

COUNTY OF MARIN

AUDIT REPORT

JUNE 30, 2003

COUNTY OF MARIN
AUDIT REPORT
For the Year Ended June 30, 2003

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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, 2003, 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 an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Marin County Redevelopment Agency, which represents .11 percent and .62 percent, respectively, of the assets and revenues of the County of Marin. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related 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 examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2003, and the respective changes in financial position and cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*;

GASB Statement No. 37, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, effective July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated October 16, 2003, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD & A) and the required supplementary information other than MD & A, are not a required part of the basic financial statements but are supplementary information required by the GASB. 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.

October 16, 2003
Roseville, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2003

In this section of the County of Marin (County) annual financial report, County management discusses financial results for the fiscal year ended June 30, 2003, and certain financial events subsequent to that date. It should be read in conjunction with the County's financial statements following this section. All dollar amounts are expressed **in thousands** in the text and tables unless otherwise indicated.

I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of fiscal year 02-03 by \$1,439,412 (net assets). Of this amount, \$21,518 of assets is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$76,535 during the year. Before the close of fiscal year 02-03, the County issued a Pension Obligation Bond for purposes of reducing its unfunded accrued actuarial liability (UAAL). This reduced net assets by approximately \$110,000. Also during the fiscal year 02-03, the County securitized its share of Tobacco Settlement Revenue, increasing net assets by approximately \$33,000 (see below for more details).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$55,463, or 15.26% of total general fund expenditures. This represents an increase of \$30,633 over the prior fiscal year and is due primarily to the receipt of tobacco settlement revenues. The County also set aside \$5,077 as a designation of fund balance for State budget funding uncertainties, an increase of \$2,188 over last fiscal year.
- The County's long-term obligations increased by \$111,241 during the fiscal year. The increase is due mainly to the issuance of a Pension Obligation Bond (see above) to fund the County's UAAL. By funding the UAAL at a fixed interest rate that is lower than the expected earning rate of the pension fund over the life of the issuance, the County estimates it can achieve savings of more than \$27 million on a net present value basis.
- On July 9, 2002, the County received \$33,100 through the securitization of its Tobacco Settlement Revenue. Tobacco Settlement Revenue reimburses states and participating counties, such as Marin County, for public tax dollars diverted from other programs to pay for tobacco-related health care expenses. The County's share of the revenue was subject to fluctuation and uncertainty. To reduce the uncertainty of future revenues, the County sold its rights to the tobacco revenue stream in exchange for an up-front lump-sum cash payment (securitization).

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. New Financial Report Model

The County of Marin has adopted a new financial reporting model that is designed to demonstrate government accountability by presenting both a long-term and a near-term view of its finances. This model is prescribed by Statement Number 34 of the Government Accounting

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2003

Standard Board (GASB 34). This model is comprised of three parts: 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.

B. 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 and redevelopment agencies which are essentially part of County operations and their financial data are blended in with operational funds of the County.

C. 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.

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2003

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 203 individual governmental funds. On the financial statements for governmental funds information is presented separately for two major funds: the General Fund, and the Capital Project 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 an enterprise fund 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.

D. 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.

E. Required Supplementary Information

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

III. FINANCIAL ANALYSIS COUNTY-WIDE

This is the second year that the County has applied GASB Statement No. 34. The County has restated prior periods for purposes of providing comparative data on the countywide level. Hereunder is the comparative analysis of government-wide data for fiscal year 2002-03.

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2003

County of Marin's Net Assets June 30, 2003 in \$'s

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 247,439,496	\$ 1,121,771	\$ 248,561,267
Capital assets	<u>1,438,090,425</u>	<u>6,883,886</u>	<u>1,444,974,311</u>
Total assets	<u>\$ 1,685,529,921</u>	<u>\$ 8,005,657</u>	<u>\$ 1,693,535,578</u>
Current and other liabilities	73,569,019	410,277	73,979,296
Long-term liabilities	<u>179,876,446</u>	<u>268,325</u>	<u>180,144,771</u>
Total liabilities	<u>\$ 253,445,465</u>	<u>\$ 678,602</u>	<u>\$ 254,124,067</u>
Net assets	<u><u>1,432,084,456</u></u>	<u><u>7,327,055</u></u>	<u><u>1,439,411,511</u></u>
Net assets:			
Invested in capital assets, net of debts	\$ 1,380,299,286	\$ 6,624,716	\$ 1,386,924,002
Restricted net assets	30,969,087	--	30,969,087
Unrestricted net assets	<u>20,816,083</u>	<u>702,339</u>	<u>21,518,422</u>
Total net assets	<u><u>\$ 1,432,084,456</u></u>	<u><u>\$ 7,327,055</u></u>	<u><u>\$ 1,439,411,511</u></u>

Investment in capital assets net of related debt reflects the County's investment in capital assets (i.e. its land, structures and improvements, infrastructure and equipment). 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.

Unrestricted net assets represent 1.49% of the total net assets and may be used to meet the County's ongoing obligations to citizens and creditors.

Beside the amount invested in capital assets, the County has no externally imposed constraints on the use of its net assets.

The following table presents the activities that accounted for the changes in net assets.

