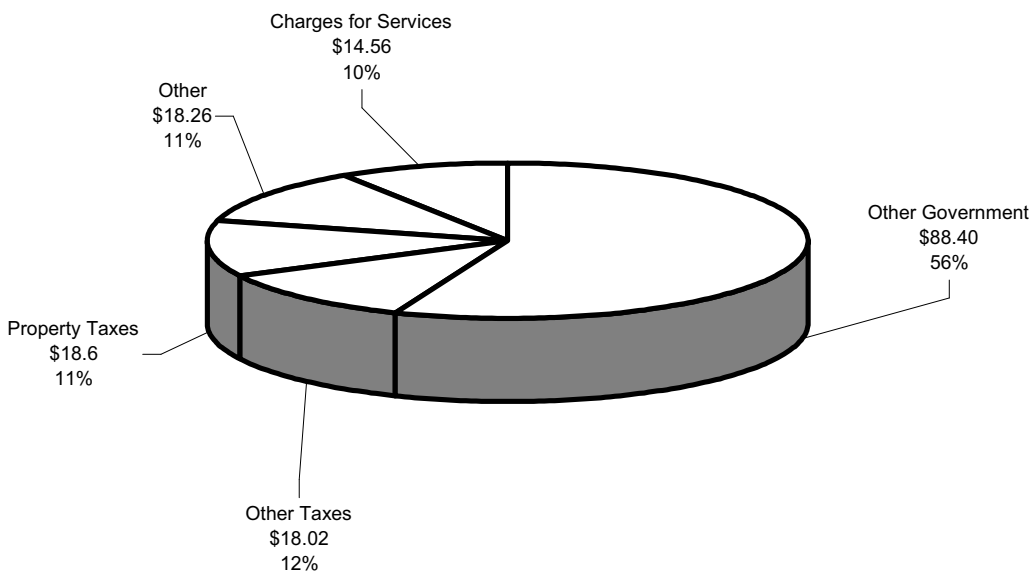
- ❖ Property taxes increased by \$835,622 (5%) during the year. Most of this increase is attributable to growth in secured property assessed valuation.

Expenses and Program Revenues – Governmental Activities



Governmental Funds	Program Revenue	Expense
General Government	\$15,304,818	\$15,708,479
Public Protection	12,922,004	37,114,587
Public Ways & Facilities	5,811,895	12,171,744
Health & Sanitation	70,087,651	31,212,234
Public Assistance	3,197,218	52,577,506
Education	374,438	1,564,981
Rec & Cultural Svcs	10,671	255,970
Debt Service		5,350,390

Revenues by Source (in millions) – Governmental Activities



The largest portion of revenue received by the County comes from Federal and State sources (approximately 56%). The second largest source comes from taxes (23%). However, it should be noted that of every \$1.00 collected in property tax approximately 64% benefits schools, with 30% going towards the funding of County services and programs. Cities receive 2% and Special Districts receive 4%. Only 29% 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. Several noteworthy exceptions, however, were in the areas of health and sanitation and public assistance. In those instances, the growth in expenses of \$4,957,805 and \$4,457,186 respectively reflects the impact of caseload growth over the past year.

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

Financial Analysis of the Government's Funds

As noted earlier, the County of Mendocino uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the County of Mendocino's governmental funds reported combined ending fund balances of \$22,461,000, a decrease of \$14,009,971 from the prior year. Approximately 69% of this total amount (\$15,480,335) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder 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 (\$446,654); 2) to pay debt service (\$5,621,521); 3) for a variety of other restricted purposes (\$912,490).

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 \$8,536,005, while total fund balance reached \$9,251,160. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 7% of total general fund expenditures, while total fund balance represents 7.5% of that same amount.

The fund balance of the County of Mendocino's general fund decreased by \$3,785,280 during the 2001/02 Fiscal Year. Key factors in this deficit are as follows:

- ❖ Increased costs in the area of public assistance programs in the amount of \$4,224,513 as a result of increased caseload growth.

- ❖ Increased costs in the area of health and sanitation programs in the amount of \$4,959,249 as a result of increased caseload growth.

The debt service fund had a total fund balance of \$3,298,621, 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 \$2,061,903. Interest expenditures, however, also decreased during the current period (\$1,122,746) as the result of the debt service refinancing incurred during the year.

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 (\$340,595).

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are due to the change in reporting requirements to generally accepted accounting principles (GAAP) resulting in the elimination of numerous County Trust Accounts by portraying those funds as additional appropriations and revenues within existing funds or through the establishment of new funds. The differences are summarized below:

- ❖ Appropriated \$570,206 from designated reserve fund for landfill closure.
- ❖ Appropriated \$340,000 from contingencies for TANF Incentive payback.
- ❖ Appropriated \$138,546 from designated reserve fund for child support incentive
- ❖ Appropriated \$50,000 from designated reserve fund for juvenile hall.
- ❖ Increased appropriations and revenues in public health administration by \$34,211 for bioterrorism preparedness.
- ❖ Appropriated \$29,093 from contingencies for in home support services

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 although typically estimated conservatively, revenues did not meet budgetary estimates. Although expenditures were less than budgetary estimates, the County nevertheless ended the fiscal year with a deficit fund balance of \$ 215,026.

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, 2002, amounts to \$78,395,170 (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 13%.

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

- Acquisition and remodel of Yokayo Children’s Services Center.
- Acquisition and remodel of centralized public health facility.
- Addition of modular storage facility for County Administration Center
- Design for Animal Shelter and Willits Integrated Service Center.
- Design for Museum artifact storage and Exhibition Learning Center.

County of Mendocino’s Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	2,848,274	1,979,319	0	0	2,848,274	1,979,319
Building and system	32,486,070	29,138,500	0	0	32,486,070	29,138,500
Improvements other than buildings					0	0
Machinery and equipment	9,411,920	8,635,105	0	0	9,411,920	8,635,105
Infrastructure	24,565,782	25,739,065	0	0	24,565,782	25,739,065
Construction in progress	9,083,124	3,649,023	0	0	9,083,124	3,649,023
Total	78,395,170	69,141,012	0	0	78,395,170	69,141,012

Long-term debt. At the end of the current fiscal year, the County of Mendocino has total bonded debt outstanding of \$68,663,978.

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

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
General obligation bonds	25,720,000	27,375,000	0	0	25,720,000	27,375,000
Certificates of Participation-Other	31,065,000	32,400,000	0	0	31,065,000	32,400,000
Other (capital leases, comp balances & landfill closure)	11,878,978	9,378,734	0	0	11,878,978	9,378,734
Total	68,663,978	69,153,734	0	0	68,663,978	69,153,734

The County of Mendocino’s total debt decreased by \$489,756 (0.7%) during the current fiscal year. The key factor in this decrease was the recent refinancing of a previously higher rate certificate of participation issue.

During the current fiscal year, the government refinanced some of its existing debt to take advantage of favorable interest rates.

- ❖ The County of Mendocino issued certificates of participation to refinance previously outstanding 1993 Certificate of Participation issue. The result is expected to be a decrease in future debt service payment of \$1.6M.

The County of Mendocino maintains a “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 note 7 on pages 41-45 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 2001-2002 fiscal year.

- ❖ The unemployment rate for the County of Mendocino is currently 5.1% (September, 2002), which is an increase from a rate of 5.0% (September, 2001) a year ago. Although this compares favorably to the state’s average unemployment rate of 5.3% (2001), it is higher than the national average of 4.8% (2001).
- ❖ The occupancy rate of the government’s central business district has remained at 97 percent for the past three years.
- ❖ Inflationary trends in the region compare favorably to national indices.
- ❖ Continued sluggish recovery of national, state & local economies. Specifically, State’s budget deficit (56% 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, 2002

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Current Assets:	
Cash and investments	\$ 6,088,870
Restricted Assets:	
Cash with fiscal agent	9,709,830
Imprest cash	6,365
Other cash	5,490
Accounts receivable	6,483,271
Property taxes receivable	12,110,150
Due from other governments	5,524,776
Inventory	906,125
Other assets	50
Total Current Assets	<u>40,834,927</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable	11,931,398
Depreciable, net	<u>66,463,772</u>
Total Noncurrent Assets	<u>78,395,170</u>
Total Assets	<u><u>\$ 119,230,097</u></u>
<u>LIABILITIES</u>	
Current Liabilities:	
Accounts payable	\$ 4,562,097
Accrued salaries and benefits	1,517,680
Due to other governmental agencies	3,259,435
Short-term note payable	10,726,496
Matured principal and interest payable	1,392,801
Bonds payable	2,450,000
Liability for unpaid claims	208,573
Compensated absences	3,562,293
Capital lease obligation	291,763
Landfill closure/postclosure care costs	6,953,745
Total Current Liabilities	<u>34,924,883</u>
Long-term liabilities due beyond one year	<u>55,408,798</u>
Total Liabilities	<u>90,333,681</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	45,964,609
Restricted	10,972,545
Unrestricted	<u>(28,040,738)</u>
Total Net Assets	<u>28,896,416</u>
Total Liabilities and Net Assets	<u><u>\$ 119,230,097</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, 2002

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
General government	\$ 15,708,479	\$ 7,026,633	\$ 7,801,945	\$ 476,240	\$ (403,661)
Public protection	37,114,587	6,483,928	6,438,076	--	(24,192,583)
Public ways and facilities	12,171,744	231,103	5,580,792	--	(6,359,849)
Health and sanitation	31,212,234	3,366,005	66,721,646	--	38,875,417
Public assistance	52,577,506	--	3,197,218	--	(49,380,288)
Education	1,564,981	28,007	346,431	--	(1,190,543)
Recreation and cultural services	255,970	--	10,671	--	(245,299)
Debt Service:					
Interest	5,350,390	--	--	--	(5,350,390)
Total Governmental Activities	155,955,891	17,135,676	90,096,779	476,240	(48,247,196)
General Revenues:					
Taxes:					
Property taxes					21,455,633
Sales and use taxes					8,752,809
Other					4,442,664
Unrestricted interest and investment earnings					3,197,797
Miscellaneous					4,148,167
Total General Revenues,					41,997,070
Change in Net Assets					(6,250,126)
Net assets - July 1, 2001					35,146,542
Net assets - June 30, 2002					\$ 28,896,416

