COUNTY OF MARIN

AUDIT REPORT

JUNE 30, 2005

COUNTY OF MARIN
AUDIT REPORT
For the Year Ended June 30, 2005

Table of Contents

Bartig, Basler & Ray
A Professional Corporation

Certified Public Accountants and Management Consultants

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

Curtis A. Orgill
M. Elba Zuniga

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
County of Marin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Marin, California, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marin County Redevelopment Agency, which represents the following percentages of assets and revenues/additions as of and for the fiscal year ended June 30, 2005:

Opinion Unit	Assets	Revenues/ Additions
Governmental Activities	0.11%	0.47%
Aggregate Remaining Fund Information	0.30%	0.43%

Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marin County Redevelopment Agency, is based on the report of the other auditors.

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

1520 Eureka Road, Suite 100, Roseville, CA 95661 • www.bbr.net • (916) 784-7800 • FAX (916) 784-7850
1885 South Arlington Avenue, Suite 105, Reno, NV 89509-3370 • (775) 323-7122 • FAX (775) 323-1174

To the Board of Supervisors
County of Marin

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Marin, California, as of June 30, 2005, and the respective changes in financial position and cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated November 9, 2005, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD & A), the schedule of funding progress and the budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BARTIG, BASLER & RAY, CPAs, INC.
Bartig, Basler + Ray, CPAs, Inc.

November 9, 2005
Roseville, California

MANAGEMENT’S DISCUSSION AND ANALYSIS

In this section of the County of Marin (County) annual financial report, County management discusses financial results for the fiscal year ended June 30, 2005, and certain financial events subsequent to that date. It should be read in conjunction with the County's financial statements following this section.

I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of fiscal year 2004-05 by $1,428,968,267.
- At the end of fiscal year 2004-05, unreserved/undesignated fund balance of the General Fund was $47,325,508.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis in this section are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements include the following: 1) Management Discussion and Analysis which provides the financial highlights; 2) The County's basic financial statements, which consist of the Government-Wide financial statements; the Fund financial statements and the Notes to the financial statements; 3) Required Supplementary Information.

A. Government-Wide Financial Statements

The government-wide financial statements provide an overview of the County's finances, in a manner similar to a private-sector business that is, using the accrual basis of accounting. They demonstrate accountability of Marin County by showing the extent to which it has met operating objectives efficiently and effectively, using all resources available, and whether it can continue to do so.

The ***statement of net assets*** presents information on all of the County's 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 the County is improving or deteriorating.

The ***statement of activities*** presents information on expenses and revenues to show how the government's net assets changed during the 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 are reported as soon as earned and expenses are reported as soon as incurred even though the related cash flows may not take place until future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities) The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation. The business-type activities of the County are the activities of the County Fair and the County Airport.

Certain component units such as the County community service districts, flood control zones areas, redevelopment agencies and the newly established Golden Gate Tobacco Funding Corporation which are essentially part of County operations and their financial data are blended in with operational funds of the County.

B. Fund Financial Statements

The fund financial statements provide evidence of accountability by demonstrating compliance with budgetary decisions made in public forum. A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes stipulated by laws, regulations or policies. The funds of the County are divided into three categories: governmental, proprietary and fiduciary.

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 a government's near-term financing requirements.

The County maintains 223 individual governmental funds. On the financial statements for governmental funds information is presented separately for two major funds: the General Fund, and the Capital Projects Fund. Data from the other governmental funds are aggregated into a third, single column.

Proprietary funds are of two types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses Enterprise funds to account for its County Fair and County Airport operations. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its workers compensation insurance.

Proprietary funds statements provide the same type of information as the part of government-wide financial statements pertaining to business-type activities, only in more detail. The County's internal service fund is combined into a single, aggregated presentation in the proprietary fund financial statements.

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 programs. In the fiduciary fund category, the County maintains several agencies funds and one investment trust fund. The accounting used for fiduciary funds is similar to that used for proprietary funds.

C. Notes to the Financial Statements

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the information provided in the financial statements.

D. Required Supplementary Information

In addition to the basic financial statements, this report presents Required Supplementary Information (RSI) that includes budgetary comparison for the General Fund.

III. FINANCIAL ANALYSIS COUNTY-WIDE

Hereunder is the comparative analysis of government-wide data for fiscal year 2004-05.

Condensed Statement of Net Assets
June 30, 2005

	Governmental Activities		Business-type Activities		Total		
	2005	2004	2005	2004	2005	2004	Percent Change
Assets:							
Current and other assets	$ 261,201,145	$ 220,296,631	$ 1,561,743	$ 1,316,080	$ 262,762,888	$ 221,612,711	18.57%
Capital assets, net	1,411,260,999	1,423,511,987	6,692,481	6,745,663	1,417,953,480	1,430,257,650	-0.86%
Total assets	1,672,462,144	1,643,808,618	8,254,224	8,061,743	1,680,716,368	1,651,870,361	1.75%
Liabilities:							
Current and other liabilities	47,321,668	54,475,437	473,417	470,025	47,795,085	54,945,462	-13.01%
Noncurrent liabilities	203,785,574	208,193,916	167,442	220,353	203,953,016	208,414,269	-2.14%
Total liabilities	251,107,242	262,669,353	640,859	690,378	251,748,101	263,359,731	-4.41%
Net Assets:							
Invested in capital assets, net of related debt	1,361,328,015	1,369,858,192	6,479,735	6,482,593	1,367,807,750	1,376,340,785	-0.62%
Restricted	105,940,775	82,349,488	--	--	105,940,775	82,349,488	28.65%
Unrestricted	(45,913,888)	(71,068,415)	1,133,630	888,772	(44,780,258)	(70,179,643)	-36.19%
Total net assets	$ 1,421,354,902	$ 1,381,139,265	$ 7,613,365	$ 7,371,365	$ 1,428,968,267	$ 1,388,510,630	2.91%

Investment in capital assets net of related debt reflects the County's investment in capital assets (i.e. its land, structures and improvements, infrastructure, equipment and construction in progress). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Change in Net Assets
Fiscal Year Ended June 30, 2005

	Governmental Activities		Business-type Activities		Total		
	2005	2004	2005	2004	2005	2004	Percent Change
Revenues:							
Program revenues:							
Charges for services	$ 35,522,669	$ 33,064,752	$ 2,234,633	$ 2,080,365	$ 37,757,302	$ 35,145,117	7.43%
Operating grants and contributions	188,916,073	173,012,145	--	--	188,916,073	173,012,145	9.19%
Capital grants and contributions	--	774,259	346,708	--	346,708	774,259	-55.22%
General revenues:							
Property taxes	96,073,467	89,009,662	--	--	96,073,467	89,009,662	7.94%
Sales and use taxes	2,610,033	3,300,049	--	--	2,610,033	3,300,049	-20.91%
Other taxes	36,675,385	20,930,873	--	--	36,675,385	20,930,873	75.22%
Interest and investment earn	8,084,787	5,452,762	10,034	--	8,094,821	5,452,762	48.45%
Other revenue	40,099,801	37,289,448	--	--	40,099,801	37,289,448	7.54%
Total revenues	407,982,215	362,833,950	2,591,375	2,080,365	410,573,590	364,914,315	12.51%
Expenses:							
General government	69,162,557	72,130,131	--	--	69,162,557	72,130,131	-4.11%
Public protection	121,678,566	122,909,289	--	--	121,678,566	122,909,289	-1.00%
Public ways and facilities	15,768,290	16,135,911	--	--	15,768,290	16,135,911	-2.28%
Health and sanitation	81,599,867	88,972,261	--	--	81,599,867	88,972,261	-8.29%
Public assistance	51,926,504	50,485,261	--	--	51,926,504	50,485,261	2.85%
Education	9,840,596	9,606,710	--	--	9,840,596	9,606,710	2.43%
Recreation and culture service	8,091,660	7,437,490	--	--	8,091,660	7,437,490	8.80%
Interest on long-term debt	9,698,538	11,326,408	--	--	9,698,538	11,326,408	-14.37%
Airport	--	--	804,556	544,024	804,556	544,024	47.89%
Marin County Fair	--	--	1,544,819	1,590,404	1,544,819	1,590,404	-2.87%
Total expenses	367,766,578	379,003,461	2,349,375	2,134,428	370,115,953	381,137,889	-2.89%
Change in net assets before transfers	40,215,637	(16,169,511)	242,000	(54,063)	40,457,637	(16,223,574)	-349.38%
Transfers	--	(56,113)	--	56,113	--	--	
Change in net assets	40,215,637	(16,225,624)	242,000	2,050	40,457,637	(16,223,574)	-349.38%
Net assets, beginning	1,381,139,265	1,432,084,456	7,371,365	7,327,055	1,388,510,630	1,439,411,511	-3.54%
Prior period adjustment	--	(34,719,567)	--	42,260	--	(34,677,307)	-100.00%
Net assets, beginning as restated	1,381,139,265	1,397,364,889	7,371,365	7,369,315	1,388,510,630	1,404,734,204	-1.15%
Net assets, ending	$ 1,421,354,902	$ 1,381,139,265	$ 7,613,365	$ 7,371,365	$ 1,428,968,267	$ 1,388,510,630	2.91%

IV. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements.