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Management's Discussion and Analysis For the Year Ended June 30, 2003

County of Marin's Change in Net Assets For Year Ended June 30, 2003

In \$'s

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$ 32,699,051	\$ 1,958,522	\$ 34,657,573
Grants & contributions	226,659,884		226,659,884
General revenues:			
Property taxes	98,176,244		98,176,244
Other taxes	7,608,941		7,608,941
Other revenues	46,581,007		46,581,007
Total revenues:	<u>\$ 411,725,127</u>	<u>\$ 1,958,522</u>	<u>\$ 413,683,649</u>
Expenses:			
General government	62,335,548		62,335,548
Public protection	118,420,904		118,420,904
Public ways and facilities	27,725,566		27,725,566
Health and sanitation	101,593,679		101,593,679
Public assistance	75,733,290		75,733,290
Education	651,019		651,019
Culture and recreation	17,065,841		17,065,841
Interest on long-term debts	3,167,057		3,167,057
Marin County Fair		1,914,384	1,914,384
Total expenses:	<u>\$ 406,692,904</u>	<u>\$ 1,914,384</u>	<u>\$ 408,607,288</u>
Increase in net assets before transfers and special items	5,032,223	44,138	5,076,361
Tobacco Tax Securitization Proceeds	27,170,769		27,170,769
Pension Plan Contribution	(109,826,000)		(109,826,000)
Fund reclassification	(277,200)	277,200	--
Prior period adjustments-County Airport, etc.	(1,718,937)	2,762,775	1,043,838
Transfers	(197,864)	197,864	--
Net assets - July 1, 2002	<u>1,511,901,465</u>	<u>4,045,078</u>	<u>1,515,946,543</u>
Net assets - June 30, 2003	<u>\$ 1,432,084,456</u>	<u>\$ 7,327,055</u>	<u>\$ 1,439,411,511</u>

As mentioned under "Financial Highlights", several factors contributed to the decrease in net assets. In particular, the County provided funds from the issuance of a Pension Obligation Bond to the Marin County Employee Retirement Association in the amount of \$110,000, and also received approximately \$33,000 through the securitization of its Tobacco Settlement Revenue.

Reclassification of the County Airport from Special Revenue to Enterprise fund starting in fiscal year 02-03 resulted in a decrease in net assets of the governmental activity as of June 30, 2003 by \$1,719 and a corresponding increase in net assets of the business-type activity.

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Management's Discussion and Analysis For the Year Ended June 30, 2003

IV. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, the County uses funds 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, 2003, the County's governmental funds reported combined ending fund balance of \$182,616, a net increase of \$29,804 in comparison with the prior year. Of the increase, \$27,171 represents proceeds from the tobacco tax securitization and \$112,805 from the financing of the County's pension obligation. The decrease in fund balance is due to the payment made to fund the County's UAAL to the Retirement association amounting to \$109,826.

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 (\$583), (2) to liquidate contractual commitments of the prior period (\$29,369), (3) to provide funds to various Community Service Districts (Permanent Road Divisions) to spend for local capital projects (\$141), (4) to convert fiduciary trust funds to governmental funds (\$26,664), as required under GASB 34, (5) to reflect a self-insurance reserve established by the Board of Supervisors (\$14,075) and (6) to reflect a reserve for tax losses under the Teeter Plan (\$1,692).

The general fund is the main operating fund of the County. At June 30, 2003, unreserved and undesignated fund balance of the general fund was \$55,463, while total fund balance reached \$129,066. As measures of the general fund's liquidity, it is useful to note that unreserved and undesignated fund balance represents 15.26% percent of total fund expenditures, while total fund balance represents 35.50% of that same amount.

Revenues for government functions totaled \$410,352 in fiscal year 2002-03, which represents a decrease of 1.51% from fiscal year 2001-02.

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

Management's Discussion and Analysis For the Year Ended June 30, 2003

County of Marin Revenues in the Governmental Funds In \$'s

	<u>FY 2003</u>		<u>FY 2002</u>		<u>Change</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Taxes	\$ 105,785,185	25.78%	\$ 95,840,261	23.00%	\$ 9,944,924	10.38%
Licenses and permits	8,823,090	2.15%	7,678,250	1.84%	1,144,840	14.91%
Fines, forfeitures and penalties	7,320,999	1.78%	8,096,667	1.94%	(775,668)	-9.58%
From use of money and property	6,547,280	1.60%	9,592,938	2.30%	(3,045,658)	-31.75%
Intergovernmental revenues	226,669,863	55.24%	223,173,256	53.57%	3,496,607	1.57%
Charges for services	15,439,291	3.76%	13,637,252	3.27%	1,802,039	13.21%
Miscellaneous	39,766,776	9.69%	58,605,389	14.07%	(18,838,613)	-32.14%
Total	<u>\$ 410,352,484</u>	<u>100.00%</u>	<u>\$ 416,624,013</u>	<u>100.00%</u>	<u>\$ (6,271,529)</u>	<u>-1.51%</u>

Significant changes for major revenue sources are explained below:

- Taxes – Property tax revenues continue to benefit from a robust housing market, both in terms of sales as well as valuations. 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 \$3,714 compared to the prior year.
- Licenses and Permits – Due to the historic decrease in home mortgage interest, housing construction and development review fees and permits collected by the County's Community Development Agency (CDA) increased over last fiscal year. The CDA also collected more business licenses fees from unincorporated areas of the County.
- From Use of Money & Property – Interest income from quarterly interests apportionments to the governmental funds decreased by approximately \$2,323 due mainly to the continuing decline in interest rates (from 2.20% as of 6/30/2002 to 2.10% on 6/30/2003). Rental income for County- owned buildings also decreased compared to prior year.
- Charges for Services – Increase in new housing construction resulted in the increase in Assessor's recording fees and charges for CDA's environmental studies report. Compared with prior year, Sheriff's Communication (911) Service revenues increased by approximately \$549 due to new dispatching contracts with Cities and Fire Districts. Other charges for services by the Retirement Office, Treasurer Tax-Collector and Community Mental Health Services also increased compared to the prior year.

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Management’s Discussion and Analysis
For the Year Ended June 30, 2003

- Miscellaneous Revenue – the reduction in miscellaneous revenue is almost entirely due to the reclassification of 10 of the 124 governmental funds back to fiduciary funds to eliminate double posting of revenues as required by GASB statement 34. In fiscal year 02-03, miscellaneous revenues eliminated amounted to \$18,165.

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

**County of Marin
Expenditures in the Governmental Funds
In \$’s**

	<u>FY 2003</u>		<u>FY 2002</u>		<u>Change</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
General government	\$ 59,245,720	14.57%	\$ 70,358,955	16.31%	\$ (11,113,235)	-15.80%
Public safety	117,299,939	28.84%	120,168,143	27.85%	(2,868,204)	-2.39%
Transportation	19,609,547	4.82%	23,692,625	5.49%	(4,083,078)	-17.23%
Health	101,207,024	24.88%	96,383,914	22.34%	4,823,110	5.00%
Welfare	75,614,346	18.59%	74,601,688	17.29%	1,012,658	1.36%
Education	769,929	0.19%	802,575	0.19%	(32,646)	-4.07%
Culture and recreation	16,408,976	4.03%	15,350,743	3.56%	1,058,233	6.89%
Capital outlay	10,706,453	2.63%	25,176,072	5.84%	(14,469,619)	-57.47%
Debt – principal payment	2,355,000	0.58%	2,310,000	0.54%	45,000	1.95%
Debt – interest payment	2,461,163	0.61%	2,561,545	0.59%	(100,382)	-3.92%
Debt – bond issue costs	<u>1,052,780</u>	<u>0.26%</u>	<u>--</u>	<u>0.00%</u>	<u>1,052,780</u>	<u>100.00%</u>
Total	<u>\$ 406,730,877</u>	<u>100.00%</u>	<u>\$ 431,406,260</u>	<u>100.00%</u>	<u>\$ (24,675,383)</u>	<u>\$ -5.72%</u>

Significant changes for major expenditures functions are explained below.

General Government – The decline in general government expenditures is due mainly to a reclassification of 10 out of 124 governmental funds back to fiduciary funds to eliminate double postings of expenditures as required by GASB statement 34. In fiscal year 02-03, general government expenses eliminated amounted to \$10,531.

Transportation – The cost for DPW Road Division contract and outside services decreased by \$4,700 compared to prior year, as the completion of White Hill bridge project comes to an end.

Capital Outlay – A number of capital projects are nearing completion. Costs incurred on these projects are beginning to decline. The cost of seismic retrofit for the Hall of Justice building dropped by \$3,664, building improvements for 250 Bon Air H&HS Facilities decreased \$571 and the final cost of completing the capital improvement of 120 North Redwood building dropped by \$10,292 compared with prior year.

Bond Issue cost – On May 15, 2003, the County issued \$112,805 pension obligation bond details of which is explained on Part I of the Financial Highlights (see bullet #5) page 3 above. The cost of issuance for this long term debt is \$1,053.

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Management's Discussion and Analysis For the Year Ended June 30, 2003