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, 2002

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments	\$ 1,262,715	\$ 155,030	\$ 4,200,051	\$ 5,617,796
Restricted Assets:				
Cash with fiscal agent	--	4,088,309	5,621,521	9,709,830
Imprest cash	5,899	--	466	6,365
Other cash	5,490	--	--	5,490
Accounts receivable	5,571,540	368,799	377,307	6,317,646
Property taxes receivable	12,108,383	--	1,767	12,110,150
Due from other governments	4,689,676	476,240	358,860	5,524,776
Inventory	314,582	--	591,543	906,125
Other assets	50	--	--	50
Due from other funds	--	--	618,000	618,000
Total Assets	<u>\$ 23,958,335</u>	<u>\$ 5,088,378</u>	<u>\$ 11,769,515</u>	<u>\$ 40,816,228</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 1,883,092	\$ 468,806	\$ 1,076,927	\$ 3,428,825
Due to other funds	731,448	--	1,689,598	2,421,046
Accrued salaries and benefits	1,366,139	--	145,536	1,511,675
Short-term note payable	10,726,496	--	--	10,726,496
Matured principal and interest payable	--	--	267,186	267,186
Total Liabilities	<u>14,707,175</u>	<u>468,806</u>	<u>3,179,247</u>	<u>18,355,228</u>
<u>FUND BALANCES</u>				
Reserved:				
Encumbrances	394,674	--	51,980	446,654
Inventory	314,582	--	591,543	906,125
Imprest cash	5,899	--	466	6,365
Debt service			5,621,521	5,621,521
Unreserved, reported in:				
General fund	8,536,005		--	8,536,005
Special revenue funds	--		1,641,036	1,641,036
Capital project funds	--	4,619,572	--	4,619,572
Debt service funds	--	--	683,722	683,722
Total Fund Balances	<u>9,251,160</u>	<u>4,619,572</u>	<u>8,590,268</u>	<u>22,461,000</u>
Total Liabilities and Fund Balances	<u>\$ 23,958,335</u>	<u>\$ 5,088,378</u>	<u>\$ 11,769,515</u>	<u>\$ 40,816,228</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, 2002

Fund Balance - total governmental funds (page 15)	\$ 22,461,000
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	76,555,633
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:	(340,595)
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, 2002 are:	
Bonds payable	(56,785,000)
Capital leases	(1,365,561)
Accrued interest on long-term debt	(1,125,615)
Compensated absences	(3,549,701)
Landfill closure/post closure care costs	<u>(6,953,745)</u>
Net assets of governmental activities (page 13)	<u>\$ 28,896,416</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, 2002

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Revenues:				
Taxes	\$ 34,483,437	\$ --	\$ 167,675	\$ 34,651,112
Licenses, permits and franchises	2,297,342	--	255,245	2,552,587
Intergovernmental	74,006,671	476,240	16,090,101	90,573,012
Revenue from use of money and property	2,106,511	915,210	199,936	3,221,657
Fines, forfeitures and penalties	944,896	--	362,175	1,307,071
Charges for services	8,899,983	--	4,376,035	13,276,018
Other revenue	3,387,493	94,350	616,723	4,098,566
Total Revenues	<u>126,126,333</u>	<u>1,485,800</u>	<u>22,067,890</u>	<u>149,680,023</u>
Expenditures:				
Current:				
General government	15,734,651	--	321,218	16,055,869
Public protection	34,263,515	--	1,953,911	36,217,426
Public ways and facilities	88,969	--	10,169,012	10,257,981
Health and sanitation	24,486,833	--	4,777,217	29,264,050
Public assistance	48,562,442	--	3,761,671	52,324,113
Education	196,677	--	1,294,204	1,490,881
Recreation and culture services	209,481	--	27,256	236,737
Debt service - principal	--	--	10,955,000	10,955,000
Debt service - interest	--	--	4,327,533	4,327,533
Capital outlay	--	9,273,941	1,289,088	10,563,029
Total Expenditures	<u>123,542,568</u>	<u>9,273,941</u>	<u>38,876,110</u>	<u>171,692,619</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,583,765</u>	<u>(7,788,141)</u>	<u>(16,808,220)</u>	<u>(22,012,596)</u>
Other Financing Sources (Uses):				
Transfers in	181,696	110,000	6,232,741	6,524,437
Transfers out	(6,550,741)	--	(38,830)	(6,589,571)
Debt Issuance	--	--	8,067,759	8,067,759
Total Other Financing Sources (Uses)	<u>(6,369,045)</u>	<u>110,000</u>	<u>14,261,670</u>	<u>8,002,625</u>
Net change in fund balances	(3,785,280)	(7,678,141)	(2,546,550)	(14,009,971)
Fund balances - beginning	7,522,465	12,297,713	14,207,210	34,027,388
Prior period adjustment	5,513,975	--	(3,070,392)	2,443,583
Fund balances, restated, beginning	<u>13,036,440</u>	<u>12,297,713</u>	<u>11,136,818</u>	<u>36,470,971</u>
Fund balances - ending	<u>\$ 9,251,160</u>	<u>\$ 4,619,572</u>	<u>\$ 8,590,268</u>	<u>\$ 22,461,000</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, 2002

Net change to fund balance - total governmental funds (page 17) \$ (14,009,971)

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

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.

Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	12,379,655	
Less current year depreciation	<u>(3,972,188)</u>	
		8,407,467

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	<u>(8,067,759)</u>	(8,067,759)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repayments: Certificates of participation	<u>10,955,000</u>	10,955,000
--	-------------------	------------

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.

Accrued interest on long-term debt	(1,022,857)	
Change in compensated absences	(360,934)	
Change in liability for closure/post closure care	<u>(1,484,063)</u>	
		(2,867,854)

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.		<u>(667,009)</u>
--	--	------------------

Change in net assets of governmental activities (page 14)		<u><u>\$ (6,250,126)</u></u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF MENDOCINO

Statement of Fund Net Assets
Proprietary Funds
June 30, 2002

	Governmental Activities
	<u>Internal Service Funds</u>
ASSETS	
Current Assets:	
Cash and Investments	\$ 471,074
Accounts receivable	<u>165,625</u>
Total Current Assets	<u>636,699</u>
Noncurrent Assets:	
Capital Assets:	
Depreciable:	
Equipment	4,041,975
Accumulated depreciation	<u>(2,202,438)</u>
Total Noncurrent Assets	<u>1,839,537</u>
Total Assets	<u><u>\$ 2,476,236</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 1,133,272
Due to other funds	1,456,389
Accrued salaries and benefits	<u>6,005</u>
Total Current Liabilities	<u>2,595,666</u>
Long-Term Liabilities:	
Liability for unpaid claims	208,573
Liability for compensated absences	<u>12,592</u>
Total Liabilities	<u>2,816,831</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,839,537
Unrestricted	<u>(2,180,132)</u>
Total Net Assets	<u>(340,595)</u>
Total Liabilities and Net Assets	<u><u>\$ 2,476,236</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, 2002

	<u>Governmental Activities Internal Service Funds</u>
Operating Revenues:	
Charges for services	\$ 11,365,706
Other revenue	<u>525</u>
Total Operating Revenues	<u>11,366,231</u>
Operating Expenses:	
Salaries and employee benefits	265,669
Maintenance	318,317
Services and supplies	10,613,450
Insurance	102,844
Depreciation and amortization	536,707
Claims and judgments	<u>304,154</u>
Total Operating Expenses	<u>12,141,141</u>
Operating Income (Loss)	<u>(774,910)</u>
Non-Operating Revenues (Expenses):	
Interest income (expense)	(23,860)
Other	49,076
Gain on disposition of capital assets	<u>17,551</u>
Total Non-Operating Revenues (Expenses)	<u>42,767</u>
Net Income Before Transfers	(732,143)
Transfers in	240,000
Transfers out	<u>(174,866)</u>
Change in Net Assets	(667,009)
Net Assets - Beginning of Year	299,300
Prior period adjustment	<u>27,114</u>
Net Assets - Beginning of Year, restated	<u>326,414</u>
Net Assets - End of Year	<u>\$ (340,595)</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, 2002

	<u>Governmental Activities</u> <u>Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash receipts from interfund services provided	\$ 11,355,461
Cash paid to suppliers for goods and services	(11,644,853)
Cash paid to employees for services	(261,215)
Payments for quasi-external transactions	<u>114,873</u>
Net Cash Provided (Used) by Operating Activities	<u>(435,734)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Transfers in	240,000
Transfers out	(174,866)
Interest payments	(51,757)
Non-operating revenues	<u>49,076</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>62,453</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds of sales of fixed assets	49,170
Principal repayments related to capital purposes	<u>(759,772)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(710,602)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>27,897</u>
Net Cash Provided by investing activities	<u>27,897</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,055,986)
Cash and Cash Equivalents, Beginning of Year	<u>1,527,060</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 471,074</u></u>

continued

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

COUNTY OF MENDOCINO

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Year Ended June 30, 2002

	<u>Governmental Activities</u> Internal Service Funds <u> </u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (774,910)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	536,707
Changes in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(10,770)
Due from other funds	114,873
Increase (decrease) in:	
Accounts payable	(202,369)
Due to other funds	--
Accrued salaries	1,833
Compensated absences	2,621
Liability for self-insurance	<u>(103,719)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (435,734)</u></u>

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

COUNTY OF MENDOCINO

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

ASSETS	<u>Investment Trust</u>	<u>Agency Funds</u>	<u>Total</u>
Current Assets:			
Cash and investments	\$ 61,912,974	\$ 13,637,872	\$ 75,550,846
Due from external parties		3,259,435	3,259,435
Total Current Assets	<u>\$ 61,912,974</u>	<u>\$ 16,897,307</u>	<u>\$ 78,810,281</u>
 LIABILITIES			
Agency funds held for others	\$ --	\$ 16,897,307	\$ 16,897,307
Total Liabilities	<u>--</u>	<u>16,897,307</u>	<u>16,897,307</u>
 NET ASSETS			
Net Assets held in trust for investment pool participants	<u>61,912,974</u>	<u>--</u>	<u>61,912,974</u>
Total Net Assets	<u>61,912,974</u>	<u>--</u>	<u>61,912,974</u>
Total Liabilities and Net Assets	<u>\$ 61,912,974</u>	<u>\$ 16,897,307</u>	<u>\$ 78,810,281</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, 2002

	<u>Investment Trust</u>
Additions:	
Contributions to investment pool	\$ 14,721,899
Interest and investment income	<u>1,669,777</u>
Total Additions	<u>16,391,676</u>
Deductions:	
Distributions from investment pool	<u>13,204,332</u>
Total Deductions	<u>13,204,332</u>
Change in net assets	3,187,344
Net assets, beginning	<u>\$ 58,725,630</u>
Net assets, ending	<u><u>\$ 61,912,974</u></u>

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, 2002

Note 1: **The Financial Reporting Entity**

A. **Financial Report 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. **Implementation of Governmental Accounting Standards Board Statements**

GASB Statements No. 33 and 36

In December 1998 and in April 2000, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement No. 36, *Recipient Reporting for Certain*

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

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

A. **Implementation of Governmental Accounting Standards Board Statements**
(continued)

GASB Statements No. 33 and 36 (continued)

Shared Nonexchange Revenues – an amendment of GASB Statement No. 33, respectively. These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). The County has adopted these statements for its fiscal year ended June 30, 2002 financial statements as discussed in Note 3.

GASB Statement Nos. 34 and 37

In June 1999 and in June 2001, the GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments – Omnibus*, respectively. These statements provide for the most significant change in financial reporting in over twenty years and are scheduled for a phased implementation (based on size of government) starting with fiscal years ending 2002. As part of these statements, there is a new reporting requirement regarding the local government’s infrastructure (roads, bridges, traffic signals, etc.). This requirement permits an optional four-year further delay for implementation to the fiscal year ending 2006 for June 2002 infrastructure assets.