Governmental funds. The general government functions are included in the General, Special Revenue, Debt Service, and Capital Project Funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

At June 30, 2005, the County's governmental funds reported combined ending fund balance of $226,595,962, a net increase of $45,873,438 in comparison with the prior fiscal year. Of the increase, $18,064,806 represents increase in fund balance designated by management for future expenditures, $253,659 is the increase in the amount set aside for State funding uncertainties and $3,886,015 is the increase in the amount designated for debt service payments. Fiscal year 2004-05 is the second year the County paid Pension Obligation Bond (POB) semi-annual interest. Prior year interest was partially paid by the fiscal agent. Annual POB principal payment will start in fiscal year 08-09.

Portions of fund balance are also reserved to indicate that funds are not available for new spending because it has been committed: (1) to reflect inventories and thus does not represent available spendable resources ($602,755), (2) to liquidate contractual commitments (encumbrances) of the prior period ($10,914,083), (3) to provide funds to various Community Service Districts (Permanent Road Divisions) to spend for local capital projects ($6,020,272), (4) to convert fiduciary trust funds to governmental funds ($22,430,278), as required under GASB 34, (5) to reflect a self-insurance reserve established by the Board of Supervisors ($18,216,027), (6) to reflect a reserve for tax losses under the Teeter Plan ($1,474,393) and (7) prepayment to the County's Retirement Association for its general fund normal costs of retirement contributions in FY 2006-07 ($4,744,623).

The general fund is the main operating fund of the County. At June 30, 2005, unreserved and undesignated fund balance of the general fund was $47,325,508, while total fund balance reached $150,797,453. As measures of the general fund's liquidity, it is useful to note that unreserved and undesignated fund balance represents 15% percent of total fund expenditures, while total fund balance represents 47% of that same amount.

Revenues for governmental funds totaled $406,775,641 in fiscal year 2004-05, which represents an increase of 12% from fiscal year 2003-04.

The following table presents the revenues from various sources as well as increases and decreases from the prior years in the governmental funds.

County of Marin
Revenues in the Governmental Funds
For the Year Ended June 30, 2005

	FY 2005		FY 2004		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
Taxes	$ 135,358,885	33.28%	$ 113,240,584	31.22%	$ 22,118,301	19.53%
Licenses and permits	9,036,909	2.22%	8,503,673	2.34%	533,236	6.27%
Intergovernmental revenues	188,916,073	46.44%	173,786,404	47.92%	15,129,669	8.71%
Charges for services	16,266,317	4.00%	15,536,892	4.28%	729,425	4.69%
Fines and forfeits	9,275,556	2.28%	9,020,909	2.49%	254,647	2.82%
Use of money and property	7,822,100	1.92%	5,282,274	1.46%	2,539,826	48.08%
Miscellaneous	40,099,801	9.86%	37,289,448	10.28%	2,810,353	7.54%
Total Revenues	$ 406,775,641	100.00%	$ 362,660,184	100.00%	$ 44,115,457	12.16%

Significant changes for major revenue sources are explained below:

- Taxes – Property tax revenues including transfer taxes continue to benefit from a robust housing market. Property values are consistently on the upward trend increasing County revenues from property and transfer taxes increased by $22,247,200 compared with prior year. Under GASB 34 requirements, revenues previously included in trust funds until distributed are now recognized as tax revenue when received. Likewise, the County's receipts from funds not required to meet Education Revenue Augmentation Fund (ERAF) obligations has increased by approximately $14,990,227 compared to the prior year.

- From Use of Money & Property – Interest income from quarterly interests apportionments to the governmental funds increased by approximately $2,540,000 or 48% mainly due to higher interest rates in FY 2004-05, which averaged 1.78%, an increase of 30% over prior year's rate of 1.37%. Average cash daily balances during FY 2004-05 increased by 18% from $636 million in FY 2003-04 to $750 million. The two factors added together accounted for the total increase in the Use of Money and Property revenues.

The following table presents expenditures by function compared to prior year's amounts in the governmental funds.

	FY 2005		FY 2004		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
General government	$ 63,276,063	17.53%	$ 63,881,499	17.58%	$ (605,436)	-0.95%
Public protection	121,202,072	33.58%	119,367,678	32.85%	1,834,394	1.54%
Public ways	6,111,429	1.69%	6,673,242	1.84%	(561,813)	-8.42%
Health & sanitation	81,456,565	22.57%	88,454,434	24.35%	(6,997,869)	-7.91%
Public assistance	51,891,630	14.38%	50,272,031	13.84%	1,619,599	3.22%
Education	9,734,227	2.70%	9,483,283	2.61%	250,944	2.65%
Culture and recreation	7,768,144	2.15%	6,865,407	1.89%	902,737	13.15%
Capital outlay	4,811,478	1.33%	5,585,552	1.54%	(774,074)	-13.86%
Debt -principal expense	3,754,391	1.04%	3,398,728	0.94%	355,663	10.46%
Debt - interest expense	10,896,204	3.02%	9,339,828	2.57%	1,556,376	16.66%
Total	$ 360,902,203	100.00%	$ 363,321,682	100.00%	$ (2,419,479)	100.00%

Significant changes for major expenditures functions in the governmental funds are explained below.

- Education – Prior year expenditures were restated for comparability purposes. Some education function expenses were previously reported with culture and recreation expenditures. There were no significant variances from prior years.

- Culture and recreation – Prior year expenditures were restated for comparability purposes. Culture and recreation expenditures in the prior year included some education function expenditures. There were no significant variances from prior year.

- Capital Outlay – From FY 2003-04 to FY 2004-05, there was a 13.86%, or $774,074, net reduction in capital outlay expenditures due to the completion of major construction contracts undertaken by the County's Department of Public Works. Naming a few of the major projects completed are the seismic retrofit of light wells in the Hall of Justice building and the completion of the relocation of the Sheriff's Communication Center to a different floor in the Civic Center.

- Debt–Principal expense – The County's long term debt include among others various outstanding Certificate of Participations (COPs), Revenue Bond Payables and Capital Leases for computer equipment, ballot counting machines, etc. Debt principal expenses increased by 10.46% as scheduled.

- Debt–Interest expense – Semi-annual debt service interest payments of our 2003 Pension Obligation Bond (POB) increased by $1,713,072 in Fiscal Year 2004-05 compared against Fiscal Year 2003-04 because the interest payment for 2003-04 represented only 8 months of interest while 2004-05 represented a full year. Our other COPs semi-annual interest payments decreased by $109,475 because as principal portion of the debts are paid, interest expenses decrease. Payment of POB principal will start on 8/1/2008 and end on 8/1/2026.

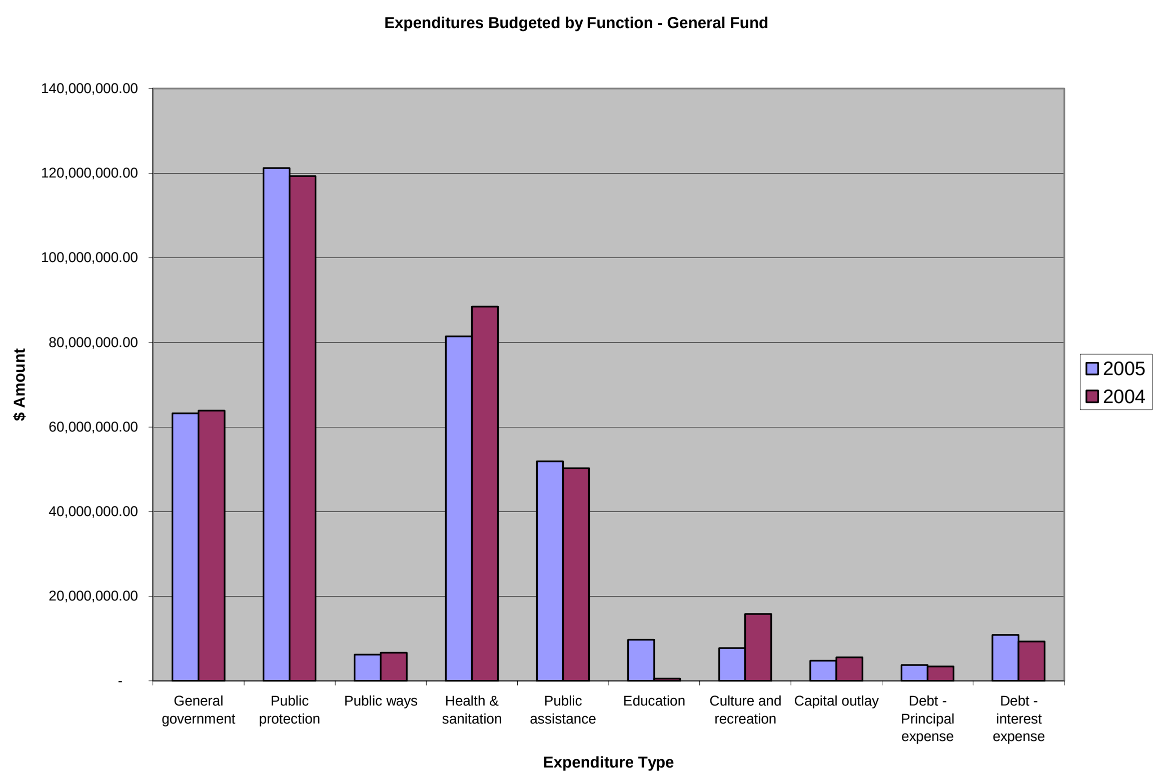
Proprietary Funds. The County's proprietary funds provide the same type of information found on the government-wide financial statements, but in more detail. These funds include two enterprise funds: Marin County Airport and the County Fair; and one internal service fund: Marin County Workers Compensation Fund. Factors affecting the financial results of these funds were discussed earlier in the business-type activities of the County.