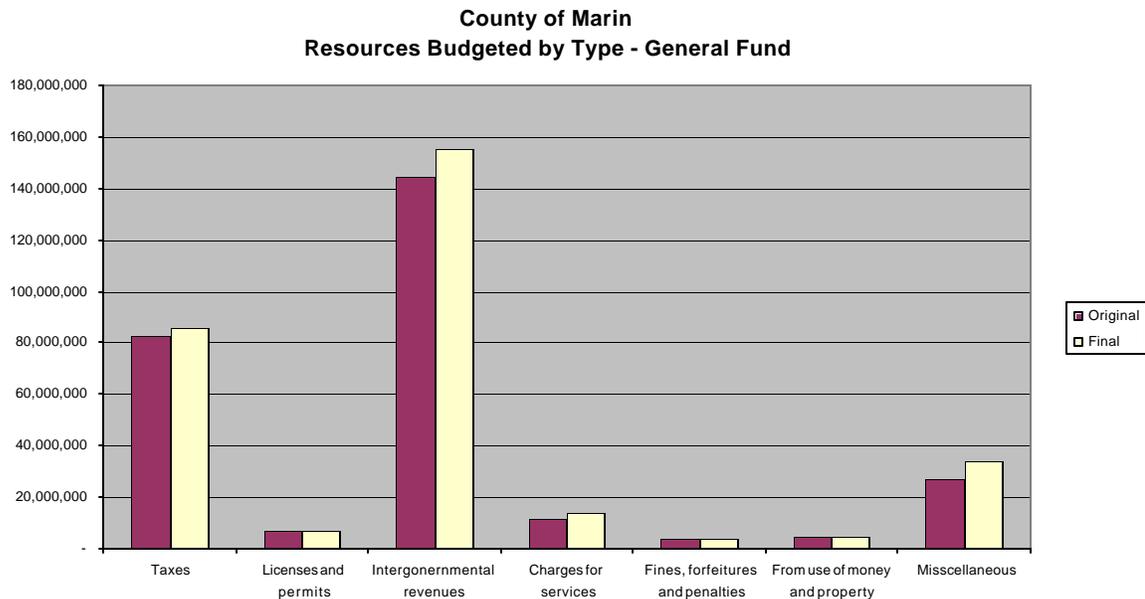
Proprietary Funds. The County's proprietary funds provide the same type of information found on the government-wide financial statements, but in more detail. These funds include two enterprise funds: Marin County Airport and the County Fair; and one internal service fund: Marin County Workers Compensation 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 budgetary estimates by \$215,352. Actual general fund expenditures exceeded final budgetary estimates by \$143,585 because actual receipts and disbursements of the 114 fiduciary funds were reclassified as revenues and expenses of the governmental funds as required by GASB statement 34.

Resources (revenues) and appropriations (expenditures) represent the legal level of budgetary controls. In fiscal year 02-03, the final budgeted revenues for the general fund were \$305,353 or \$23,739 or 8.43% higher than the original budget of \$281,614. The final budgeted appropriation for the General Fund was \$342,519 or \$33,587 or 10.87% higher than the original budget of \$308,932.

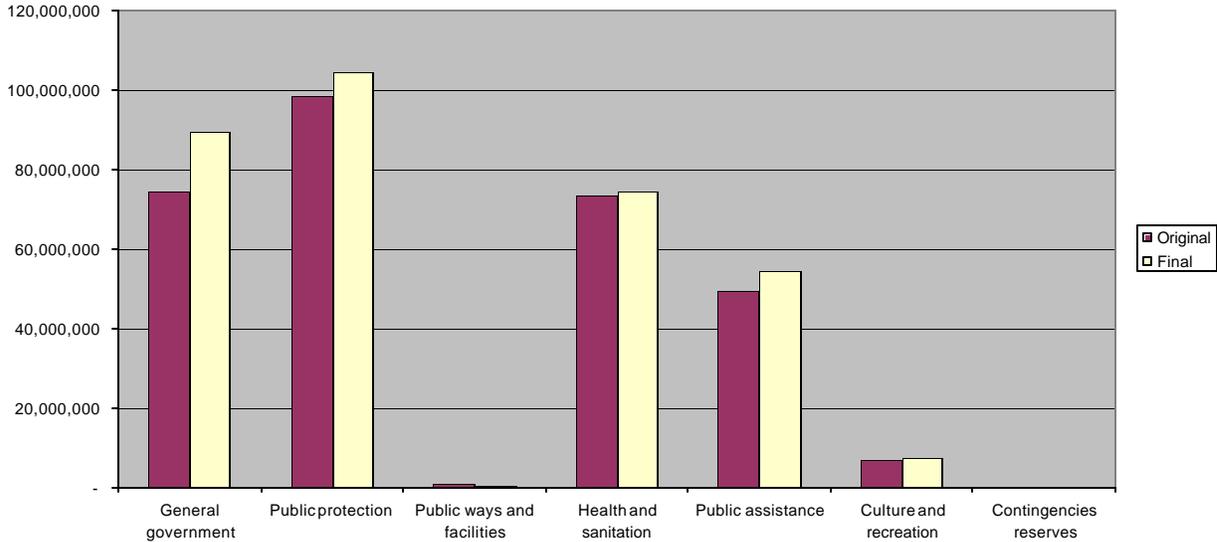
The following charts provide a comparison of original and final budgeted numbers for revenues sources and expenditures by functions.



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Management's Discussion and Analysis For the Year Ended June 30, 2003

**County of Marin
Expenditures Budgeted by Function - General Fund**



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, 2003, amounts to \$1,444,974 (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 net increase in the County's investments in capital assets for the current period is \$2,888 due mainly to the completion of 120 North Redwood building on June 26, 2003 capitalized under Land (\$4,752) and Structure and Improvement (\$8,036). Also in fiscal year 02-03, the County Airport operation has been reclassified from special revenue to enterprise fund therefore reducing governmental fixed assets by \$1,694 (\$1,660 is non-depreciable Land). Infrastructures assets also decreased by \$9,225 due to depreciation charges and Construction in Progress decrease as major projects were completed and capitalized during the year.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

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Management's Discussion and Analysis
For the Year Ended June 30, 2003

The following chart provides a comparison of County's capital assets net of accumulated depreciation in fiscal year 02-03 compared with fiscal year 01-02.