GASB Statement No. 38

In June 2001, the GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*. This statement modifies, adds and deletes various note disclosure requirements. Those requirements address revenue recognition policies, actions taken in response to legal violations, debt service requirements, variable-rate debt, receivable and payable balances, interfund transfers and balances, and short-term debt.

GASB Interpretation No. 6

In March 2000, the GASB issued Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. This interpretation clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

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

A. Implementation of Governmental Accounting Standards Board Statements
(continued)

GASB Interpretation No. 6 (continued)

The County has implemented GASB Statement Nos. 33, 34, 36, 37 and 38 and Interpretation No. 6 and these statements are presented according to those requirements as discussed in Note 3.

B. Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities that report information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. At June 30, 2002, 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. 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.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

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

B. Basis of Presentation (continued)

Fund Financial Statements

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

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

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 *Capital Projects* Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

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 program – unemployment, general liability, worker's compensation and health insurance benefits, on a cost-reimbursement basis.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

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

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary, agency and investment trust 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 120 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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

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

C. **Measurement Focus and Basis of Accounting** (continued)

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.

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

D. **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.

E. **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.

F. **Cash and Cash Equivalents**

The County considers all cash and investments held in the Treasury as cash equivalents.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2002

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. The balance in the fund is consolidated with the General Fund 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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

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

I. Capital Assets (continued)

leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements, proprietary funds and the pension trust fund.

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”.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2002

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

K. Interfund Transactions (continued)

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

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

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 Fund Equity/Net Assets**

Implementation of GASB Statements No. 33, 34 and 36

The beginning fund equity of the General Fund and other nonmajor governmental funds has been restated to reflect the cumulative effect of the implementation of GASB Statements No. 33, 34 and 36.

Fund Reclassifications

Agency Funds – During the current year, the County evaluated its agency funds and reclassified funds that did not meet the definition of an agency fund under GASB Statement No. 34 to the nonmajor governmental funds.

Expendable Trust Funds – GASB Statement No. 34 eliminated the use of expendable trust funds to account for assets held by the County in a trustee capacity for other governmental units.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 3: **Restatements of Fund Equity/Net Assets** (continued)

Other Restatements

Restatement of Equity

	General Fund	Nonmajor Governmental Funds	Internal Service Funds
Fund balance/net assets, June 30, 2001, as previously reported	\$ 7,522,465	\$ 14,207,210	\$ --
Fund Reclassification: Agency Funds	5,513,975	(3,266,507)	--
Expendable Trust Funds	--	196,115	--
Other Prior Period Adjustments	--	--	27,114
Fund Balance/net assets July 1, 2001, as restated	<u>\$ 13,036,440</u>	<u>\$ 11,136,818</u>	<u>\$ 27,114</u>

The other prior period adjustments totaling \$27,114 were to correct capital asset balances in the Internal Service Funds.

Deficit Fund Equity

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

Fund	Deficit
Health Insurance	\$ 2,314,669
General Liability Insurance	194,444
Miscellaneous Grants	1,690,515
Alexander Estates	10,744
Redevelopment Agency	163,495

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2002

Note 4: **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 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 \$9,005,436, which was maintained in financial institutions. Of the balance in financial institutions, \$100,000 was covered by federal depository insurance and \$8,905,436 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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2002

Note 4: **Cash and Investments** (continued)

Cash in Treasury (continued)

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 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.

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, 2002, the LAIF pool includes structured notes and asset-backed securities, which total 4.5% 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, 2002, 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>
Medium-Term Notes	9/16/02-3/15/05	2.05%-2.45%	\$ 27,927,820	\$ 27,927,820	\$ 27,901,934	\$ 28,000,000
Federal Agency Obligations	1/15/09-9/15/17	7.5%-10.0%	194,345	194,345	206,905	196,664
			<u>\$ 28,122,165</u>	28,122,165	28,108,839	28,196,664
Investment in State Treasurer's Investment Pool				40,000,000	40,111,206	40,000,000
Short-term note receivable				10,726,496	10,726,496	10,726,496
Mutual Fund				8,000,000	7,533,668	7,533,668
Purchased Interest				59,383	59,383	59,383
Cash in Bank				9,005,436	9,005,436	9,005,436
Cash on Hand				1,346,431	1,346,431	1,346,431
Unidentified Overage				<u>(6,138)</u>	<u>(6,138)</u>	<u>(6,138)</u>
Total Investments in County Treasury				97,253,773	96,885,321	96,861,940
Outstanding Warrants				(15,674,833)	(15,674,833)	(15,674,833)
Miscellaneous Reconciling Items				<u>60,776</u>	<u>60,776</u>	<u>60,776</u>
Total Cash and Cash Equivalents in Treasury				<u>\$ 81,639,716</u>	<u>\$ 81,271,264</u>	<u>\$ 81,247,883</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 4: **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, 2002:

COUNTY OF MENDOCINO
Pooled Treasury

Statement of Net Assets
June 30, 2002

Assets:	
Pooled cash and investments	\$ 81,639,716
Net Assets:	
Equity of Internal Pool participants	19,726,742
Equity of External Pool participants (voluntary and involuntary)	<u>61,912,974</u>
Total Net Assets	<u>\$ 81,639,716</u>

Statement of Changes in Net Assets
For the Year Ended June 30, 2002

Investment income for the year	\$ 5,773,253
Investment costs	(222,524)
Net additional contributions (withdrawals) by pool participants	<u>(6,289,286)</u>
Net increase (decrease) for the year	(738,557)
Net assets, July 1, 2001	<u>82,378,273</u>
Net assets, June 30, 2002	<u>\$ 81,639,716</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 4: **Cash and Investments** (continued)

Restricted Cash with Fiscal Agent

Cash and investments at June 30, 2002 that are restricted by legal or contractual requirements are comprised of the following:

Capital Projects Funds	\$ 4,088,309
Debt Service Fund	2,809,560
Pension obligation bonds	<u>2,811,961</u>
 Total Restricted Cash	 <u>\$ 9,709,830</u>

Note 5: **Interfund Transactions**

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2002 are as follows:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental	Internal Service	\$ <u>618,000</u>
Agency	General Fund	731,448
	Other Governmental	1,689,598
	Internal Service	<u>838,389</u>
		<u>3,259,435</u>

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:

Between Funds Within the Governmental Activities:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
General	Capital Projects	\$ 110,000
	Other Governmental	6,200,741
	Internal Service	<u>240,000</u>
		<u>6,550,741</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 5: **Interfund Transactions** (continued)

Transfers (continued)

Between Funds Within the Governmental Activities (continued):

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Internal Service	General Fund	\$ 174,866
Other Governmental	Other Governmental General Fund	32,000
		<u>6,830</u>
		<u>38,830</u>

Note 6: **Capital Assets**

Capital asset activity for the year ended June 30, 2002 was as follows:

	Balance July 1, 2001 <u>(as Restated)</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers & Adjustments</u>	Balance June 30, 2002
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,979,319	\$ 868,955	\$ --	\$ --	\$ 2,848,274
Construction in progress	<u>3,649,023</u>	<u>6,882,489</u>	<u>--</u>	<u>(1,448,388)</u>	<u>9,083,124</u>
Total capital assets, not being depreciated	<u>5,628,342</u>	<u>7,751,444</u>	<u>--</u>	<u>(1,448,388)</u>	<u>11,931,398</u>
Capital assets, being depreciated:					
Infrastructure	39,444,393	--	--	--	39,444,393
Structures and improvements	42,768,713	3,117,008	--	1,448,388	47,334,109
Equipment	<u>24,008,599</u>	<u>2,926,220</u>	<u>(424,054)</u>	<u>--</u>	<u>26,510,765</u>
Total capital assets, being depreciated	<u>106,221,705</u>	<u>6,043,228</u>	<u>(424,054)</u>	<u>1,448,388</u>	<u>113,289,267</u>
Less accumulated depreciation for:					
Infrastructure	(13,705,328)	(1,173,283)	--	--	(14,878,611)
Structures and improvements	(13,630,213)	(1,217,826)	--	--	(14,848,039)
Equipment	<u>(15,373,494)</u>	<u>(2,117,786)</u>	<u>392,435</u>	<u>--</u>	<u>(17,098,845)</u>
Total accumulated depreciation	<u>(42,709,035)</u>	<u>(4,508,895)</u>	<u>392,435</u>	<u>--</u>	<u>(46,825,495)</u>
Total capital assets, being depreciated, net	<u>63,512,670</u>	<u>1,534,333</u>	<u>(31,619)</u>	<u>1,448,388</u>	<u>66,463,772</u>
Government activities capital assets, net	<u>\$ 69,141,012</u>	<u>\$ 9,285,777</u>	<u>\$ (31,619)</u>	<u>\$ --</u>	<u>\$ 78,395,170</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 6: **Capital Assets** (continued)

At July 1, 2001, the County made the following restatements to capital assets:

<i>Governmental activities capital assets</i> as reported in the	
General fixed assets account group – June 30, 2001	\$ 68,738,952
Record infrastructure assets, net of accumulated depreciation of \$13,705,328	25,739,065
Report accumulated depreciation for equipment and buildings	(26,945,542)
Record Internal Service Funds assets, net of accumulated depreciation of \$2,058,165	1,648,092
Less: equipment from internal service funds previously included in the General fixed assets account group	<u>(39,555)</u>
Governmental activities capital assets as restated – July 1, 2001	<u>\$ 69,141,012</u>

Depreciation

Depreciation expense was changed to governmental functions as follows:

General government	\$ 689,721
Public protection	772,873
Public ways	1,497,801
Health and sanitation	390,523
Public assistance	534,260
Education	73,390
Recreation and culture	13,620
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>536,707</u>
Total Depreciation Expense – Governmental Functions	<u>\$ 4,508,895</u>

Note 7: **Long-Term Liabilities**

Long-term liabilities at June 30, 2002 consisted of the following:

<u>Governmental Activities</u>					
<u>Type of Indebtedness (Purpose)</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at June 30, 2002</u>
Taxable Pension Obligation Bonds					
1996 Series [Issued to meet net pension obligation of the County’s retirement plan]					
	7/01/02-7/01/09	5.54%-6.97%	\$1,925,000-\$4,770,000	<u>\$ 30,720,000</u>	<u>\$ 25,720,000</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 7: **Long-Term Liabilities** (continued)

<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, 2002</u>
Certificates of Participation					
1998 Issue (defeased the 1989 refunding Certificates of Participation)					
Serial Current Interest Certificates	8/15/02-8/15/06	4.05%-4.30%	\$50,000-\$490,000	<u>\$ 8,600,000</u>	<u>\$ 1,440,000</u>
2000 Issue and Refunding of 1998 COPs					
Serial Current Interest Certificates	6/01/03-6/01/16	4.10%-5.0%	\$95,000-\$535,000	6,120,000	5,300,000
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>21,660,000</u>
2001 Issue (Refunding of 1998 certificates)					
Serial Current Interest Certificates	6/01/03-6/01/21	3.5%-4.8%	\$240,000-\$460,000	6,455,000	6,455,000
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>7,965,000</u>