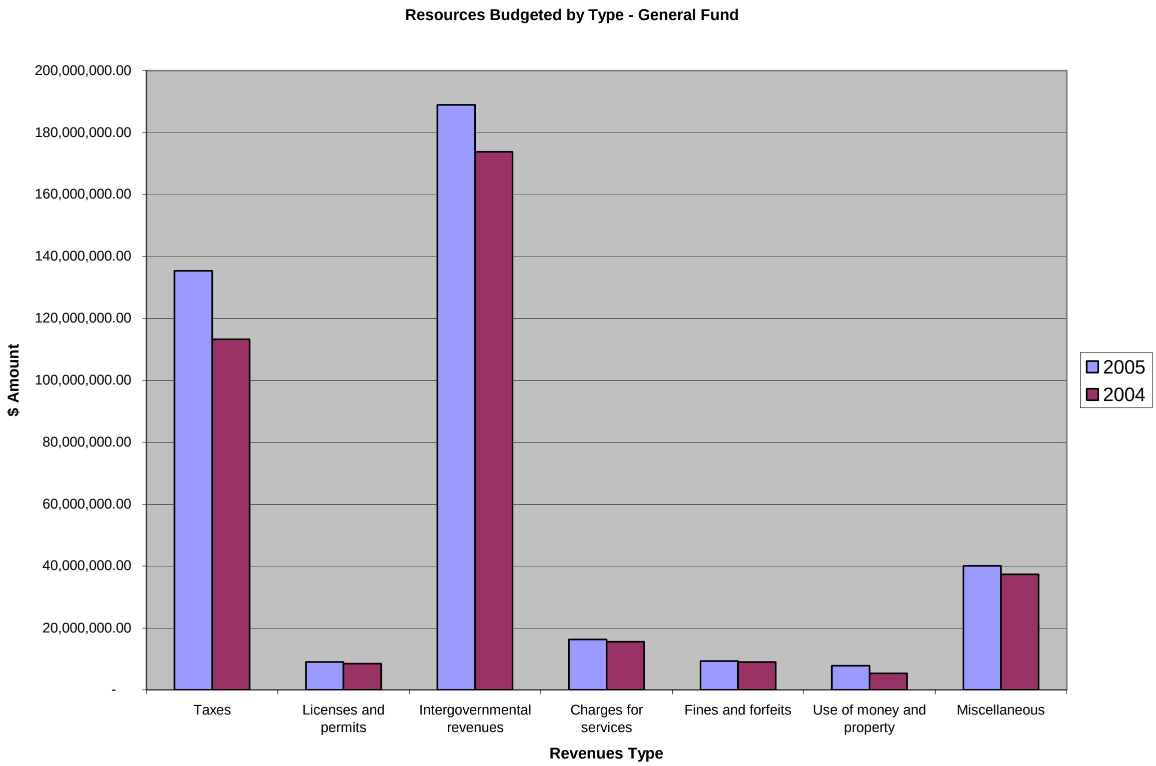
V. GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual general fund revenues exceeded final revenue budget estimates by $14,590,483. Final budgeted general fund expenditures exceeded actual general fund expenditures by $37,854,053.

Resources (revenues) and appropriations (expenditures) represent the legal level of budgetary controls. In fiscal year 2004-05, the final budgeted revenue of the general fund is $352,506,782. This is $51,366,052 or 17% higher than the original budget of $301,140,730. The final budgeted appropriation for the General Fund was $374,341,902 or $49,165,463 or 15% higher than the original budget of $325,176,439.

The following charts provide a comparison of original and final budgeted numbers for revenue sources and expenditures by functions.





VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The County's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to $1,417,953,479 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment and general infrastructure (roads, bridges, and flood control network and sewage systems).

The following chart provides a comparison of County's capital assets net of accumulated depreciation in fiscal year 2004/05 compared with fiscal year 2003/04:

County of Marin's Capital Assets

(Net of Depreciation)

	Governmental Activities 2005	Governmental Activities 2004	Business-type Activities 2005	Business-type Activities 2004	Total 2005	Total 2004	Change Inc (Dec)
Land and Infrastructure land	$ 1,216,948,901	$ 1,216,948,901	$ 3,541,837	$ 3,541,837	$ 1,220,490,738	$ 1,220,490,738	$ --
Structures and improvements	88,083,896	90,234,419	2,483,603	2,692,249	90,567,499	92,926,668	(2,359,169)
Equipment	8,461,043	9,836,460	70,646	77,116	8,531,689	9,913,576	(1,381,887)
Infrastructure	88,962,029	98,384,109	--	--	88,962,029	98,384,109	(9,422,080)
Construction in progress	8,805,130	8,108,098	596,395	434,461	9,401,525	8,542,559	858,966
Total	$ 1,411,260,999	$ 1,423,511,987	$ 6,692,481	$ 6,745,663	$ 1,417,953,480	$ 1,430,257,650	$ (12,304,170)

Additional information regarding capital assets can be found in Note 4 on page 39.

B. Long-Term Debt

At June 30, 2005, the County had total long-term debt outstanding of $217,949,841 consisting of $157,356,361 bonds payable, $47,675,000 in outstanding certificate of participation, $2,470,730 in capitalized lease obligations and $10,447,750 compensated absences payable.

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

VII. Economic Factors and FY 2005-06 Budget

The County budget for fiscal year 2005-06 is overshadowed by uncertainties surrounding the resolution of the State budget crisis. Although the County budget is balanced, there is risk of revenue reductions from State sources during the next and future fiscal years. Consequently, the County developed budget goals that address those risks, in particular by developing contingency plans for possible reductions in State revenues. In addition to contingency planning, the County has designated $9,674,889 in General Fund balance to address State budget funding uncertainties.

The economy in Marin County has shown strong growth in the residential real estate sector and we expect some additional growth in the budget year, albeit at a slower rate. However, we do not expect local sales tax, vehicle license fee offset and transient occupancy tax revenues to experience the strong growth of the past few years. Overall, the economy in Marin remains healthy, and Marin County continues to have one of the lowest unemployment rates in California.

All of these factors were considered in preparing the County's budget for the fiscal year 2005-06.

VIII. Request for Information

This financial report is designed to demonstrate accountability by the Marin County government by providing both a long-term and near-term views of the County's finances. Questions or comments regarding any of the information presented in this report or requests for additional financial information should be addressed to:

Richard S. Arrow, CPA
Auditor-Controller
County of Marin
3501 Civic Center Dr., Room 225
San Rafael, CA 94903
Tel: (415) 499-6154

BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF MARIN

Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in County pool	$ 184,740,393	$ 616,442	$ 185,356,835
Receivables:			
Accounts and other - net	714,247	26,701	740,948
Interest	3,009,112	6,388	3,015,500
Taxes	10,520,033	--	10,520,033
Due from other agencies	19,301,994	35,211	19,337,205
Loans	220,598	--	220,598
Inventories	602,755	--	602,755
Prepaid items and other assets	4,745,273	1,012,279	5,757,552
Internal balances	135,278	(135,278)	--
Restricted cash held with trustee	35,452,801	--	35,452,801
Deferred fiscal charges	1,758,661	--	1,758,661
Capital assets:			
Nondepreciable	1,225,754,031	4,138,232	1,229,892,263
Depreciable, net	185,506,968	2,554,249	188,061,217
Total assets	$ 1,672,462,144	$ 8,254,224	$ 1,680,716,368
LIABILITIES			
Vouchers and accounts payable	$ 6,376,748	$ 35,253	$ 6,412,001
Salaries and benefits payable	6,270,171	8,000	6,278,171
Accrued interest payable	3,697,071	827	3,697,898
Deferred revenues	1,307,708	357,703	1,665,411
Estimated claims	15,744,779	--	15,744,779
Compensated absences:			
Due within one year	8,635,805	18,735	8,654,540
Due beyond one year	1,785,615	7,595	1,793,210
Long-term liabilities:			
Due within one year	5,289,386	52,899	5,342,285
Due beyond one year	201,999,959	159,847	202,159,806
Total liabilities	251,107,242	640,859	251,748,101
NET ASSETS			
Invested in capital assets, net of related debt	1,361,328,015	6,479,735	1,367,807,750
Restricted	105,940,775	--	105,940,775
Unrestricted	(45,913,888)	1,133,630	(44,780,258)
Total net assets	1,421,354,902	7,613,365	1,428,968,267
Total liabilities and net assets	$ 1,672,462,144	$ 8,254,224	$ 1,680,716,368