**County of Marin's Capital Assets
(Net of Depreciation)
In \$000's**

	Governmental Activities		Business Type Activities		Total		Change
	2003	2002	2003	2002	2003	2002	Inc (Dec)
Land and infrastructure land	\$ 1,216,966	\$ 1,213,873	\$ 3,909	\$ 1,778	\$ 1,220,875	\$ 1,215,651	\$ 5,224
Structures & improvements	66,858	59,798	2,884	1,765	69,742	61,563	8,179
Equipment	14,947	14,228	91	21	15,038	14,249	789
Infrastructure	101,637	110,862	--	--	101,637	110,862	(9,225)
Construction in progress	37,682	39,761			37,682	39,761	(2,079)
Total	\$ 1,438,090	\$ 1,438,522	\$ 6,884	\$ 3,564	\$ 1,444,974	\$ 1,442,086	\$ 2,888

B. Long-Term Debt

At June 30, 2003, the County had total long-term debt outstanding of \$193,027 consisting of \$125,565 bonds and loans payable, \$52,815 in outstanding certificate of participation, \$5,089 in capitalized lease obligations and \$9,558 compensated absences payable.

Additional information on the County's long-term liabilities can be found in Note 7 of this report.

VII. Economic Factors and FY 2003-04 Budget

The County budget for fiscal year 2003-04 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 \$5,078 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 2003-04.

COUNTY OF MARIN

Management's Discussion and Analysis
For the Year Ended June 30, 2003

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, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in County pool	\$ 185,046,792	\$ 463,178	\$ 185,509,970
Receivables:			
Accounts and other - net	1,744,196	10,257	1,754,453
Interest	2,403,170	3,689	2,406,859
Taxes	11,392,032	--	11,392,032
Due from other agencies	13,535,245	--	13,535,245
Loans	465,395	--	465,395
Inventories	583,488	--	583,488
Prepaid items and other assets	--	935,824	935,824
Internal balances	291,177	(291,177)	--
Restricted cash held with trustee	30,969,087	--	30,969,087
Deferred fiscal charges	1,008,914	--	1,008,914
Capital assets:			
Nondepreciable	1,254,648,610	3,909,238	1,258,557,848
Depreciable, net	183,441,815	2,974,648	186,416,463
Total Assets	<u>\$ 1,685,529,921</u>	<u>\$ 8,005,657</u>	<u>\$ 1,693,535,578</u>
LIABILITIES			
Vouchers and accounts payable	\$ 7,426,050	\$ 21,467	\$ 7,447,517
Salaries and benefits payable	4,155,579	--	4,155,579
Accrued interest payable	2,067,970	1,295	2,069,265
Deferred revenues	1,234,712	325,007	1,559,719
Estimated claims	8,865,582	--	8,865,582
Short-term notes payable	37,000,000	--	37,000,000
Compensated absences:			
Due within one year	8,664,108	14,633	8,678,741
Due beyond one year	869,855	9,155	879,010
Long-term liabilities:			
Due within one year	4,155,018	47,875	4,202,893
Due beyond one year	179,006,591	259,170	179,265,761
Total Liabilities	<u>253,445,465</u>	<u>678,602</u>	<u>254,124,067</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,380,299,286	6,624,716	1,386,924,002
Restricted	30,969,087	--	30,969,087
Unrestricted	20,816,083	702,339	21,518,422
Total Net Assets	<u>1,432,084,456</u>	<u>7,327,055</u>	<u>1,439,411,511</u>
Total Liabilities and Net Assets	<u>\$ 1,685,529,921</u>	<u>\$ 8,005,657</u>	<u>\$ 1,693,535,578</u>

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

COUNTY OF MARIN

Statement of Activities
For the Year Ended June 30, 2003

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>Functions/Programs</u>				
Primary Government				
Governmental Activities:				
General government	\$ 62,335,548	\$ 15,345,614	\$ 19,939,673	\$ --
Public protection	118,420,904	11,545,261	41,924,708	--
Public ways and facilities	27,725,566	--	17,363,690	--
Health and sanitation	101,593,679	4,521,040	80,147,100	--
Public assistance	75,733,290	187,527	67,001,803	--
Education	651,019	291,975	280,031	--
Recreation and culture services	17,065,841	807,634	2,879	--
Debt Service:				
Interest and fiscal charges	3,167,057	--	--	--
Total Governmental Activities	<u>406,692,904</u>	<u>32,699,051</u>	<u>226,659,884</u>	<u>--</u>
Business-Type Activities:				
Marin County Fair	1,914,384	1,958,522	--	--
Total Business-Type Activities	<u>1,914,384</u>	<u>1,958,522</u>	<u>--</u>	<u>--</u>
Total Primary Government	<u>\$ 408,607,288</u>	<u>\$ 34,657,573</u>	<u>\$ 226,659,884</u>	<u>\$ --</u>
General Revenues:				
Taxes:				
Property taxes				
Sales and use taxes				
Other				
Unrestricted interest and investment earnings				
Miscellaneous				
Tobacco Tax Proceeds				
Pension Plan Contribution				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - July 1				
Fund reclassification				
Prior period adjustment				
Net Assets - July 1 as restated				
Net Assets - June 30				