A. Summary of Long-Term Liabilities

The following is a summary of long-term liabilities transactions for the year ended June 30, 2002:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds payable	\$ 27,375,000	\$ --	\$ 1,655,000	\$ 25,720,000	\$ 1,925,000
Certificates of Participation	32,400,000	7,965,000	9,300,000	31,065,000	525,000
Capital leases	710,314	877,739	222,492	1,365,561	291,763
Compensated absences	3,198,738	360,934	--	3,559,672	3,559,672
Landfill closure/postclosure care costs	<u>5,469,682</u>	<u>1,484,063</u>	<u>--</u>	<u>6,953,745</u>	<u>--</u>
Total Governmental Activities	<u>\$ 69,153,734</u>	<u>\$10,687,736</u>	<u>\$11,177,492</u>	<u>\$ 68,663,978</u>	<u>\$ 6,301,435</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 7: **Long-Term Liabilities** (continued)

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

As of June 30, 2002, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30	Governmental Activities			
	Bonds Payable		Certificates of Participation	
	Principal	Interest	Principal	Interest
2003	\$ 1,925,000	\$ 1,698,191	\$ 525,000	\$ 1,512,770
2004	2,225,000	1,562,270	740,000	1,488,927
2005	2,555,000	1,402,902	570,000	1,463,451
2006	2,920,000	1,217,609	885,000	1,434,403
2007	3,320,000	1,003,663	1,470,000	1,398,263
2008-2012	12,775,000	1,405,459	3,500,000	6,448,774
2013-2017	--	--	4,350,000	5,566,219
2018-2022	--	--	5,535,000	4,382,084
2023-2027	--	--	8,065,000	2,692,825
2028-2032	--	--	5,425,000	579,560
	<u>\$ 25,720,000</u>	<u>\$ 8,290,094</u>	<u>\$ 31,065,000</u>	<u>\$ 26,967,276</u>

B. **Capital Leases**

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

	Governmental Activities
Equipment	\$ 1,995,698
Less: accumulated amortization	<u>630,137</u>
Net Value	<u>\$ 1,365,561</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 7: **Long-Term Liabilities** (continued)

B. 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 \$1,995,698. The minimum future lease commitments on these leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2003	\$ 350,470
2004	330,708
2005	253,635
2006	163,100
2007	154,488
2008-2009	<u>260,695</u>
Total Minimum Lease Payments	1,543,095
Less Amount Representing Interest	<u>(177,535)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,365,561</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 \$3,559,672.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 7: **Long-Term Liabilities** (continued)

D. 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 \$6,953,745 reported as landfill closure/postclosure liability at June 30, 2002 represents the cumulative amount reported to date based on the use of various percents of the estimated capacity of the landfills. The County will recognize the remaining estimated cost of closure/postclosure of \$3,380,646 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2002. The County expects to close all landfills by the year 2015. 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 Closure/ Postclosure Costs</u>	<u>Estimated Liability at June 30, 2002</u>
Caspar Landfill	Mendocino County/ City of Fort Bragg	100%	Closed	\$ 7,080,000	\$ 3,675,894
South Coast Landfill	Mendocino County	N/A	2015	2,317,851	2,317,851
Laytonville Landfill	Mendocino County	100%	Closed	3,443,118	960,000
				<u>\$ 12,840,969</u>	<u>\$ 6,953,745</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, 2002, investments of \$615,752 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, 2002

Note 8: **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.

As of June 30, 2002, the County had the following restrictions to net assets:

Restricted for:	
Capital projects	\$ 4,088,309
Debt service	5,621,521
Tax loss reserve	<u>1,262,715</u>
 Total	 <u>\$ 10,972,545</u>

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, 2002, 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, 2002

Note 8: **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. The balance at June 30, 2002 was \$6,365.
- *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. The balance at June 30, 2002 was \$620,321.
- *Reserve for Deposits* was created to represent deposit with others. The portion of fund balance representing the deposit does not represent an available spendable resource. The balance at June 30, 2002 was \$314,582.
- *Reserve for Inventory* was created to represent the balance of inventory that is not available for expenditure. The balance at June 30, 2002 was \$591,543.

Note 9: **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.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 9: **County Employees Retirement Plan (Defined Benefit Pension Plan)** (continued)

Funding Policy

Employees of the County and the special districts contribute to the plan. County contributions for the plan's year ended June 30, 2002 were \$6,239,658 and contributions by the employees of the County and the special districts were \$3,855,758.

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 1.0 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 V. James Sligh. The last audit performed was for the year ended June 30, 2001. An audit is in progress for the fiscal year ending June 30, 2002. The following summarized financial information is presented for the year ended June 30, 2001 (a complete financial statement of the Association is available at the Auditor-Controller's Office of the County of Mendocino).

Statement of Net Assets

Current Assets	\$ 4,775,888
Bond and Equities	<u>147,060,301</u>
Total Assets	<u>151,836,189</u>
Accounts Payable	<u>218,329</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 151,617,860</u>

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 9: **County Employees Retirement Plan (Defined Benefit Pension Plan)** (continued)

Annual Pension Cost (continued)

Statement of Changes in Net Assets

Revenues	
Member contributions	\$ 3,855,758
County contributions	6,239,658
Investment income – net of expenses of \$698,419	(12,761,806)
Other income	149,749
Total Revenues	<u>(2,516,641)</u>
Expenses	
Benefit payments	8,258,047
Refunds of contributions	503,625
Administrative and professional expenses	133,958
Insurance benefits	1,338,221
Total Expenditures	<u>10,233,851</u>
Net Operating Income (Loss)	(12,750,492)
Net Assets – Beginning of Year	<u>164,368,352</u>
Net Assets – End of Year	<u>\$ 151,617,860</u>

Note 10: **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, 683 retirees were covered. Health benefits paid on behalf of retirees was \$1,338,221 for the year ended June 30, 2002.

Note 11: **Contingencies**

A. **Litigation**

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

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements For the Year Ended June 30, 2002

Note 11: **Contingencies** (continued)

B. Grants

The County participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the County may be required to reimburse the grantor government. As of June 30, 2002, significant amounts of grant expenditures have not been audited, but the County believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the County.

Note 12: **Risk Management**

The County has four risk management funds (Internal Service Funds) to administer the County's insurance programs that are fully or partially self-insured. 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 self-insures for this program. The estimated claims liability at fiscal year end was \$0.

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, 2002, 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 \$208,573 includes incurred but not reported claims.

COUNTY OF MENDOCINO

Notes to the Basic Financial Statements
For the Year Ended June 30, 2002

Note 12: **Risk Management** (continued)

C. **Workers' Compensation** (continued)

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.

D. **Health Insurance**

The County maintains an SIR of \$150,000 per year for each enrollee. Losses which exceed the SIR are covered by excess insurance. The program is administered by Watson Wyatt. They have estimated that the estimated claims liability at fiscal year end was \$0. This liability is not actuarially determined and does not include incurred but not reported claims.

Note 13: **Excess Expenditures Over Budget**

The following funds had excess expenditures over budget:

	<u>Budget</u>	<u>Expenditure</u>	<u>Variance</u>
Accumulated Capital Outlay	\$ 1,064,757	\$ 1,239,100	\$ 174,343
Museum Bookstore	10,100	12,666	2,566
Sheriff Special Projects	--	3,771	3,771
Debt Service	2,995,920	3,328,468	332,548
Noyo Lighting District	3,600	3,612	12

Note 14: **Subsequent Events**

On July 3, 2002, the County issued a \$21,825,000 tax and revenue anticipation note. The funds were budgeted for operations. The note is due and payable June 30, 2003 and carries a 3.0% interest rate.

The County approved an internally financed Teeter Note payable for \$10,726,496 on May 13, 2003 to offset the deficit cash balance in the Tax Resources Fund (TRF). The fund balance (deficit) of the TRF was consolidated with the General Fund at year end.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2002

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ 7,522,465	\$ 7,522,465	\$ 7,522,465	\$ --
Resources (inflows):				
Taxes	35,901,888	35,901,888	34,483,437	(1,418,451)
Licenses and permits	2,030,965	2,030,965	2,297,342	266,377
Fines, forfeits and penalties	1,134,992	1,134,992	944,896	(190,096)
Revenue from use of money and property	2,950,592	2,950,592	2,106,511	(844,081)
Aid from other governments	77,488,468	77,656,018	74,006,671	(3,649,347)
Charges for services	9,653,466	9,653,466	8,899,983	(753,483)
Miscellaneous revenue	3,636,308	3,636,308	3,387,493	(248,815)
Other financing sources	184,042	190,042	181,696	(8,346)
Amounts available for appropriation	<u>132,980,721</u>	<u>133,154,271</u>	<u>126,308,029</u>	<u>(6,846,242)</u>
Charges to appropriations (outflows):				
Current:				
General government	17,084,601	17,084,480	15,734,651	1,349,829
Public protection	34,622,470	34,723,118	34,263,515	459,603
Public way and facilities	196,886	196,886	88,969	107,917
Health and sanitation	24,879,599	25,590,447	24,486,833	1,103,614
Public assistance	52,173,128	52,209,498	48,562,442	3,647,056
Education	221,712	222,712	196,677	26,035
Recreation and cultural services	253,781	254,781	209,481	45,300
Other financing uses	6,348,176	6,448,018	6,550,741	(102,723)
Total charges to appropriations	<u>135,780,353</u>	<u>136,729,940</u>	<u>130,093,309</u>	<u>6,636,631</u>
Budgetary fund balances, June 30	<u>\$ 4,722,833</u>	<u>\$ 3,946,796</u>	<u>\$ 3,737,185</u>	<u>\$ (209,611)</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 \$ 126,308,029

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for budgetary purposes (181,696)

Total revenues as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 126,126,333

continued

COUNTY OF MENDOCINO

Budgetary Comparison Schedule (continued)
General Fund
For the Year Ended June 30, 2002

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	\$ 130,093,309
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for budgetary purposes	(6,550,741)
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> --</u>
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds	<u><u>\$ 123,542,568</u></u>

COUNTY OF MENDOCINO

Budgetary Comparison Schedule
Capital Projects Fund
For the Year Ended June 30, 2002

	<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	\$ 12,297,713	\$ 12,297,713	\$ 12,297,713	\$ --
Resources (inflows):				
Revenue from use of money and property		--	915,210	915,210
Aid from other governments	1,300,000	1,300,000	476,240	(823,760)
Miscellaneous revenue	500,000	500,000	94,350	(405,650)
Other financing sources	9,196,825	9,196,825	110,000	(9,086,825)
Amounts available for appropriation	<u>10,996,825</u>	<u>10,996,825</u>	<u>1,595,800</u>	<u>(9,401,025)</u>
Charges to appropriations (outflows):				
Capital outlay	<u>11,570,825</u>	<u>11,570,825</u>	<u>9,273,941</u>	<u>2,296,884</u>
Total charges to appropriations	<u>11,570,825</u>	<u>11,570,825</u>	<u>9,273,941</u>	<u>2,296,884</u>
Budgetary fund balances, June 30	<u>\$ 11,723,713</u>	<u>\$ 11,723,713</u>	<u>\$ 4,619,572</u>	<u>\$ (7,104,141)</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 \$ 1,595,800

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for budgetary purposes (110,000)

Total revenues as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 1,485,800

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement \$ 9,273,941

Differences - budget to GAAP:

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 --

Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 9,273,941

COUNTY OF MENDOCINO

Note to Required Supplementary Information For the Year Ended June 30, 2002

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.