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

COUNTY OF MARIN

Statement of Activities
For the Year Ended June 30, 2005

		Program Revenues		
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary Government				
Governmental Activities:				
General government	$ 69,162,557	$ 15,749,638	$ 26,531,498	$ --
Public protection	121,678,566	13,666,453	40,910,672	--
Public ways and facilities	15,768,290	7,518	5,999,477	--
Health and sanitation	81,599,867	4,659,622	67,638,245	--
Public assistance	51,926,504	171,693	47,395,163	--
Education	9,840,596	350,854	402,492	--
Recreation and cultural services	8,091,660	916,891	38,526	--
Debt Service:				
Interest and fiscal charges	9,698,538	--	--	--
Total governmental activities	367,766,578	35,522,669	188,916,073	--
Business-Type Activities:				
Airport	804,556	573,632	--	346,708
Marin County Fair	1,544,819	1,661,001	--	--
Total business-type activities	2,349,375	2,234,633	--	346,708
Total primary government	$ 370,115,953	$ 37,757,302	$ 188,916,073	$ 346,708

General Revenues:
Taxes:
Property taxes
Sales and use taxes
Other
Unrestricted interest and investment earnings
Miscellaneous
Transfers
Total general revenues and transfers

Change in net assets

Net assets, beginning of year
Net assets, end of year

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

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Total
$ (26,881,421)	$ --	$ (26,881,421)
(67,101,441)	--	(67,101,441)
(9,761,295)	--	(9,761,295)
(9,302,000)	--	(9,302,000)
(4,359,648)	--	(4,359,648)
(9,087,250)	--	(9,087,250)
(7,136,243)	--	(7,136,243)
(9,698,538)	--	(9,698,538)
(143,327,836)	--	(143,327,836)
--	115,784	115,784
--	116,182	116,182
--	231,966	231,966
(143,327,836)	231,966	(143,095,870)
96,073,467	--	96,073,467
2,610,033	--	2,610,033
36,675,385	--	36,675,385
8,084,787	10,034	8,094,821
40,099,801	--	40,099,801
--	--	--
183,543,473	10,034	183,553,507
40,215,637	242,000	40,457,637
1,381,139,265	7,371,365	1,388,510,630
$ 1,421,354,902	$ 7,613,365	$ 1,428,968,267

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

BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS

COUNTY OF MARIN

Balance Sheet
Governmental Funds
June 30, 2005

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and investments in County pool	$ 100,471,441	$ 39,718,987	$ 29,478,189	$ 169,668,617
Cash with fiscal agent	27,585,370	954,942	6,802,377	35,342,689
Receivables:				
Taxes	10,375,381	--	144,652	10,520,033
Interest	2,406,596	208,308	314,086	2,928,990
Other	468,457	245,370	420	714,247
Loans receivable	--	220,598	--	220,598
Due from other funds	132,000	--	--	132,000
Due from other governmental agencies	14,381,994	--	--	14,381,994
Advances to other funds	6,020,272	--	--	6,020,272
Prepaid expenses	4,745,273	--	--	4,745,273
Inventory of supplies	421,112	--	181,643	602,755
Total assets	$ 167,007,896	$ 41,348,205	$ 36,921,367	$ 245,277,468
LIABILITIES				
Accounts payable and accrued expenses	$ 5,483,740	$ 514,184	$ 325,431	$ 6,323,355
Estimated general liability claims	3,680,000	--	--	3,680,000
Accrued salaries and benefits	5,945,312	--	324,859	6,270,171
Advances payable	--	--	1,100,272	1,100,272
Deferred revenue	1,101,391	--	206,317	1,307,708
Total liabilities	16,210,443	514,184	1,956,879	18,681,506
FUND BALANCES				
Reserved for:				
Encumbrances	8,804,087	1,499,953	610,043	10,914,083
Prepaid expenses	4,745,273	--	--	4,745,273
Advances to other funds	6,020,272	--	--	6,020,272
Inventories	421,112	--	181,643	602,755
Self-insurance	18,216,027	--	--	18,216,027
Special programs	22,430,278	--	--	22,430,278
Tax losses	1,474,393	--	--	1,474,393
Unreserved:				
Designated:				
Contingencies	25,000	--	--	25,000
Subsequent expenditures	29,660,614	19,525,915	139,928	49,326,457
Retirement rate stabilization	2,000,000	--	--	2,000,000
State funding uncertainties	9,674,889	--	--	9,674,889
Debt service	--	--	7,180,910	7,180,910
Undesignated	47,325,508	19,808,153	26,851,964	93,985,625
Total fund balances	150,797,453	40,834,021	34,964,488	226,595,962
Total liabilities and fund balances	$ 167,007,896	$ 41,348,205	$ 36,921,367	$ 245,277,468

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

COUNTY OF MARIN

Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities
June 30, 2005

Fund Balance - total governmental funds (page 16)		$ 226,595,962
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. These assets consist of:		
Land	$ 1,216,948,901	
Construction in progress	8,805,130	
Infrastructure, net of accumulated depreciation	88,962,029	
Buildings and improvements, net of accumulated depreciation	88,083,896	
Equipment, net of accumulated depreciation	8,461,043	
Total capital assets		1,411,260,999
Long-term assets used in Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds.		1,758,661
Internal service funds are used by the County to charge the cost of worker's compensation insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		15,211,895
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. 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 are:		
Certificates of participation, bonds and loans payable	(205,031,361)	
Capital leases	(2,257,984)	
Accrued interest on long-term debt	(3,697,071)	
Compensated absences	(10,421,420)	
Claims and judgments	(12,064,779)	
Total long-term liabilities		(233,472,615)
Net assets of governmental activities (page 13)		$ 1,421,354,902

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

COUNTY OF MARIN

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Capital Projects	Other Governmental Funds	Total
Revenues:				
Taxes	$ 113,761,326	$ --	$ 21,597,559	$ 135,358,885
Licenses and permits	9,036,909	--	--	9,036,909
Intergovernmental revenues	178,150,904	1,632,246	9,132,923	188,916,073
Charges for services	15,907,945	--	358,372	16,266,317
Fines and forfeits	7,930,122	1,336,204	9,230	9,275,556
From use of money and property	6,466,609	423,958	931,533	7,822,100
Miscellaneous	34,863,179	2,413,617	2,823,005	40,099,801
Total revenues	366,116,994	5,806,025	34,852,622	406,775,641
Expenditures:				
Current:				
General government	62,621,593	506,293	148,177	63,276,063
Public protection	109,459,189	--	11,742,883	121,202,072
Public ways and facilities	120,440	--	5,990,989	6,111,429
Health and sanitation	81,456,565	--	--	81,456,565
Public assistance	51,891,630	--	--	51,891,630
Education	--	--	9,734,227	9,734,227
Recreation and cultural services	6,956,951	--	811,193	7,768,144
Capital outlay	--	4,811,478	--	4,811,478
Debt Service:				
Principal	255,338	2,669,053	830,000	3,754,391
Interest	5,972,978	2,258,759	2,664,467	10,896,204
Total expenditures	318,734,684	10,245,583	31,921,936	360,902,203
Excess (deficiency) of revenues over (under) expenditures	47,382,310	(4,439,558)	2,930,686	45,873,438
Other Financing Sources (Uses):				
Transfers in	821,271	17,078,639	1,110,504	19,010,414
Transfers out	(17,594,165)	(7,007)	(1,409,242)	(19,010,414)
Total other financing sources (uses)	(16,772,894)	17,071,632	(298,738)	--
Net change in fund balances	30,609,416	12,632,074	2,631,948	45,873,438
Fund balances, beginning of year	120,188,037	28,201,947	32,332,540	180,722,524
Fund balances, end of year	$ 150,797,453	$ 40,834,021	$ 34,964,488	$ 226,595,962

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

COUNTY OF MARIN

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 Fiscal Year Ended June 30, 2005

Net change to fund balance - total governmental funds (page 18)		$ 45,873,438
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	$ 6,558,638	
Less: current year depreciation	(18,809,626)	(12,250,988)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.		
Amortization of bond discount	(86,891)	
Repayment of bonds, certificates of participation, and notes	3,455,000	
Net adjustment		3,368,109
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		
Repayment of capital lease obligations	1,095,811	
Net adjustment		1,095,811
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Compensated absences	(361,864)	
Accrued interest on long-term debt	1,284,557	
Net adjustment		922,693
Internal service funds are used by the County to charge the cost of worker's compensation insurance to individual funds. The net revenue of internal service fund is reported with governmental activities.		1,206,574
Change in net assets of governmental activities (page 15)		$ 40,215,637