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
\$ (27,050,261)	\$ --	\$ (27,050,261)
(64,950,935)	--	(64,950,935)
(10,361,876)	--	(10,361,876)
(16,925,539)	--	(16,925,539)
(8,543,960)	--	(8,543,960)
(79,013)	--	(79,013)
(16,255,328)	--	(16,255,328)
<u>(3,167,057)</u>	<u>--</u>	<u>(3,167,057)</u>
<u>(147,333,969)</u>	<u>--</u>	<u>(147,333,969)</u>
<u>--</u>	<u>44,138</u>	<u>44,138</u>
<u>--</u>	<u>44,138</u>	<u>44,138</u>
<u>\$ (147,333,969)</u>	<u>\$ 44,138</u>	<u>\$ (147,289,831)</u>
\$ 98,176,244	\$ --	\$ 98,176,244
3,744,422	--	3,744,422
3,864,519	--	3,864,519
6,814,231	--	6,814,231
39,766,776	--	39,766,776
27,170,769	--	27,170,769
(109,826,000)	--	(109,826,000)
<u>(197,864)</u>	<u>197,864</u>	<u>--</u>
<u>69,513,097</u>	<u>197,864</u>	<u>69,710,961</u>
<u>(77,820,872)</u>	<u>242,002</u>	<u>(77,578,870)</u>
1,511,901,465	4,045,078	1,515,946,543
(277,200)	277,200	--
(1,718,937)	2,762,775	1,043,838
<u>1,509,905,328</u>	<u>7,085,053</u>	<u>1,516,990,381</u>
<u>\$ 1,432,084,456</u>	<u>\$ 7,327,055</u>	<u>\$ 1,439,411,511</u>

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, 2003

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments in County pool	\$ 118,444,119	\$ 27,206,490	\$ 25,036,121	\$ 170,686,730
Cash with fiscal agent	29,124,500	1,746,301	5,992	30,876,793
Receivables:				
Taxes	11,266,239	--	125,793	11,392,032
Interest	1,918,369	125,663	225,602	2,269,634
Other	1,744,196	--	--	1,744,196
Loans receivable	235,047	230,348	--	465,395
Due from other funds	1,374,010	--	13,998	1,388,008
Due from other governmental agencies	12,643,359	33,322	248,549	12,925,230
Advances to other funds	141,105	--	--	141,105
Inventory of supplies	303,194	--	280,294	583,488
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 177,194,138</u>	<u>\$ 29,342,124</u>	<u>\$ 25,936,349</u>	<u>\$ 232,472,611</u>
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 5,903,609	\$ 880,707	\$ 540,586	\$ 7,324,902
Accrued salaries and benefits	4,155,579	--	--	4,155,579
Advances payable	--	--	141,105	141,105
Short tem notes payable	37,000,000	--	--	37,000,000
Deferred revenue	1,068,752	--	165,960	1,234,712
Total Liabilities	<u>48,127,940</u>	<u>880,707</u>	<u>847,651</u>	<u>49,856,298</u>
<u>FUND BALANCES</u>				
Reserved for:				
Encumbrances	25,624,718	2,724,673	1,019,772	29,369,163
Advances to other funds	141,105	--	--	141,105
Inventories	303,194	--	280,294	583,488
Self-insurance	14,074,922	--	--	14,074,922
Special programs	26,664,313	--	--	26,664,313
Tax losses	1,691,891	--	--	1,691,891
Unreserved:				
Designated:				
Contingencies	25,000	--	--	25,000
State funding uncertainties	5,077,581	--	--	5,077,581
Debt service	--	--	703,506	703,506
Undesignated	55,463,474	25,736,744	23,085,126	104,285,344
Total Fund Balances	<u>129,066,198</u>	<u>28,461,417</u>	<u>25,088,698</u>	<u>182,616,313</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 177,194,138</u>	<u>\$ 29,342,124</u>	<u>\$ 25,936,349</u>	<u>\$ 232,472,611</u>

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, 2003

Fund Balance - total governmental funds (page 16)		\$ 182,616,313
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:</p>		
Land	\$ 1,216,966,173	
Construction in progress	37,682,437	
Infrastructure, net of \$174,884,292 accumulated depreciation	101,637,445	
Buildings and improvements, net of \$49,957,941 accumulated depreciation	66,857,732	
Equipment, net of \$31,702,294 accumulated depreciation	14,946,638	
Total capital assets	1,438,090,425	1,438,090,425
Cost of issuance on 2003 Taxable pension obligation bonds are not recognized as current year expenditures and are deferred (amount shown is net of amortized costs.)		1,008,914
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.		13,997,928
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, 2002 are:		
Certificates of participation, bonds and loans payable	(178,379,795)	
Capital leases	(4,781,814)	
Accrued interest on long-term debt	(2,067,970)	
Compensated absences	(9,533,963)	
Claims and judgments	(8,865,582)	
Total long-term liabilities	(203,629,124)	(203,629,124)
Net assets of governmental activities (page 13)		<u>\$ 1,432,084,456</u>