COUNTY OF MENDOCINO

Combining Balance Sheet
 Non Major Special Revenue Funds
 June 30, 2002

	<u>Children and Families First</u>	<u>Road</u>	<u>Accumulative Capital Outlay</u>	<u>Library</u>
<u>Assets</u>				
Cash and investments	\$ --	\$ 459,760	\$ 311,881	\$ 222,805
Imprest cash	--	50	--	216
Due from other governmental agencies	--	358,860	--	--
Accounts receivable	--	257,269	--	3,936
Inventory of supplies, at cost	--	591,543	--	--
Total Assets	<u>\$ --</u>	<u>\$ 1,667,482</u>	<u>\$ 311,881</u>	<u>\$ 226,957</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ 593,694	\$ 248,575	\$ 20,189
Due to other funds	--	--	--	--
Accrued salaries and benefits	--	93,443	--	16,778
Total Liabilities	<u>--</u>	<u>687,137</u>	<u>248,575</u>	<u>36,967</u>
 Equities:				
Fund Balances:				
Reserved for:				
Encumbrances	--	49,082	--	--
Inventory	--	591,543	--	--
Imprest cash	--	50	--	216
Unreserved				
Designated	--	--	--	--
Undesignated	--	339,670	63,306	189,774
Total Equities	<u>--</u>	<u>980,345</u>	<u>63,306</u>	<u>189,990</u>
 Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 1,667,482</u>	<u>\$ 311,881</u>	<u>\$ 226,957</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Non Major Special Revenue Funds
 June 30, 2002

	Fish and Game	Special Aviation	Supplemental Law Enforcement	COPS AB 1913
<u>Assets</u>				
Cash and investments	\$ 139,106	\$ 193,590	\$ 30,680	\$ 346,640
Imprest cash	--	--	--	--
Due from other governmental agencies	--	--	--	--
Accounts receivable	--	--	--	--
Inventory of supplies, at cost	--	--	--	--
Total Assets	\$ 139,106	\$ 193,590	\$ 30,680	\$ 346,640
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ 3,240	\$ --	\$ 17,972
Due to other funds	--	--	--	--
Accrued salaries and benefits	--	--	1,550	2,653
Total Liabilities	--	3,240	1,550	20,625
Equities:				
Fund Balances:				
Reserved for:				
Encumbrances	--	--	--	2,898
Inventory	--	--	--	--
Imprest cash	--	--	--	--
Unreserved				
Designated	--	--	--	--
Undesignated	139,106	190,350	29,130	323,117
Total Equities	139,106	190,350	29,130	326,015
Total Liabilities and Fund Balances	\$ 139,106	\$ 193,590	\$ 30,680	\$ 346,640

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Non Major Special Revenue Funds
 June 30, 2002

	<u>Redwood Valley Park</u>	<u>Walker Endowment</u>	<u>Fort Bragg Library</u>	<u>Museum Endowment</u>	<u>Sheriff Special Projects</u>
<u>Assets</u>					
Cash and investments	\$ 61,204	\$ 3,419	\$ 26,082	\$ 115,628	\$ 629,732
Imprest cash	--	--	--	--	--
Due from other governmental agencies	--	--	--	--	--
Accounts receivable	--	--	--	--	--
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 61,204</u>	<u>\$ 3,419</u>	<u>\$ 26,082</u>	<u>\$ 115,628</u>	<u>\$ 629,732</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ --	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	--	--	--	--
Accrued salaries and benefits	--	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Equities:					
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved					
Designated	--	--	--	--	--
Undesignated	61,204	3,419	26,082	115,628	629,732
Total Equities	<u>61,204</u>	<u>3,419</u>	<u>26,082</u>	<u>115,628</u>	<u>629,732</u>
Total Liabilities and Fund Balances	<u>\$ 61,204</u>	<u>\$ 3,419</u>	<u>\$ 26,082</u>	<u>\$ 115,628</u>	<u>\$ 629,732</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Non Major Special Revenue Funds
 June 30, 2002

	<u>Mobile Spay/ Neuter</u>	<u>Museum Bookstore/ Projects</u>	<u>Recorder Modern- ization</u>	<u>Micro- graphics</u>	<u>Assessor</u>
<u>Assets</u>					
Cash and investments	\$ 20,665	\$ 117,490	\$ 290,149	\$ 20,428	\$ 43,600
Imprest cash	--	--	--	--	--
Due from other governmental agencies	--	--	--	--	--
Accounts receivable	--	--	1,085	--	--
Inventory of supplies, at cost	--	--	--	--	--
Total Assets	<u>\$ 20,665</u>	<u>\$ 117,490</u>	<u>\$ 291,234</u>	<u>\$ 20,428</u>	<u>\$ 43,600</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ --	\$ --	\$ 25,000	\$ --	\$ 35
Due to other funds	--	--	--	--	--
Accrued salaries and benefits	--	--	--	--	--
Total Liabilities	<u>--</u>	<u>--</u>	<u>25,000</u>	<u>--</u>	<u>35</u>
Equities:					
Fund Balances:					
Reserved for:					
Encumbrances	--	--	--	--	--
Inventory	--	--	--	--	--
Imprest cash	--	--	--	--	--
Unreserved					
Designated	--	--	--	--	--
Undesignated	20,665	117,490	266,234	20,428	43,565
Total Equities	<u>20,665</u>	<u>117,490</u>	<u>266,234</u>	<u>20,428</u>	<u>43,565</u>
Total Liabilities and Fund Balances	<u>\$ 20,665</u>	<u>\$ 117,490</u>	<u>\$ 291,234</u>	<u>\$ 20,428</u>	<u>\$ 43,600</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Non Major Special Revenue Funds
 June 30, 2002

	<u>Miscellaneous Grants</u>	<u>Special Districts Lighting</u>	<u>Special Districts Other</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments	\$ --	\$ 99,216	\$ 653,398	\$ 3,785,473
Imprest cash	100	--	100	466
Due from other governmental agencies	--	--	--	--
Accounts receivable	--	--	32,192	294,482
Inventory of supplies, at cost	--	--	--	591,543
Total Assets	<u>\$ 100</u>	<u>\$ 99,216</u>	<u>\$ 685,690</u>	<u>\$ 4,671,964</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 154,314	\$ 748	\$ 12,160	\$ 1,075,927
Due to other funds	1,515,995	10,108	--	1,526,103
Accrued salaries and benefits	20,306	--	10,806	145,536
Total Liabilities	<u>1,690,615</u>	<u>10,856</u>	<u>22,966</u>	<u>2,747,566</u>
Equities:				
Fund Balances:				
Reserved for:				
Encumbrances	--	--	--	51,980
Inventory	--	--	--	591,543
Imprest cash	100	--	100	466
Unreserved				
Designated	--	--	--	--
Undesignated	(1,690,615)	89,577	663,174	1,641,036
Total Equities	<u>(1,690,515)</u>	<u>89,577</u>	<u>663,274</u>	<u>2,285,025</u>
Total Liabilities and Fund Balances	<u>\$ 100</u>	<u>\$ 100,433</u>	<u>\$ 686,240</u>	<u>\$ 5,032,591</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2002

	Children and Families First	Road	Accumulative Capital Outlay	Library
Revenues:				
Taxes	\$ --	\$ 48,234	\$ --	\$ --
Licenses, permits and franchises	--	92,186	--	--
Fines, forfeitures and penalties	--	65,077	179,457	--
Revenue from use of money and property	--	22,809	4,938	9,614
Aid from other governmental agencies	--	5,580,026	96,884	344,282
Charges for services	--	73,840	--	28,007
Other revenue	--	305,101	5,160	44,200
Total Revenues	<u>--</u>	<u>6,187,273</u>	<u>286,439</u>	<u>426,103</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	--	--	--	--
Public ways and facilities	--	10,124,501	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	1,294,204
Recreation and culture services	--	--	--	--
Capital outlay	--	--	1,239,101	--
Total Expenditures	<u>--</u>	<u>10,124,501</u>	<u>1,239,101</u>	<u>1,294,204</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>--</u>	<u>(3,937,228)</u>	<u>(952,662)</u>	<u>(868,101)</u>
Other Financing Sources (Uses):				
Transfers In	--	2,868,127	998,587	782,077
Transfers Out	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>2,868,127</u>	<u>998,587</u>	<u>782,077</u>
Net Change in Fund Balances	<u>--</u>	<u>(1,069,101)</u>	<u>45,925</u>	<u>(86,024)</u>
Fund Balances, Beginning	2,641,497	2,049,446	17,381	236,905
Prior period adjustment	(2,641,497)	--	--	39,109
Fund Balances, Beginning, as Restated	<u>--</u>	<u>2,049,446</u>	<u>17,381</u>	<u>276,014</u>
Fund Balances, Ending	<u>\$ --</u>	<u>\$ 980,345</u>	<u>\$ 63,306</u>	<u>\$ 189,990</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, 2002

	<u>Fish and Game</u>	<u>Special Aviation</u>	<u>Supplemental Law Enforcement</u>	<u>COPS AB 1913</u>
Revenues:				
Taxes	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--
Fines, forfeitures and penalties	25,352	--	--	--
Revenue from use of money and property	3,784	--	1,553	10,839
Aid from other governmental agencies	--	--	147,809	291,364
Charges for services	--	--	--	--
Other revenue	--	--	--	--
Total Revenues	<u>29,136</u>	<u>--</u>	<u>149,362</u>	<u>302,203</u>
Expenditures:				
Current:				
General government	--	--	--	--
Public protection	41,254	--	151,334	290,827
Public ways and facilities	--	8,614	--	--
Health and sanitation	--	--	--	--
Public assistance	--	--	--	--
Education	--	--	--	--
Recreation and culture services	--	--	--	--
Capital outlay	--	--	--	--
Total Expenditures	<u>41,254</u>	<u>8,614</u>	<u>151,334</u>	<u>290,827</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(12,118)</u>	<u>(8,614)</u>	<u>(1,972)</u>	<u>11,376</u>
Other Financing Sources (Uses):				
Transfers In	--	--	--	--
Transfers Out	--	--	(830)	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(830)</u>	<u>--</u>
Net Change in Fund Balances	<u>(12,118)</u>	<u>(8,614)</u>	<u>(2,802)</u>	<u>11,376</u>
Fund Balances, Beginning	151,224	198,964	31,932	314,639
Prior period adjustment	--	--	--	--
Fund Balances, Beginning, as Restated	<u>151,224</u>	<u>198,964</u>	<u>31,932</u>	<u>314,639</u>
Fund Balances, Ending	<u>\$ 139,106</u>	<u>\$ 190,350</u>	<u>\$ 29,130</u>	<u>\$ 326,015</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, 2002