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

COUNTY OF MARIN

Statement of Fund Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments in County pool	$ 585,909	$ 30,533	$ 616,442	$ 15,071,776
Cash held with trustee	--	--	--	110,112
Receivables:				
Accounts	26,701	--	26,701	--
Accrued interest	--	6,388	6,388	80,122
Prepaid items and other assets	--	1,012,279	1,012,279	--
Due from other governments	35,211	--	35,211	--
Total current assets	647,821	1,049,200	1,697,021	15,262,010
Noncurrent Assets:				
Capital assets:				
Nondepreciable	2,360,573	1,777,659	4,138,232	--
Depreciable, net	1,060,205	1,494,044	2,554,249	--
Total noncurrent assets	3,420,778	3,271,703	6,692,481	--
Total assets	$ 4,068,599	$ 4,320,903	$ 8,389,502	$ 15,262,010
LIABILITIES				
Current Liabilities:				
Vouchers and accounts payable	$ 19,338	$ 15,915	$ 35,253	$ 53,393
Interest payable	827	--	827	--
Accrued salaries and benefits	8,000	--	8,000	--
Deferred revenues	--	357,703	357,703	--
Due to other funds	--	132,000	132,000	--
Capital leases	52,899	--	52,899	--
Compensated absences	18,735	--	18,735	--
Total current liabilities	99,799	505,618	605,417	53,393
Long-Term Liabilities:				
Compensated absences	7,595	--	7,595	--
Capital leases	159,847	--	159,847	--
Estimated claims	--	--	--	12,064,779
Total noncurrent liabilities	167,442	--	167,442	12,064,779
Total liabilities	267,241	505,618	772,859	12,118,172
NET ASSETS				
Invested in capital assets, net of related debt	3,208,032	3,271,703	6,479,735	--
Unrestricted	593,326	543,582	1,136,908	3,143,838
Total net assets	3,801,358	3,815,285	7,616,643	3,143,838
Total liabilities and net assets	$ 4,068,599	$ 4,320,903		$ 15,262,010
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(3,278)	
Net assets of business-type activities			$ 7,613,365	

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

COUNTY OF MARIN

Statement of Revenues, Expenses and
Changes in Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Business-Type Activities			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating Revenues:				
Charges for services	$ 573,632	$ 1,661,001	$ 2,234,633	$ 4,334,493
Total operating revenues	573,632	1,661,001	2,234,633	4,334,493
Operating Expenses:				
Salaries and employee benefits	175,676	--	175,676	--
Services and supplies	501,354	1,457,228	1,958,582	--
Claims expense	--	--	--	3,390,606
Depreciation	127,526	87,591	215,117	--
Total operating expenses	804,556	1,544,819	2,349,375	3,390,606
Operating Income (Loss)	(230,924)	116,182	(114,742)	943,887
Non-Operating Revenues (Expenses):				
Investment income	--	10,034	10,034	262,687
Interest expense	(11,815)	--	(11,815)	--
Total non-operating revenues (expenses)	(11,815)	10,034	(1,781)	262,687
Income (Loss) Before Capital Contributions	(242,739)	126,216	(116,523)	1,206,574
Capital contributions	358,523	--	358,523	--
Change in net assets	115,784	126,216	242,000	1,206,574
Net assets, beginning of year	3,685,574	3,689,069	7,374,643	1,937,264
Net assets, end of year	$ 3,801,358	$ 3,815,285	$ 7,616,643	$ 3,143,838

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

COUNTY OF MARIN

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
Cash Flows from Operating Activities				
Cash receipts from customers	$ 546,322	$ 1,661,001	$ 2,207,323	$ --
Cash receipts from internal fund services provided	--	--	--	4,334,493
Cash paid to suppliers for goods and services	(485,570)	(1,617,000)	(2,102,570)	(4,138,303)
Cash paid to employee's for salaries and benefits	(173,879)	--	(173,879)	--
Net cash provided (used) by operating activities	(113,127)	44,001	(69,126)	196,190
Cash Flows from Noncapital Financing Activities				
Cash paid to other funds	--	(34,888)	(34,888)	--
Cash received from other funds	--	16,040	16,040	--
Net cash provided (used) by noncapital financing activities	--	(18,848)	(18,848)	--
Cash Flows from Capital and Related Financing Activities				
Principal repayments on capital lease	(50,324)	--	(50,324)	--
Capital contributions	358,523	--	358,523	--
Interest repayments related to capital purposes	(12,011)	--	(12,011)	--
Payments related to the acquisition of capital assets	(161,935)	--	(161,935)	--
Net cash provided (used) by capital and related financing activities	134,253	--	134,253	--
Cash Flows from Investing Activities				
Interest received	--	5,380	5,380	262,563
Net cash provided by investing activities	--	5,380	5,380	262,563
Net increase (decrease) in cash and cash equivalents	21,126	30,533	51,659	458,753
Cash and cash equivalents, beginning of year	564,783	--	564,783	14,723,135
Cash and cash equivalents, end of year	$ 585,909	$ 30,533	$ 616,442	$ 15,181,888

continued

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

COUNTY OF MARIN

Statement of Cash Flows (continued)
Proprietary Funds
For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (230,924)	$ 116,182	$ (114,742)	$ 943,887
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	127,526	87,591	215,117	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(27,310)	--	(27,310)	--
Prepaid expenses	--	(143,192)	(143,192)	--
Increase (decrease) in:				
Accounts payable	15,784	2,187	17,971	(50,015)
Salaries payable	1,163	--	1,163	--
Deferred revenue	--	(18,767)	(18,767)	--
Liability for compensated absences	634	--	634	--
Liabilities for estimated claims	--	--	--	(697,682)
Net Cash Provided (Used) by Operating Activities	$ (113,127)	$ 44,001	$ (69,126)	$ 196,190

COUNTY OF MARIN

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Investment Trust	Agency Funds
ASSETS		
Current Assets:		
Cash and investments	$ 449,714,836	$ 67,552,025
Taxes receivable	--	3,565,549
Cash with fiscal agent	--	1,594,873
Interest receivable	4,374,005	288,372
Total current assets	454,088,841	73,000,819
LIABILITIES		
Advances from other funds	$ 1,420,000	$ 3,500,000
Agency funds held for others	--	69,500,819
Total liabilities	1,420,000	73,000,819
NET ASSETS		
Net assets held in trust for investment pool participants	452,668,841	--
Total net assets	452,668,841	--
Total liabilities and net assets	$ 454,088,841	$ 73,000,819

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

COUNTY OF MARIN

Statement of Changes in Net Assets
Investment Trust Fund
June 30, 2005

Additions:	
Contributions to investment pool	407,051,042
Interest and investment income	3,594,778
Total additions	410,645,820
Deductions:	
Distributions from investment pool	328,993,206
Total deductions	328,993,206
Change in net assets	81,652,614
Net assets, beginning	371,016,227
Net assets, ending	452,668,841

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

BASIC FINANCIAL STATEMENTS –
NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The County of Marin, California operates under an elected supervisorial form of government. As required by generally accepted accounting principles, these financial statements present the County and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, if any, are reported in a separate column in the financial statements to emphasize that the component units are legally separate from the government. In evaluating how to define the County for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." The County has the following blended component units with June 30 year-ends and no discretely presented component units:

- Sewer Maintenance Districts
- County Service Area Districts
- Lighting Districts
- Flood Control Districts
- Permanent Road Districts
- Marin County Redevelopment Agency

Effective July 1, 2003, the County includes as a blended component unit the Golden Gate Tobacco Funding Corporation (the Corporation). The Corporation is a separate legal entity formed to provide tobacco securitization financing to the County.

The County also includes as a blended component unit the County Fair Operations which has a December 31 year-end. Information regarding the availability of separate individual component unit financial statements may be obtained at the County of Marin's Auditor-Controller's office.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its blended 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

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

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

Government-Wide Financial Statements (continued)

activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to long term debt is reported as a direct expense. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise 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.

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

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

Fund Financial Statements (continued)

The County reports the following major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out 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 recreation services.

- The C*apital Projects* was established to account for financial resources to be used for the acquisition of major capital facilities.

The County reports the following major enterprise funds:

- The *Airport Fund* was established to account for the activities of the County's airport.

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis.

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

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

C. **Basis of Accounting**

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

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

C. **Basis of Accounting** (continued)

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property and sales taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from sales tax 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 funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

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.

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

E. **Cash and Cash Equivalents**

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

F. **Receivables**

An allowance for uncollectible taxes receivable is included in the amount reported as taxes receivable.

G. **Inventories**

Inventories are valued at the lower of average cost or market. Inventory consists of expendable supplies held for consumption. The cost is recorded as an asset at the time individual inventories are purchased and charged to expenditures/expenses when used.

H. **Property Tax Revenue**

The County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions within the County, including schools, cities, and special districts. Property taxes, for which the lien date is January 1, are payable in two installments, November 1 and February 1, and become delinquent on December 10 and April 10, respectively. Property taxes receivable are recognized when levied.

Beginning in 1993-1994, the County of Marin adopted the "Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds" provided for in Revenue and Taxation Code Sections 4701-4717, which is commonly known as the "Teeter Plan". The Teeter Plan has no impact on tax rates or collection procedures. It merely changes the way the collections of delinquent taxes and penalties are distributed among the taxing agencies. Those agencies participating in the Teeter Plan receive 100% of the secured property taxes billed each year without regard to delinquencies. The General Fund covers the delinquent amount to all agencies and, in return, receives the delinquent taxes, penalties and interest when collected. As a result of the Teeter Plan, secured property taxes receivable are recorded in the General Fund only, and there is not allowance for collectible amounts. Penalties and interest are deposited into the Tax Loss Reserve Fund. Once the Tax Loss Reserve Fund balance exceed 25% of the secured delinquent roll, the excess can be credited to the General Fund.