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, 2003

	General	Capital Projects	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 87,970,579	\$ --	\$ 17,814,606	\$ 105,785,185
Licenses and permits	8,823,090	--	--	8,823,090
Intergovernmental revenues	219,744,602	78,561	6,846,700	226,669,863
Charges for services	15,147,316	--	291,975	15,439,291
Fines and forfeits	6,321,867	989,833	9,299	7,320,999
From use of money and property	5,850,967	298,152	398,161	6,547,280
Miscellaneous	34,402,919	2,459,321	2,904,536	39,766,776
Total Revenues	378,261,340	3,825,867	28,265,277	410,352,484
Expenditures:				
General government	59,051,246	134,885	59,589	59,245,720
Public safety	108,859,013	--	8,440,926	117,299,939
Transportation	11,186,693	--	8,422,854	19,609,547
Health	101,207,024	--	--	101,207,024
Welfare	75,614,346	--	--	75,614,346
Education	--	--	769,929	769,929
Culture and recreation	6,604,580	--	9,804,396	16,408,976
Capital outlay	--	10,706,453	--	10,706,453
Debt Service:				
Principal	--	2,215,000	140,000	2,355,000
Interest	--	1,780,683	680,480	2,461,163
Bond issue costs	1,052,780	--	--	1,052,780
Total Expenditures	363,575,682	14,837,021	28,318,174	406,730,877
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,685,658	(11,011,154)	(52,897)	3,621,607
Other Financing Sources (Uses):				
Tobacco tax proceeds	27,170,769	--	--	27,170,769
Bond issuance	112,805,000	--	--	112,805,000
Payment to MCERA	(109,826,000)	--	--	(109,826,000)
Inception of capital lease	1,471,660	--	--	1,471,660
Transfers in	996,830	12,679,203	2,787,421	16,463,454
Transfers out	(12,702,757)	(937,479)	(3,021,082)	(16,661,318)
Total Other Financing Sources (Uses)	19,915,502	11,741,724	(233,661)	31,423,565
Changes in Fund Balances	34,601,160	730,570	(286,558)	35,045,172
Fund Balance - Beginning of Fiscal Year	100,120,997	27,038,895	25,652,456	152,812,348
Fund reclassification	--	--	(277,200)	(277,200)
Prior period adjustment	(5,655,959)	691,952	--	(4,964,007)
Fund Balance - Restated, Beginning	94,465,038	27,730,847	25,375,256	147,571,141
Fund Balance, End of Fiscal Year	<u>\$129,066,198</u>	<u>\$ 28,461,417</u>	<u>\$ 25,088,698</u>	<u>\$ 182,616,313</u>

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, 2003

Net change to fund balance - total governmental funds (page 20) \$ 35,045,172

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	\$ 13,191,750	
Less: current year depreciation	<u>(16,492,319)</u>	(3,300,569)

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.

Bond issuance	\$ (112,805,000)	
Deferral of bond issue costs	1,008,914	
Repayment of bonds, certificates of participation, and notes	<u>2,355,000</u>	
Net adjustment		(109,441,086)

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.

Inception of capital lease	(1,471,660)	
Repayment of capital lease obligations	<u>1,313,669</u>	
Net adjustment		(157,991)

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. This adjustment is a combination of two items.

Compensated absences	(677,013)	
Accrued interest on long-term debt	<u>(662,028)</u>	
Combined adjustment		(1,339,041)

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.

1,372,643

Change in net assets of governmental activities (page 17) \$ (77,820,872)

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

COUNTY OF MARIN

Statement of Fund Net Assets
Proprietary Funds
June 30, 2003

	Business-Type Activities Enterprise Funds		Governmental Activities
	Airport	Nonmajor Enterprise Funds	Internal Service
ASSETS			
Current Assets:			
Cash and investments in County pool	\$ 462,857	\$ 321	\$ 14,360,062
Cash held with trustee	--	--	92,294
Receivables:			
Accounts	10,257	--	--
Accrued interest	--	3,689	133,536
Prepaid items and other assets	86	935,738	--
Due from other funds	--	--	--
Total Current Assets	473,200	939,748	14,585,892
Noncurrent Assets:			
Capital assets:			
Nondepreciable	2,131,579	1,777,659	--
Depreciable, net	1,290,006	1,684,642	--
Total Noncurrent Assets	3,421,585	3,462,301	--
Total Assets	\$ 3,894,785	\$ 4,402,049	\$ 14,585,892
LIABILITIES			
Current Liabilities:			
Vouchers and accounts payable	\$ 6,953	\$ 14,514	\$ 101,148
Interest payable	1,295	--	--
Deferred revenues	--	325,007	--
Due to other funds	--	291,177	486,816
Current portion of compensated absences	14,633	--	--
Total Current Liabilities	22,881	630,698	587,964
Long-Term Liabilities:			
Noncurrent portion of compensated absences	9,155	--	--
Capital leases payable	307,045	--	--
Estimated claims	--	--	8,865,582
Total Noncurrent Liabilities	316,200	--	8,865,582
Total Liabilities	339,081	630,698	9,453,546
NET ASSETS			
Unrestricted	3,555,704	3,771,351	5,132,346
Total Net Assets	3,555,704	3,771,351	5,132,346
Total Liabilities and Net Assets	\$ 3,894,785	\$ 4,402,049	\$ 14,585,892