	Redwood Valley Park	Walker Endowment	Fort Bragg Library	Museum Endowment	Sheriff Special Projects
Revenues:					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--	--
Revenue from use of money and property	1,476	82	629	8,031	9,597
Aid from other governmental agencies	--	--	--	--	500,000
Charges for services	--	--	--	--	--
Other revenue	--	--	--	--	88,720
Total Revenues	<u>1,476</u>	<u>82</u>	<u>629</u>	<u>8,031</u>	<u>598,317</u>
Expenditures:					
Current:					
General government	--	--	--	--	--
Public protection	--	--	--	--	3,771
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>3,771</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,476</u>	<u>82</u>	<u>629</u>	<u>8,031</u>	<u>594,546</u>
Other Financing Sources (Uses):					
Transfers In	--	--	--	--	--
Transfers Out	--	--	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net Change in Fund Balances	<u>1,476</u>	<u>82</u>	<u>629</u>	<u>8,031</u>	<u>594,546</u>
Fund Balances, Beginning	--	--	--	--	--
Prior period adjustment	59,728	3,337	25,453	107,597	35,186
Fund Balances, Beginning, as Restated	<u>59,728</u>	<u>3,337</u>	<u>25,453</u>	<u>107,597</u>	<u>35,186</u>
Fund Balances, Ending	<u>\$ 61,204</u>	<u>\$ 3,419</u>	<u>\$ 26,082</u>	<u>\$ 115,628</u>	<u>\$ 629,732</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, 2002

	<u>Mobile Spay/ Neuter</u>	<u>Museum Bookstore/ Projects</u>	<u>Recorder Modern- ization</u>	<u>Micro- graphics</u>	<u>Assessor</u>
Revenues:					
Taxes	\$ --	\$ --	\$ --	\$ --	\$ --
Licenses, permits and franchises	--	--	--	--	--
Fines, forfeitures and penalties	--	--	--	--	--
Revenue from use of money and property	162	774	6,547	--	4,718
Aid from other governmental agencies	--	--	--	--	160,400
Charges for services	--	--	129,380	--	--
Other revenue	<u>32,188</u>	<u>56,416</u>	<u>--</u>	<u>--</u>	<u>13,526</u>
Total Revenues	<u>32,350</u>	<u>57,190</u>	<u>135,927</u>	<u>--</u>	<u>178,644</u>
Expenditures:					
Current:					
General government	--	--	69,764	--	140,290
Public protection	21,685	--	--	--	--
Public ways and facilities	--	--	--	--	--
Health and sanitation	--	--	--	--	--
Public assistance	--	--	--	--	--
Education	--	--	--	--	--
Recreation and culture services	--	27,256	--	--	--
Capital outlay	--	3,075	13,989	--	32,923
Total Expenditures	<u>21,685</u>	<u>30,331</u>	<u>83,753</u>	<u>--</u>	<u>173,213</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>10,665</u>	<u>26,859</u>	<u>52,174</u>	<u>--</u>	<u>5,431</u>
Other Financing Sources (Uses):					
Transfers In	10,000	--	--	20,428	--
Transfers Out	--	(2,000)	(6,000)	--	--
Total Other Financing Sources (Uses)	<u>10,000</u>	<u>(2,000)</u>	<u>(6,000)</u>	<u>20,428</u>	<u>--</u>
Net Change in Fund Balances	<u>20,665</u>	<u>24,859</u>	<u>46,174</u>	<u>20,428</u>	<u>5,431</u>
Fund Balances, Beginning	--	--	--	--	--
Prior period adjustment	--	92,631	220,060	--	38,134
Fund Balances, Beginning, as Restated	<u>--</u>	<u>92,631</u>	<u>220,060</u>	<u>--</u>	<u>38,134</u>
Fund Balances, Ending	<u>\$ 20,665</u>	<u>\$ 117,490</u>	<u>\$ 266,234</u>	<u>\$ 20,428</u>	<u>\$ 43,565</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, 2002

	<u>Miscellaneous Grants</u>	<u>Special Districts Lighting</u>	<u>Special Districts Other</u>	<u>Total</u>
Revenues:				
Taxes	\$ --	\$ 40,711	\$ 78,730	\$ 167,675
Licenses, permits and franchises	--	--	163,059	255,245
Fines, forfeitures and penalties	--	--	92,289	362,175
Revenue from use of money and property	--	--	16,113	101,666
Aid from other governmental agencies	8,475,923	766	492,647	16,090,101
Charges for services	--	--	35,815	267,042
Other revenue	--	--	71,412	616,723
Total Revenues	<u>8,475,923</u>	<u>41,477</u>	<u>950,065</u>	<u>17,860,627</u>
Expenditures:				
Current:				
General government	--	--	--	210,054
Public protection	1,326,250	--	118,790	1,953,911
Public ways and facilities	--	35,897	--	10,169,012
Health and sanitation	4,028,387	--	748,830	4,777,217
Public assistance	3,761,671	--	--	3,761,671
Education	--	--	--	1,294,204
Recreation and culture services	--	--	--	27,256
Capital outlay	--	--	--	1,289,088
Total Expenditures	<u>9,116,308</u>	<u>35,897</u>	<u>867,620</u>	<u>23,482,413</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(640,385)</u>	<u>5,580</u>	<u>82,445</u>	<u>(5,621,786)</u>
Other Financing Sources (Uses):				
Transfers In	--	--	20,000	4,699,219
Transfers Out	--	--	(30,000)	(38,830)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(10,000)</u>	<u>4,660,389</u>
Net Change in Fund Balances	<u>(640,385)</u>	<u>5,580</u>	<u>72,445</u>	<u>(961,397)</u>
Fund Balances, Beginning	--	83,997	590,829	6,316,814
Prior period adjustment	(1,050,130)	--	--	(3,070,392)
Fund Balances, Beginning, as Restated	<u>(1,050,130)</u>	<u>83,997</u>	<u>590,829</u>	<u>3,246,422</u>
Fund Balances, Ending	<u>\$ (1,690,515)</u>	<u>\$ 89,577</u>	<u>\$ 663,274</u>	<u>\$ 2,285,025</u>

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors
 June 30, 2002

	<u>Alexander Estates</u>	<u>Covelo</u>	<u>Fairview Acres</u>	<u>Hopland</u>
<u>Assets</u>				
Cash and investments	\$ --	\$ 6,027	\$ 3,647	\$ 26,791
Accounts receivable	--	--	--	--
Total Assets	<u>\$ --</u>	<u>\$ 6,027</u>	<u>\$ 3,647</u>	<u>\$ 26,791</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 748	\$ --	\$ --	\$ --
Due to other funds	9,996	--	--	--
Total Liabilities	<u>10,744</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Undesignated	<u>(10,744)</u>	<u>6,027</u>	<u>3,647</u>	<u>26,791</u>
Total Fund Balances	<u>(10,744)</u>	<u>6,027</u>	<u>3,647</u>	<u>26,791</u>
Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 6,027</u>	<u>\$ 3,647</u>	<u>\$ 26,791</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors
 June 30, 2002

	<u>Laytonville</u>	<u>Noyo</u>	<u>Oak Knoll</u>	<u>Riverwood Terrace</u>
<u>Assets</u>				
Cash and investments	\$ 5,789	\$ --	\$ 26,982	\$ 5,866
Accounts receivable	--	--	--	--
Total Assets	<u>\$ 5,789</u>	<u>\$ --</u>	<u>\$ 26,982</u>	<u>\$ 5,866</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ --	\$ --	\$ --	\$ --
Due to other funds	--	112	--	--
Total Liabilities	<u>--</u>	<u>112</u>	<u>--</u>	<u>--</u>
Fund Balances:				
Undesignated	<u>5,789</u>	<u>1,105</u>	<u>26,982</u>	<u>5,866</u>
Total Fund Balances	<u>5,789</u>	<u>1,105</u>	<u>26,982</u>	<u>5,866</u>
 Total Liabilities and Fund Balances	 <u>\$ 5,789</u>	 <u>\$ 1,217</u>	 <u>\$ 26,982</u>	 <u>\$ 5,866</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Lighting Special District Funds Governed by Board of Supervisors
 June 30, 2002

	<u>Ukiah Village</u>	<u>West Talmage</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 14,650	\$ 9,464	\$ 99,216
Accounts receivable	--	--	--
Total Assets	<u>\$ 14,650</u>	<u>\$ 9,464</u>	<u>\$ 99,216</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ --	\$ --	\$ 748
Due to other funds	--	--	10,108
Total Liabilities	<u>--</u>	<u>--</u>	<u>10,856</u>
 Fund Balances:			
Undesignated	<u>14,650</u>	<u>9,464</u>	<u>89,577</u>
Total Fund Balances	<u>14,650</u>	<u>9,464</u>	<u>89,577</u>
 Total Liabilities and Fund Balances	 <u>\$ 14,650</u>	 <u>\$ 9,464</u>	 <u>\$ 100,433</u>

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, 2002

	<u>Alexander</u> <u>Estates</u>	<u>Covelo</u>	<u>Fairview</u> <u>Acres</u>	<u>Hopland</u>
Revenues:				
Taxes	\$ 5,738	\$ 5,088	\$ 1,176	\$ 9,261
Aid from other governmental agencies	107	90	22	173
Total Revenues	<u>5,845</u>	<u>5,178</u>	<u>1,198</u>	<u>9,434</u>
Expenditures:				
Public ways and facilities	9,100	4,899	843	5,145
Total Expenditures	<u>9,100</u>	<u>4,899</u>	<u>843</u>	<u>5,145</u>
Net change in fund balances	(3,255)	279	355	4,289
Fund Balances, Beginning	<u>(7,489)</u>	<u>5,748</u>	<u>3,292</u>	<u>22,502</u>
Fund Balances, Ending	<u><u>\$ (10,744)</u></u>	<u><u>\$ 6,027</u></u>	<u><u>\$ 3,647</u></u>	<u><u>\$ 26,791</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, 2002