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

H. **Property Tax Revenue** (continued)

Unsecured property is not part of the Teeter Plan. Unsecured property taxes receivable are accrued to taxing agencies, net of the uncollectible amount which is estimated based on prior year collections. For the fiscal year ended June 30, 2005 this amount was estimated as $562,401.

I. **Long-Term Receivables**

Non-current portions of long-term receivables for governmental fund types are reported on their balance sheets, in spite of their measurement focus. Special reporting treatments are 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 receivables are offset by fund balance reserve accounts.

J. **Capital Assets**

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

The estimated useful lives are as follows:

Infrastructure	20 to 50 years
Structures and improvements	20 to 50 years
Equipment	5 to 25 years

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

K. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated vacation and compensatory time-off balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The current portion of the liability for compensated absences has been estimated based on prior years' experience.

L. Interfund Transactions

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

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

M. Estimates

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

Note 2: **Cash and Investments**

The County maintains a cash and investment pool for the purpose of increasing interest earnings through pooled investment activities. Cash and investments for most County activities are included in the County investment pool. Interest earned on the investment pool is allocated quarterly to the participating funds using the daily cash balance of each fund. This pool, which is available for use by all funds, is displayed in the financial statements as "Pooled Cash and Investments." The funds required to be held by outside fiscal agents do not participate in the pool.

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

The County's investment pool is not registered with the Securities and Exchange Commission as an investment company. Investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. The objectives of the policy are in order of priority, safety, liquidity, yield, and public trust. The County has established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasurer prepares and submits a comprehensive investment report to the members of the oversight committee and the investment pool participants every month. The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value.

Cash and investments at June 30, 2005, consist of the following:

Cash and Investments in County Pool	
Pooled cash	$ 32,808,452
Pooled investments	711,942,937
Other investments	7,305,908
	719,248,845
Less outstanding warrants and other reconciling items	(49,433,601)
Total Cash and Investments in County Pool	702,623,696
Investments Outside County Pool	
Investments with fiscal agent	37,047,674
Total Investments Outside County Pool	37,047,674
Total Cash and Investments	$ 739,671,370

Note 2: **Cash and Investments** (continued)

Total cash and investments at June 30, 2005 were presented on the County's financial statements as follows:

Primary government	$ 220,809,636
Investment trust fund	449,714,836
Agency funds	69,146,898
Total Cash and Investments	$ 739,671,370

Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	2 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
State of California Obligations	2 Years	None	None
Banker's Acceptances	180 days	30%	5%
Commercial Paper - Other Agencies	270 days	40%	5%
Negotiable Certificates of Deposit	2 Years	30%	5%
Repurchase Agreements	1 Year	None	None
Medium Term Notes	2 years	30%	None
Mutual Funds/Money Market Mutual Funds	N/A	20%	5%
Collateralized Bank Deposits	2 years	None	5%
Financial Institution Investment Accounts	2 years	5%	None
Time Deposits	2 years	30%	5%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Note 2: **Cash and Investments** (continued)

Investments (continued)

At June 30, 2005, the County had the following investments:

	Interest Rates	Maturities	Par Value	Book Value	Fair Value	WAM (Years)
Pooled Investments						
Treasury Bills - Coupon	1.50% - 6.77%	01/31/06 - 08/15/07	100,000,000	99,433,113	$ 99,299,712	1.18
Treasury Bills - Discount	2.57% - 3.25%	07/07/05 - 12/29/05	125,000,000	123,174,810	123,994,237	0.26
Federal Agencies - Coupon	2.00% - 5.73%	07/28/05 - 05/18/07	200,150,000	199,863,745	198,333,814	0.95
Federal Agencies - Discount	2.22% - 6.02%	07/01/05 - 10/28/05	192,885,000	190,603,864	192,114,164	0.12
Bankers' Acceptances	2.99% - 3.20%	07/06/05 - 10/31/05	27,340,759	27,217,062	27,282,684	0.08
Certificates of Deposit - Negotiable	310.% - 3.12%	7/29/2005	12,000,000	12,000,000	11,998,285	0.08
Money Market Mutual Funds	Variable	On Demand	22,470,159	22,470,159	22,470,159	---
California Local Agency Investment Fund (LAIF)	1.67%-2.85%	On Demand	37,180,184	37,180,184	37,180,184	0.45
Total pooled investments			$ 717,026,102	$ 711,942,937	$ 712,673,239	
Pooled treasury weighted average maturity						0.54
Specific Investments in Treasury						
Non-Pooled Investments						
California Local Agency Investment Fund (LAIF)	1.67%-2.85%	On Demand	$ 7,305,908	$ 7,305,908	$ 7,305,908	0.45
Investments Outside Investment Pool						
Investments With Fiscal Agents						
Federal Agencies - Tap Notes	4.12%	11/15/2006	2,800,000	2,814,966	2,810,500	1.38
Municipal bonds	2.46% - 5.50%	11/15/05 - 03/01/34	19,650,000	20,453,050	20,234,013	7.61
Money Market Mutual Funds	Variable	On Demand	9,286,093	9,286,093	9,286,093	---
California Asset Management Pool (CAMP)	Variable	On Demand	2,898,692	2,898,692	2,898,692	---
California Local Agency Investment Fund (LAIF)	1.67%-2.85%	On Demand	1,594,873	1,594,873	1,594,873	0.45
Total investments outside investment pool			$ 36,229,658	$ 37,047,674	$ 36,824,171	

At June 30, 2005 the difference between the book and fair value of cash and investments was not material (book value was 99.3% of fair value). Therefore, an adjustment to fair value was not required.

Interest Rate Risk

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2005, the County's investment pool had a weighted average maturity of .54 years, or less than 6 months.

For purposes of computing weighted average maturity, the maturity date of variable rate notes is the length of time until the next reset date rather than the stated maturity date.

Credit Risk

State law and the County's Investment Policy limit investments in commercial paper, corporate bonds, and medium term notes to the rating of "A" or higher as provided by Moody's Investors Service or Standard & Poor's Corporation. The County's Investment Policy limits investments purchased by Financial Institution Investment Accounts, a type of mutual fund, to United States Treasury and Agency obligations with a credit quality rating of "AAA."

Note 2: **Cash and Investments** (continued)

Concentration of Credit Risk

At June 30, 2005, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in Bankers' Acceptances or Negotiable Certificates of Deposit of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2005.

	S&P	Moody's	% of Portfolio
Investments in Investment Pool			
Treasury Bills - Coupon	AAA	Aaa	13.93%
Treasury Bills - Discount	AAA	Aaa	17.40%
Federal Agencies - Coupon	AAA	Aaa	27.83%
Federal Agencies - Discount	A-1+	P-1	26.96%
Bankers' Acceptances	A-1+	P-1	3.83%
Certificates of Deposit - Negotiable	Unrated	Unrated	1.68%
Money Market Mutual Funds	Unrated	Unrated	3.15%
California Local Agency Investment Fund (LAIF)	Unrated	Unrated	5.22%
			100.00%

Custodial Credit Risk

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

Local Agency Investment Fund

The County Treasurer's Pool maintains an investment in the State of California Local Agency Investment Fund (LAIF), managed by the State Treasurer. This fund is not registered with the Securities and Exchange Commission as an investment company, but is required to invest according to California State Code. Participants in the pool include voluntary and involuntary participants, such as special districts and school districts for which there are legal provisions regarding their investments. The Local Investment Advisor Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statue.

Note 2: **Cash and Investments** (continued)

Local Agency Investment Fund (continued)

At June 30, 2005, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was $37,180,184, which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in LAIF on that day was $60,635,664,345. Of that amount, 97.6% was invested in non-derivative financial products and 2.4% in structured notes and asset-backed securities. Fair value is based on information provided by the State for the Local Agency Investment Fund.