	<u>Laytonville</u>	<u>Noyo</u>	<u>Oak Knoll</u>	<u>Riverwood Terrance</u>
Revenues:				
Taxes	\$ 2,672	\$ 1,678	\$ 5,836	\$ 1,493
Aid from other governmental agencies	47	45	109	28
Total Revenues	<u>2,719</u>	<u>1,723</u>	<u>5,945</u>	<u>1,521</u>
Expenditures:				
Public ways and facilities	<u>2,305</u>	<u>3,613</u>	<u>3,574</u>	<u>645</u>
Total Expenditures	<u>2,305</u>	<u>3,613</u>	<u>3,574</u>	<u>645</u>
Net change in fund balances	414	(1,890)	2,371	876
Fund Balances, Beginning	<u>5,375</u>	<u>2,995</u>	<u>24,611</u>	<u>4,990</u>
Fund Balances, Ending	<u><u>\$ 5,789</u></u>	<u><u>\$ 1,105</u></u>	<u><u>\$ 26,982</u></u>	<u><u>\$ 5,866</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, 2002

	<u>Ukiah Village</u>	<u>West Talmage</u>	<u>Total</u>
Revenues:			
Taxes	\$ 5,511	\$ 2,258	\$ 40,711
Aid from other governmental agencies	103	42	766
Total Revenues	<u>5,614</u>	<u>2,300</u>	<u>41,477</u>
Expenditures:			
Public ways and facilities	<u>4,157</u>	<u>1,616</u>	<u>35,897</u>
Total Expenditures	<u>4,157</u>	<u>1,616</u>	<u>35,897</u>
Net change in fund balances	1,457	684	5,580
Fund Balances, Beginning	<u>13,193</u>	<u>8,780</u>	<u>83,997</u>
Fund Balances, Ending	<u><u>\$ 14,650</u></u>	<u><u>\$ 9,464</u></u>	<u><u>\$ 89,577</u></u>

COUNTY OF MENDOCINO

Combining Balance Sheet
 Nonmajor Other Special Districts Governed by the Board of Supervisors
 June 30, 2002

	Meadowbrook Manor Station	Mendocino County Water Agency
	<u> </u>	<u> </u>
<u>Assets</u>		
Cash and investments in County Treasury	\$ 15,487	\$ 88,719
Imprest cash	--	--
Accounts receivable	--	--
Total Assets	<u>\$ 15,487</u>	<u>\$ 88,719</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ --	\$ 2,467
Accrued salaries and benefits	--	2,910
Total Liabilities	<u>--</u>	<u>5,377</u>
 Fund Balances:		
Reserved:		
Imprest cash	--	--
Unreserved		
Designated	--	--
Undesignated	15,487	83,892
Total Fund Balances	<u>15,487</u>	<u>83,892</u>
 Total Liabilities and Fund Balances	 <u>\$ 15,487</u>	 <u>\$ 89,269</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Other Special Districts Governed by the Board of Supervisors
 June 30, 2002

	<u>Air Quality Management</u>	<u>Total</u>
<u>Assets</u>		
Cash and investments in County Treasury	\$ 549,192	\$ 653,398
Imprest cash	100	100
Accounts receivable	32,192	32,192
Total Assets	<u>\$ 581,484</u>	<u>\$ 685,690</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ 9,693	\$ 12,160
Accrued salaries and benefits	7,896	10,806
Total Liabilities	<u>17,589</u>	<u>22,966</u>
 Fund Balances:		
Reserved:		
Imprest cash	100	100
Unreserved		
Designated	--	--
Undesignated	563,795	663,174
Total Fund Balances	<u>563,895</u>	<u>663,274</u>
Total Liabilities and Fund Balances	<u>\$ 581,484</u>	<u>\$ 686,240</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, 2002

	<u>Meadowbrook Manor Station</u>	<u>Mendocino County Water Agency</u>
Revenues:		
Taxes	\$ 1,110	\$ 77,620
Licenses, permits and franchises	--	--
Fines, forfeitures and penalties	--	--
Revenue from use of money and property	--	2,228
Aid from other governmental agencies	20	1,482
Charges for services	--	8,979
Other revenue	--	763
Total Revenues	<u>1,130</u>	<u>91,072</u>
Expenditures:		
Public protection	--	118,790
Health and sanitation	23	--
Total Expenditures	<u>23</u>	<u>118,790</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,107</u>	<u>(27,718)</u>
Other Financing Sources (Uses):		
Transfers in	--	20,000
Transfers out	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>20,000</u>
Net change in fund balances	1,107	(7,718)
Fund balances, beginning	<u>14,380</u>	<u>91,610</u>
Fund balances, ending	<u>\$ 15,487</u>	<u>\$ 83,892</u>

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, 2002

	<u>Air Quality Management</u>	<u>Total</u>
Revenues:		
Taxes	\$ --	\$ 78,730
Licenses, permits and franchises	163,059	163,059
Fines, forfeitures and penalties	92,289	92,289
Revenue from use of money and property	13,885	16,113
Aid from other governmental agencies	491,145	492,647
Charges for services	26,836	35,815
Other revenue	70,649	71,412
Total Revenues	<u>857,863</u>	<u>950,065</u>
Expenditures:		
Public protection	--	118,790
Health and sanitation	748,807	748,830
Total Expenditures	<u>748,807</u>	<u>867,620</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>109,056</u>	<u>82,445</u>
Other Financing Sources (Uses):		
Transfers in	--	20,000
Transfers out	(30,000)	(30,000)
Total Other Financing Sources (Uses)	<u>(30,000)</u>	<u>(10,000)</u>
Net change in fund balances	79,056	72,445
Fund balances, beginning	<u>484,839</u>	<u>590,829</u>
Fund balances, ending	<u>\$ 563,895</u>	<u>\$ 663,274</u>

COUNTY OF MENDOCINO

Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2002

<u>Assets</u>	<u>Debt Service</u>	<u>Pension Obligation Bonds</u>
Cash and investments in County Treasury	\$ 375	\$ 414,203
Held with trustee	2,809,560	2,811,961
Accounts receivable	--	82,825
Due from other funds	618,000	--
Total Assets	<u>\$ 3,427,935</u>	<u>\$ 3,308,989</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ 1,000	\$ --
Due to other funds	--	--
Matured principal and interest payable	128,314	138,872
Total Liabilities	<u>129,314</u>	<u>138,872</u>
 Fund Balances:		
Reserved for restricted assets	2,809,560	2,811,961
Unreserved	489,061	358,156
Total Fund Balances	<u>3,298,621</u>	<u>3,170,117</u>
 Total Liabilities and Fund Balances	 <u>\$ 3,427,935</u>	 <u>\$ 3,308,989</u>

continued

COUNTY OF MENDOCINO

Combining Balance Sheet (continued)
 Nonmajor Debt Service Funds
 June 30, 2002

<u>Assets</u>	<u>Redevelopment Agency</u>	<u>Total</u>
Cash and investments in County Treasury	\$ --	\$ 414,578
Held with trustee	--	5,621,521
Accounts receivable	--	82,825
Due from other funds	--	618,000
Total Assets	<u>\$ --</u>	<u>\$ 6,736,924</u>
 <u>Liabilities and Fund Balances</u>		
Liabilities:		
Vouchers and accounts payable	\$ --	\$ 1,000
Due to other funds	163,495	163,495
Matured principal and interest payable	--	267,186
Total Liabilities	<u>163,495</u>	<u>431,681</u>
 Fund Balances:		
Reserved for restricted assets	--	5,621,521
Unreserved	<u>(163,495)</u>	<u>683,722</u>
Total Fund Balances	<u>(163,495)</u>	<u>6,305,243</u>
 Total Liabilities and Fund Balances	 <u>\$ --</u>	 <u>\$ 6,736,924</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Debt Service Funds
 For the Year Ended June 30, 2002

	Debt Service	Pension Obligation Bonds
Revenues:		
Use of money and property	\$ 100,530	\$ --
Charges for services	--	4,108,993
Other	--	--
	100,530	4,108,993
Total Revenues	100,530	4,108,993
Expenditures:		
General government	--	--
Debt service - principal	9,300,000	1,655,000
Debt service - interest and other	2,463,714	1,863,819
	11,763,714	3,518,819
Total Expenditures	11,763,714	3,518,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,663,184)	590,174
Other Financing Sources (Uses):		
Transfers in	1,533,522	--
Issuance of debt	8,067,759	--
	9,601,281	--
Total Other Financing Sources (Uses)	9,601,281	--
Net change in fund balances	(2,061,903)	590,174
Fund balances, beginning	5,360,524	2,579,943
Fund balances, ending	\$ 3,298,621	\$ 3,170,117

continued

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenditures and Changes in Fund Balances (continued)
 Nonmajor Debt Service Funds
 For the Year Ended June 30, 2002

	<u>Redevelopment Agency</u>	<u>Total</u>
Revenues:		
Use of money and property	\$ (2,260)	\$ 98,270
Charges for services	--	4,108,993
Other	--	--
	<u>(2,260)</u>	<u>4,207,263</u>
 Expenditures:		
General government	111,164	111,164
Debt service - principal	--	10,955,000
Debt service - interest and other	--	4,327,533
	<u>111,164</u>	<u>15,393,697</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(113,424)</u>	<u>(11,186,434)</u>
 Other Financing Sources (Uses):		
Transfers in	--	1,533,522
Issuance of debt	--	8,067,759
	<u>--</u>	<u>9,601,281</u>
 Net change in fund balances	(113,424)	(1,585,153)
 Fund balances, beginning	<u>(50,071)</u>	<u>7,890,396</u>
 Fund balances, ending	<u><u>\$ (163,495)</u></u>	<u><u>\$ 6,305,243</u></u>

COUNTY OF MENDOCINO

Combining Statement of Fund Net Assets
Internal Service Funds
June 30, 2002

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
<u>Assets</u>				
Current Assets:				
Cash	\$ 80,816	\$ 135,668	\$ 124,608	\$ 82,910
Accounts receivable	--	--	--	--
Advances receivable	--	--	--	--
Due from other funds	--	--	--	--
Total current assets	<u>80,816</u>	<u>135,668</u>	<u>124,608</u>	<u>82,910</u>
Noncurrent assets:				
Depreciable:				
Equipment	28,631	3,990,133	--	9,809
Less accumulated depreciation	<u>(7,213)</u>	<u>(2,187,534)</u>	<u>--</u>	<u>(3,592)</u>
Total noncurrent assets	<u>21,418</u>	<u>1,802,599</u>	<u>--</u>	<u>6,217</u>
 Total Assets	 <u>\$ 102,234</u>	 <u>\$ 1,938,267</u>	 <u>\$ 124,608</u>	 <u>\$ 89,127</u>
 <u>Liabilities</u>				
Accounts payable	\$ --	\$ 15,370	\$ --	\$ 63,478
Accrued salaries and benefits	--	--	--	2,060
Compensated absences payable	--	--	--	11,257
Due to other funds	--	--	--	--
Liability for unpaid claims	--	--	--	208,573
 Total Liabilities	 <u>--</u>	 <u>15,370</u>	 <u>--</u>	 <u>285,368</u>
 <u>Net Assets</u>				
Invested in capital assets, net of related debt	21,418	1,802,599	--	6,217
Unrestricted	80,816	120,298	124,608	(202,458)
Total Net Assets	<u>102,234</u>	<u>1,922,897</u>	<u>124,608</u>	<u>(196,241)</u>
 Total Liabilities and Net Assets	 <u>\$ 102,234</u>	 <u>\$ 1,938,267</u>	 <u>\$ 124,608</u>	 <u>\$ 89,127</u>

continued

COUNTY OF MENDOCINO

Combining Statement of Fund Net Assets (continued)
Internal Service Funds
June 30, 2002