County Investment pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2005:

Statement of Net Assets

Net assets held for pool participants	$ 702,623,696
Equity of internal pool participants	$ 252,908,860
Equity of external pool participants	449,714,836
Total net assets	$ 702,623,696

Statement of Changes in Net Assets

Net assets at July 1, 1004	$ 582,760,904
Net change in investments by pool participants	119,862,792
Net assets at June 30, 2005	$ 702,623,696

Note 3: **Interfund Transactions**

The composition of interfund balances as of June 30, 2005, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount	Purpose
General	Nonmajor Enterprise Funds	$ 132,000	Temporary loan to County Fair
Total		$ 132,000	

Note 3: **Interfund Transactions** (continued)

Advances to/from other funds:

Receivable Fund	Payable Fund	Amount	Purpose
General	Nonmajor Governmental	$ 1,100,272	Loan to Department of Public Works
	Agency Funds	1,420,000	Temporary loan for operations
	Investment Trust Fund	3,500,000	Temporary loan for operations
Total		$ 6,020,272	

Transfers

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

Transfer from	Transfer to	Amount	Purpose
General Fund	Capital Projects	$ 16,525,588	Transfer funds to finance capital improvements
	Nonmajor Governmental Funds	1,068,577	Provide subsidy to cover portion of operation
		17,594,165	
Capital Projects	General Fund	7,007	Provide subsidy to cover portion of operation
		7,007	
Nonmajor Governmental Funds	General Fund	814,264	To close fund & to cover part of operations
	Nonmajor Governmental Funds	41,927	Provide funds to cover part of Library costs
	Capital Projects	553,051	To transfer 20% of tax increment
		1,409,242	
	Total	$ 19,010,414	

Notes to the Basic Financial Statements
For the Year Ended June 30, 2005

Note 4: **Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Audited Balance 6/30/04	Additions	Deletions	Adjustments	Audited Balance 6/30/05
Governmental Activities					
Capital assets, not being depreciated:					
Land	$ 11,985,477	$ --	$ --	$ --	$ 11,985,477
Infrastructure land	1,204,963,424	--	--	--	1,204,963,424
Construction in progress	8,108,098	4,196,551	(3,499,519)	--	8,805,130
Total capital assets, not being depreciated	1,225,056,999	4,196,551	(3,499,519)	--	1,225,754,031
Capital assets, being depreciated:					
Infrastructure	282,690,482	--	--	--	282,690,482
Structures and improvements	146,113,429	3,499,519	--	4,618	149,617,566
Equipment	35,919,689	2,517,719	(857,114)	1,536	37,581,830
Total capital assets, being depreciated	464,723,600	6,017,238	(857,114)	6,154	469,889,878
Less accumulated depreciation for:					
Infrastructure	(184,306,373)	(9,422,080)	--	--	(193,728,453)
Structures and improvements	(55,879,010)	(5,654,660)	--	--	(61,533,670)
Equipment	(26,083,229)	(3,732,886)	746,479	(51,151)	(29,120,787)
Total accumulated depreciation	(266,268,612)	(18,809,626)	746,479	(51,151)	(284,382,910)
Total capital assets, being depreciated, net	198,454,988	(12,792,388)	(110,635)	(44,997)	185,506,968
Governmental activities capital assets, net	$ 1,423,511,987	$ (8,595,837)	$ (3,610,154)	$ (44,997)	$ 1,411,260,999
Business-Type Activities					
Capital assets, not being depreciated:					
Land	$ 3,541,837	$ --	$ --	$ --	$ 3,541,837
Construction in Progress	434,461	161,935	--	--	596,396
Total capital assets, not being depreciated	3,976,298	161,935	--	--	4,138,233
Capital assets, being depreciated:					
Structures and improvements	4,071,663	--	--	--	4,071,663
Equipment	160,333	--	--	--	160,333
Land Improvements	1,451,514	--	--	--	1,451,514
Total capital assets, being depreciated	5,683,510	--	--	--	5,683,510
Less accumulated depreciation for:					
Structures and improvements	(2,215,717)	(94,351)	--	--	(2,310,068)
Equipment	(83,217)	(6,470)	--	--	(89,687)
Land Improvements	(615,211)	(114,295)	--	--	(729,506)
Total accumulated depreciation	(2,914,145)	(215,116)	--	--	(3,129,261)
Total capital assets, being depreciated, net	2,769,365	(215,116)	--	--	2,554,249
Business-type activities capital assets, net	$ 6,745,663	$ (53,181)	$ --	$ --	$ 6,692,482

Note 4: **Capital Assets** (continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	$ 6,818,809
Public Protection	1,566,163
Public Ways & Facilities	9,661,929
Health and Sanitation	99,608
Public Assistance	23,017
Recreation	301,254
Education	338,846
Total Depreciation Expense – Governmental Functions	18,809,626
Depreciation Expense – Business-Type Activities:	
County Fair	87,591
Airport	127,525
Total Depreciation Expense – Business-Type Activities	215,116
Total Depreciation Expense	$ 19,024,742

Note 5: **Liabilities Under Self-Insurance and Risk Management**

Workers' Compensation

The County is permissably self-insured for the first $500,000 of workers' compensation claims per occurrence. The County provides for excess workers' compensation insurance through the California Public Entity Insurance Authority (CSAC-EIA). Coverage in the Excess Workers' Compensation (EWC) Program is pooled to $5 million and excess re-insurance purchased to $145 million for a total limit of $150 million above our SIR (self-insured retention). Activity related to the collection of premiums and payment of claims is recorded in an internal service fund. There were no significant reductions in insurance coverage from the prior year nor did settlements exceed insurance coverage for the past three fiscal years. Claims liability is based upon the administrator's estimate of ultimate loss payment. Changes in the balance of claims liabilities during the year are as follows:

	2005	2004
Balance, Beginning of year claims liability	$ 12,762,461	$ 8,865,582
Current year claims and changes in estimates	3,006,759	7,778,714
Claims payments	(3,704,441)	(3,881,835)
Balance, End of year	$ 12,064,779	$ 12,762,461

Note 5: Liabilities Under Self-Insurance and Risk Management (continued)

General Liability

The County maintains a self-insured retention (SIR) of $250,000 per occurrence for its general liability program. Losses, which exceed the SIR, are covered by an excess insurance policy purchased through CSAC Excess Insurance Authority.

The actuarially determined outstanding claims liability and claims including incurred but not reported claims, adjustment expense liability (at 85 percent confidence level, after recognition of anticipated investment income) as of June 30, 2005 is $3,680,000.

The following represents changes in those aggregate liabilities for the fund at June 30, 2005.

	2005	2004
Balance, Beginning of year claims liability	$ 3,680,000	$ 1,831,000
Current year claims and changes in estimates	1,354,585	3,096,024
Claims payments	(1,354,585)	(1,247,024)
Balance, End of year	$ 3,680,000	$ 3,680,000

Note 6: Long-Term Obligations

The following table summarizes the changes in the County's long-term obligations for the fiscal year ended June 30, 2005:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
Governmental Activities					
Revenue bonds payable	$ 12,535,000	$ --	$ 180,000	$ 12,355,000	$ 205,000
Taxable pension obligation bonds 2003	112,805,000	--	--	112,805,000	--
Tobacco settlement asset-backed bonds payable	33,729,893	--	650,000	33,079,893	1,484,893
Less: unamortized discount	(905,620)	22,088	--	(883,532)	--
Certificates of participation 2001	13,885,000	--	230,000	13,655,000	245,000
Certificates of participation 1998 Series A	21,550,000	--	715,000	20,835,000	745,000
Certificates of participation 1998 Series B	14,865,000	--	1,680,000	13,185,000	1,745,000
Capital leases payable	3,353,795	--	1,095,811	2,257,984	864,493
Compensated absences	10,059,556	5,563,051	5,201,187	10,421,420	8,635,805
Total Governmental Activities Long-term liabilities	$ 221,877,624	$ 5,585,139	$ 9,751,998	$ 217,710,765	$ 13,925,191
Business-type Activities					
Capital leases payable	$ 263,070	$ --	$ 50,324	$ 212,746	$ 52,899
Compensated absences	25,167	1,163	--	26,330	18,735
Total Business-type Activities Long-term liabilities	$ 288,237	$ 1,163	$ 50,324	$ 239,076	$ 71,634

Note 6: **Long-Term Obligations** (continued)

The following table summarizes the County's long-term obligations as of June 30, 2005:

	Maturity	Stated/ Effective Interest Rates	Annual Principal Installments	Date of Issue	Amount Authorized	Outstanding Balance at June 30, 2005
Governmental Activities						
Certificates of Participation:						
1998 Series A (finance various capital projects)	2022	4.00%-5.00%	$685,000-$1,645,000	1998	$ 24,725,000	$ 20,835,000
1998 Series B (advance refund of outstanding 1991 Certificates)	2011	4.00%-5.00%	$1,615,000-$2,135,000	1998	22,110,000	13,185,000
2001 Issue (finance capital improvement projects)	2032	4.70%-7.00%	$215,000-$880,000	2001	14,100,000	13,655,000
Revenue Bonds:						
1998 Refunding Revenue bonds – Marin County Redevelopment Agency	2025	4.00%-5.50%	$160,000-$1,320,000	1998	13,425,000	12,355,000
Pension Obligation Bonds:						
Taxable Pension Obligation Bonds Series A (fund pension liability)	2027	4.60%-5.41%	$50,000-$14,940,000	2003	112,805,000	112,805,000
Asset-Backed Bonds:						
Tobacco Settlement Asset-Backed Bonds Payable (Series 2002A & 2002B)	2021	5.75%-6.25%	$605,017-$3,485,000	2002	34,345,000	33,079,893

As of June 30, 2005, annual debt service requirements of governmental activities to maturity are as follows:

	Governmental Activities			
Year Ending	Bonds Payable		Certificates of Participation	
June 30:	Principal	Interest	Principal	Interest
2006	$ 1,689,893	$ 8,504,216	$ 2,735,000	$ 2,143,189
2007	1,310,000	8,433,473	2,855,000	2,021,199
2008	1,650,000	8,354,716	2,975,000	1,892,364
2009	1,855,000	8,262,820	3,105,000	1,755,793
2010	2,390,000	8,150,215	3,245,000	1,530,496
2011-2015	20,175,000	38,160,033	11,205,000	6,289,984
2016-2020	41,635,000	30,424,518	8,675,000	4,203,591
2021-2025	57,515,000	16,357,695	7,540,000	1,973,757
2026-2030	30,020,000	1,621,219	3,625,000	854,243
2031-2034	--	--	1,715,000	82,531
Subtotal	158,239,893	128,268,905	47,675,000	22,747,146
Less Unamortized Discount	(883,532)	--	--	--
	$ 157,356,361	$ 128,268,905	$ 47,675,000	$ 22,747,146

Note 6: **Long-Term Obligations** (continued)

Capital Lease Obligation

The County leases equipment, principally for data processing, reproduction and transportation, under certain lease obligations accounted for as capital leases. Included in the governmental and business-type funds are the following fixed asset amounts under capital leases:

	Governmental Activities	Business-Type Activities
Equipment	$ 9,857,528	$ 319,500
Less: accumulated depreciation	(7,729,411)	(276,137)
	$ 2,128,117	$ 43,423

	Maturity	Interest Rates	Annual Principal Installments	Date of Issue	Amount Authorized	Outstanding Balance at June 30, 2005
Governmental Activities						
Computer equipment for Treasurer and Tax Collector's office	2004-2005	4.40%	$116,202-$126,652	2001	$ 607,700	$ 126,653
Lucent telephone system	2004-2008	5.09%	$302,463-$368,907	1998	3,073,968	1,053,983
Ballot counting equipment	2004-2009	5.25%	$88,895-$135,708	1999	931,000	447,715
Computer equipment and programs	2004-2007	2.81%	$38,757-$42,121	2003	205,000	83,090
IBM mainframe computer equipment	2004-2007	2.55%	$240,749-$266,235	2003	1,266,660	512,793
IBM Infoprinter for Treasurer	2004-2007	2.72%	$11,867	2004	56,276	33,750
Business-Type Activities						
Airport hangar capital lease refinancing	2004-2009	5.00%	$45,791-$58,450	1999	489,750	212,746

Note 6: **Long-Term Obligations** (continued)

Capital Lease Obligation (continued)

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2005:

Year Ending June 30,	Governmental Activities	Business-Type Activities
2006	$ 961,184	$ 62,335
2007	828,957	62,335
2008	519,418	62,335
2009	119,866	46,751
2010	19,980	--
Total Debt Service Requirements	2,449,405	233,756
Less Amount Representing Interest	191,421	21,010
Present Value of Remaining Payments	$ 2,257,984	$ 212,746

Note 7: **Net Assets/Fund Balances**

A. **Fund Balances**

The County has “reserved” fund balances as follows:

- *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 fiscal year.

- *Reserve for Advances to other funds* represents a portion of the fund balance that is not available for expenditure because it is available for certain Community Services Districts for local capital projects.

- *Reserve for Inventories* represents a portion of the fund balance that is not available for expenditure because the County expects to use these resources within the next budgetary period.

- *Reserve for Self-Insurance* represents a portion of the fund balance that is not available for expenditure because the County sets aside these funds to provide for possible losses not covered by insurance policies.

Note 7: **Net Assets/Fund Balances** (continued)

A. **Fund Balances** (continued)

- *Reserve for Prepaid Expenses* represents expenses paid in the financial statement year for services not yet performed.

- *Reserve for Special Programs* represents trust funds that are reclassified for purposes of GASB 34 presentation to special revenue and governmental funds.

- *Reserve for Tax Losses* represents a portion of the fund balance that is not available for expenditure because these funds must be available to offset potential losses on property tax accounts (Teeter Plan).

- *Designations of Unreserved Fund Balance* are created to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or service of debt. Such plans or intent are subject to change and might never be legally authorized or result in expenditures.

Note 8: **Retirement Plan**

Plan Description

The County's retirement plan is administered by the Board of Retirement of the Marin County Employees' Retirement Association (MCERA) a multiple-employer retirement system governed by the 1937 Act of the state government code. It covers employees eligible for membership and provides retirement, disability, death and survivor benefits based upon specified percentages of final compensation as well as annual cost-of-living adjustments after retirement. Contributions are made by both the County and the employees.

In addition to the County's retirement plan, the Employees' Retirement Association administers the plans of the City of San Rafael, the Novato Fire Protection District, and are performed for several of these other special districts. Separate actuarial valuations are performed for these other agencies and districts, and the responsibility for funding their plans rest with those entities. Post-retirement benefits are administered by MCERA to qualified retirees.

Funding Policy

Members are required to contribute to the County's plan, based on their age at the time of entry into the Plan. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. The County's annual contributions are actuarially determined. The following assumptions were used in the most recent actuarial valuation as of June 30, 2005.

Note 8: **Retirement Plan** (continued)

Funding Policy (continued)

- Real rate of return is assumed to be 4.0% per year.
- The salary inflation rate is assumed to be 5.76% for miscellaneous employees and 5.26% for safety.
- Rates of salary increase is assumed to be 6.62% for the general plan (5.13% for the safety plan).

The actuarial assumptions used in determining contribution requirements are the same as those used to compute the pension benefit obligation.

Annual Pension Cost

For the fiscal year ended June 30, 2005, the County's annual pension cost was $21,254,000. The County elected to prepay 100% of its liability on July 1, 2004 and received a discount on its annual contribution from the MCERA based upon the Plan's rate of return assumption.

Funding of the Plan is determined under the "entry age normal" method, which provides for funding of annual normal cost and the unfunded prior service costs over a period of 22 years. This includes amortization of the unfunded present value of credited projected benefits. All administrative costs of the system are borne by MCERA.

Three-Year Trend Information (in thousands)

Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	$ 21,254	100.0%	$ --
2004	21,632	100.0%	--
2003	18,723	100.0%	--

The County made an advance payment to the MCERA on March 23, 2005 in the amount of $4,744,623 towards its fiscal year 2006-07 pension liability. The discount rate for the prepayment is 8.25%. The contributions will be subject to the retirement fund's earnings assumption rate in fiscal year 2006-07. MCERA paid interest on the prepayment in the amount of $195,716 during the current fiscal year.

Note 9: **Commitments and Contingent Liabilities**

Certain claims and legal actions have been made against the County. The County will contest and vigorously defend any significant legal actions. It is the County's opinion that insurance coverage and designated fund balances are sufficient to cover any potential losses.

Note 10: **New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) recently released several new accounting and financial reporting standards. Two of the new standards, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other than Pensions (OPEB)*, may have a significant impact on the County's financial reporting process.

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

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

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MARIN

Schedule of Funding Progress
For the Year Ended June 30, 2005

Funded Status of Plan (in thousands)

Valuation Date (Most Recent Data Available) June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Accrued Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2004	$ 843,169	$ 938,211	$ 95,042	90%	$ 143,107	66.4%
2003	828,438	848,983	20,545	98%	138,004	14.9%
2002	711,789	798,404	86,615	89%	136,974	63.2%

COUNTY OF MARIN

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	$ 120,188,037	$ 120,188,037	$ 120,188,037	$ --
Resources (inflows):				
Taxes	95,417,926	110,779,405	113,761,326	2,981,921
Licenses and permits	8,251,886	8,510,908	9,036,909	526,001
Intergovernmental revenues	147,592,331	177,257,122	178,150,904	893,782
Charges for services	14,316,136	16,011,715	15,907,945	(103,770)
Fines and forfeits	4,201,900	4,941,739	7,930,122	2,988,383
From use of money and property	3,472,486	4,291,313	6,466,609	2,175,296
Miscellaneous	27,888,065	30,714,580	34,863,179	4,148,599
Other financing sources	--	--	821,271	821,271
Amounts available for appropriation	301,140,730	352,506,782	366,938,265	14,431,483
Charges to appropriations (outflows):				
Current:				
General government	83,641,616	108,290,896	62,621,593	45,669,303
Public protection	103,206,580	115,764,907	109,459,189	6,305,718
Public ways and facilities	298,461	545,961	120,440	425,521
Health and sanitation	76,975,024	84,255,257	81,456,565	2,798,692
Public assistance	48,940,327	58,017,558	51,891,630	6,125,928
Culture and recreation	7,061,391	7,467,323	6,956,951	510,372
Debt Service	--	--	6,228,316	(6,228,316)
Other financing uses	5,053,040	--	17,594,165	(17,594,165)
Total charges to appropriations	325,176,439	374,341,902	336,328,849	38,013,053
				--
Budgetary fund balances, June 30	$ 96,152,328	$ 98,352,917	$ 150,797,453	$ 52,444,536

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	$ 366,938,265
Differences - budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(821,271)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 366,116,994
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement	$ 336,328,849
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	(17,594,165)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 318,734,684

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 a 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 Administrator, pursuant to authority granted 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 Administrator is authorized to approve transfers and revision of appropriations 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 amounts reported in the budgetary basis equal the amounts in basic financial statements in accordance with generally accepted accounting principles (GAAP). Annual budgets are prepared on the modified accrual basis of accounting. Variances between final budget and actual amounts in the budgetary comparison schedules result mainly from revenues and expenditures in trust funds that are not budgeted, but are reflected in actual amounts.