	<u>Worker's Compensation</u>	<u>Health Insurance</u>	<u>Total</u>
<u>Assets</u>			
Current Assets:			
Cash	\$ 47,072	\$ --	\$ 471,074
Accounts receivable	--	165,625	165,625
Advances receivable	--	--	--
Due from other funds	--	--	--
Total current assets	<u>47,072</u>	<u>165,625</u>	<u>636,699</u>
Noncurrent assets:			
Depreciable:			
Equipment	11,142	2,260	4,041,975
Less accumulated depreciation	<u>(3,383)</u>	<u>(716)</u>	<u>(2,202,438)</u>
Total noncurrent assets	<u>7,759</u>	<u>1,544</u>	<u>1,839,537</u>
 Total Assets	 <u>\$ 54,831</u>	 <u>\$ 167,169</u>	 <u>\$ 2,476,236</u>
 <u>Liabilities</u>			
Accounts payable	\$ 29,820	\$ 1,024,604	\$ 1,133,272
Accrued salaries and benefits	3,100	845	6,005
Compensated absences payable	1,335	--	12,592
Due to other funds	--	1,456,389	1,456,389
Liability for unpaid claims	--	--	208,573
 Total Liabilities	 <u>34,255</u>	 <u>2,481,838</u>	 <u>2,816,831</u>
 <u>Net Assets</u>			
Invested in capital assets, net of related debt	7,759	1,544	1,839,537
Unrestricted	12,817	(2,316,213)	(2,180,132)
Total Net Assets	<u>20,576</u>	<u>(2,314,669)</u>	<u>(340,595)</u>
 Total Liabilities and Net Assets	 <u>\$ 54,831</u>	 <u>\$ 167,169</u>	 <u>\$ 2,476,236</u>

COUNTY OF MENDOCINO

Combining Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2002

	<u>Software Acquisition</u>	<u>Vehicle Replacement</u>	<u>Unemployment Insurance</u>	<u>General Liability Insurance</u>
Operating Revenues:				
Charges and fees	\$ --	\$ 600,242	\$ --	\$ 500,000
Other	--	--	--	507
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Revenues	--	600,242	--	500,507
	<hr/>	<hr/>	<hr/>	<hr/>
Operating Expenses:				
Salaries and benefits	--	--	--	84,735
Maintenance and repair	313,428	4,889	--	--
Services and supplies	(6,152)	--	--	391,233
Insurance	--	--	102,844	--
Depreciation	4,496	528,561	--	1,560
Claims and judgments	--	--	--	304,154
Other	--	--	--	--
	<hr/>	<hr/>	<hr/>	<hr/>
Total Operating Expenses	311,772	533,450	102,844	781,682
	<hr/>	<hr/>	<hr/>	<hr/>
Operating Income (Loss)	(311,772)	66,792	(102,844)	(281,175)
	<hr/>	<hr/>	<hr/>	<hr/>
Non-Operating Revenues (Expenses):				
Interest revenue (expense)	6,852	5,950	4,535	10,560
Gain (loss) on sale of fixed assets	--	17,551	--	--
Other	--	49,076	--	--
	<hr/>	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	6,852	72,577	4,535	10,560
	<hr/>	<hr/>	<hr/>	<hr/>
Income (Loss) Before Transfers	(304,920)	139,369	(98,309)	(270,615)
	<hr/>	<hr/>	<hr/>	<hr/>
Transfers in	240,000	--	--	--
Transfers out	--	--	--	--
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	(64,920)	139,369	(98,309)	(270,615)
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets - beginning	147,392	1,783,528	222,917	76,747
Prior period adjustment	19,762	--	--	(2,373)
Net assets- beginning as restated	167,154	1,783,528	222,917	74,374
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Net assets - ending	\$ 102,234	\$ 1,922,897	\$ 124,608	\$ (196,241)
	<hr/>	<hr/>	<hr/>	<hr/>

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, 2002

	Worker's Compensation	Health Insurance	Total
Operating Revenues:			
Charges and fees	\$ 2,100,000	\$ 8,165,464	\$ 11,365,706
Other	18	--	525
Total Operating Revenues	2,100,018	8,165,464	11,366,231
Operating Expenses:			
Salaries and benefits	138,180	42,754	265,669
Maintenance and repair	--	--	318,317
Services and supplies	2,147,633	8,080,736	10,613,450
Insurance	--	--	102,844
Depreciation	1,638	452	536,707
Claims and judgments	--	--	304,154
Other	--	--	--
Total Operating Expenses	2,287,451	8,123,942	12,141,141
Operating Income (Loss)	(187,433)	41,522	(774,910)
Non-Operating Revenues (Expenses):			
Interest revenue (expense)	(14,332)	(37,425)	(23,860)
Gain (loss) on sale of fixed assets	--	--	17,551
Other	--	--	49,076
Total Non-Operating Revenues (Expenses)	(14,332)	(37,425)	42,767
Income (Loss) Before Transfers	(201,765)	4,097	(732,143)
Transfers in	--	--	240,000
Transfers out	--	(174,866)	(174,866)
Change in net assets	(201,765)	(170,769)	(667,009)
Net assets - beginning	215,648	(2,146,932)	299,300
Prior period adjustment	6,693	3,032	27,114
Net assets- beginning as restated	222,341	(2,143,900)	326,414
Net assets - ending	\$ 20,576	\$ (2,314,669)	\$ (340,595)

COUNTY OF MENDOCINO

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2002

	Software Acquisition	Vehicle Replacement	Unemployment Insurance	General Liability Insurance
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipts from interfund services provided	\$ --	\$ 600,242	\$ --	\$ 510,507
Cash paid to suppliers for goods and services	(307,276)	(373,898)	(102,844)	(738,433)
Cash paid to employees for services	--	--	--	(82,101)
Payments for quasi-external transactions	--	--	--	--
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Net Cash Provided (Used) by Operating Activities	(307,276)	226,344	(102,844)	(310,027)
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	240,000	--	--	--
Transfers out	--	--	--	--
Interest payments	--	--	--	--
Non-operating revenues	--	49,076	--	--
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	240,000	49,076	--	--
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds of sales of fixed assets	--	49,170	--	--
Principal repayments related to capital purposes	(6,152)	(747,485)	--	(2,011)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,152)	(698,315)	--	(2,011)
	<hr/>	<hr/>	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	6,852	5,950	4,535	10,560
Net Cash Provided by investing activities	<hr/>	<hr/>	<hr/>	<hr/>
	6,852	5,950	4,535	10,560
	<hr/>	<hr/>	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(66,576)	(416,945)	(98,309)	(301,478)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, Beginning of Year	147,392	552,613	222,917	384,388
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 80,816	\$ 135,668	\$ 124,608	\$ 82,910
	<hr/>	<hr/>	<hr/>	<hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (311,772)	\$ 66,792	\$ (102,844)	\$ (281,175)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	4,496	528,561	--	1,560
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	--	--	--	10,000
Due from other funds	--	--	--	--
Increase (decrease) in:				
Accounts payable	--	(369,009)	--	60,673
Due to other funds	--	--	--	--
Accrued salaries	--	--	--	837
Compensated absences	--	--	--	1,797
Liability for self-insurance	--	--	--	(103,719)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (307,276)	\$ 226,344	\$ (102,844)	\$ (310,027)
	<hr/>	<hr/>	<hr/>	<hr/>

COUNTY OF MENDOCINO

Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2002

	Worker's Compensation	Health Insurance	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from interfund services provided	\$ 2,100,018	\$ 8,144,694	\$ 11,355,461
Cash paid to suppliers for goods and services	(2,117,814)	(8,004,588)	(11,644,853)
Cash paid to employees for services	(136,426)	(42,688)	(261,215)
Payments for quasi-external transactions	--	114,873	114,873
	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	(154,222)	212,291	(435,734)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	--	--	240,000
Transfers out	--	(174,866)	(174,866)
Interest payments	(14,332)	(37,425)	(51,757)
Non-operating revenues	--	--	49,076
	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Noncapital Financing Activities	(14,332)	(212,291)	62,453
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds of sales of fixed assets	--	--	49,170
Principal repayments related to capital purposes	(4,124)	--	(759,772)
	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,124)	--	(710,602)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	--	--	27,897
Net Cash Provided by investing activities	--	--	27,897
	<hr/>	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	(172,678)	--	(1,055,986)
Cash and Cash Equivalents, Beginning of Year	219,750	--	1,527,060
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, End of Year	\$ 47,072	\$ --	\$ 471,074
	<hr/>	<hr/>	<hr/>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (187,433)	\$ 41,522	\$ (774,910)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,638	452	536,707
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	--	(20,770)	(10,770)
Due from other funds	--	114,873	114,873
Increase (decrease) in:			
Accounts payable	29,819	76,148	(202,369)
Due to other funds	--	--	--
Accrued salaries	930	66	1,833
Compensated absences	824	--	2,621
Liability for self-insurance	--	--	(103,719)
	<hr/>	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (154,222)	\$ 212,291	\$ (435,734)
	<hr/>	<hr/>	<hr/>

**COUNTY OF MENDOCINO
AGENCY FUNDS**

Combining Balance Sheet
June 30, 2002

	<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	\$ 2,725,640	\$ 10,912,232	\$ 5,847,708
Due from other funds	--	3,259,435	--
Total Assets	<u>\$ 2,725,640</u>	<u>\$ 14,171,667</u>	<u>\$ 5,847,708</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Agency obligations	--	\$ 14,171,667	--
Total Liabilities	<u>--</u>	<u>14,171,667</u>	<u>--</u>
Fund Balance:			
Reserved for pool participants	--	--	5,847,708
Reserved for retirement system	2,725,640	--	--
Total Fund Balance	<u>2,725,640</u>	<u>--</u>	<u>5,847,708</u>
Total Liabilities and Fund Balance	<u>\$ 2,725,640</u>	<u>\$ 14,171,667</u>	<u>\$ 5,847,708</u>

continued

**COUNTY OF MENDOCINO
AGENCY FUNDS**

Combining Balance Sheet (continued)
June 30, 2002

	School Districts	2002
<u>Assets</u>		
Cash and Investments in County Treasury	\$ 56,065,266	\$ 75,550,846
Due from other funds	--	3,259,435
Total Assets	\$ 56,065,266	\$ 78,810,281
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Agency obligations		\$ 14,171,667
Total Liabilities	--	14,171,667
Fund Balance:		
Reserved for pool participants	56,065,266	61,912,974
Reserved for retirement system	--	2,725,640
Total Fund Balance	56,065,266	64,638,614
Total Liabilities and Fund Balance	\$ 56,065,266	\$ 78,810,281