The accompanying 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, 2003

	Business-Type Activities		Governmental Activities
	Airport	Nonmajor Enterprise Funds	Internal Service
Operating Revenues:			
Operating revenues	\$ 564,231	\$ 1,394,291	\$ --
Premiums	--	--	4,874,877
Total Operating Revenues	<u>564,231</u>	<u>1,394,291</u>	<u>4,874,877</u>
Operating Expenses:			
Salaries and employee benefits	157,928	--	--
Services and supplies	258,245	1,567,409	--
Claims expense	--	--	3,769,185
Depreciation	113,229	100,609	--
Total Operating Expenses	<u>529,402</u>	<u>1,668,018</u>	<u>3,769,185</u>
Operating Income (Loss)	<u>34,829</u>	<u>(273,727)</u>	<u>1,105,692</u>
Non-Operating Revenues (Expenses):			
Miscellaneous expense	(72,178)	--	--
Investment income	--	--	266,951
Interest expense	(17,908)	--	--
Total Non-Operating Revenues (Expenses)	<u>(90,086)</u>	<u>--</u>	<u>266,951</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(55,257)</u>	<u>(273,727)</u>	<u>1,372,643</u>
Capital contributions	373,122	--	--
Transfers in	197,864	--	--
Change in net assets	<u>515,729</u>	<u>(273,727)</u>	<u>1,372,643</u>
Net Assets - Beginning of Year	--	4,045,078	3,759,703
Fund reclassification	277,200	--	--
Prior period adjustment	2,762,775	--	--
Net Assets - Restated, Beginning	<u>3,039,975</u>	<u>4,045,078</u>	<u>3,759,703</u>
Net Assets - End of Year	<u>\$ 3,555,704</u>	<u>\$ 3,771,351</u>	<u>\$ 5,132,346</u>

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, 2003

	Business-Type Activities		Governmental Activities
	<u>Airport</u>	Nonmajor <u>Enterprise Funds</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers and other funds	\$ 567,837	\$ 1,396,233	\$ 4,865,424
Cash paid to suppliers for goods and services	(268,900)	(1,396,225)	(3,348,390)
Cash paid for employee's for salaries and benefits	<u>(152,741)</u>	<u>--</u>	<u>--</u>
Net Cash Provided (Used) by Operating Activities	<u>146,196</u>	<u>8</u>	<u>1,517,034</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Non-operating revenues	--	--	--
Non-operating expenses	(72,178)	--	--
Transfers in	197,864	--	--
Transfers out	<u>--</u>	<u>--</u>	<u>--</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>125,686</u>	<u>--</u>	<u>--</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(400,758)	--	--
Principal paid on capital debt	<u>(45,735)</u>	<u>--</u>	<u>--</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(446,493)</u>	<u>--</u>	<u>--</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from capital contributions	373,122	--	--
Interest received	--	--	266,951
Interest paid on debt	<u>(16,613)</u>	<u>--</u>	<u>--</u>
Net Cash Provided by Investing Activities	<u>356,509</u>	<u>--</u>	<u>266,951</u>
Net Increase (Decrease) in Cash and Cash Equivalents	181,898	8	1,783,985
Cash and Cash Equivalents, Beginning of Year	<u>280,959</u>	<u>313</u>	<u>12,668,371</u>
Cash and Cash Equivalents, End of Year	<u>\$ 462,857</u>	<u>\$ 321</u>	<u>\$ 14,452,356</u>

continued

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

COUNTY OF MARIN

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2003

	Business-Type Activities		Governmental Activities
	Airport	Nonmajor Enterprise Funds	Internal Service
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 34,829	\$ (273,727)	\$ 1,105,692
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	113,229	100,609	--
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	3,606	1,942	(9,453)
Due from other funds	--	--	5,847
Prepaid expenses and other assets	13	(61,899)	--
Increase (decrease) in:			
Accounts payable	(10,668)	(54,949)	(123,564)
Due to other funds	--	234,878	237,835
Compensated absences payable	5,187	--	--
Deferred revenue	--	53,154	--
Claims and judgments	--	--	300,677
	<u>\$ 146,196</u>	<u>\$ 8</u>	<u>\$ 1,517,034</u>
Net Cash Provided (Used) by Operating Activities			

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

COUNTY OF MARIN

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

ASSETS	<u>Investment Trust</u>	<u>Agency Funds</u>	<u>Total</u>
Current Assets:			
Cash and investments	\$ 330,448,976	\$ 59,901,302	\$ 390,350,278
Cash with fiscal agent	--	2,301,055	2,301,055
Taxes receivable	--	3,208,476	3,208,476
Interest receivable	3,407,109	383,078	3,790,187
Accounts receivable	--	162,021	162,021
Due from other funds	--	389,564	389,564
Due from other governmental agencies	--	99,084	99,084
Total Current Assets	<u>\$ 333,856,085</u>	<u>\$ 66,444,580</u>	<u>\$ 400,300,665</u>
 LIABILITIES			
Due to other funds	3,885	995,694	999,579
Agency funds held for others	--	65,448,886	65,448,886
Total Liabilities	<u>3,885</u>	<u>66,444,580</u>	<u>66,448,465</u>
 NET ASSETS			
Net Assets held in trust for investment pool participants	<u>333,852,200</u>	--	<u>333,852,200</u>
Total Net Assets	<u>333,852,200</u>	--	<u>333,852,200</u>
Total Liabilities and Net Assets	<u>\$ 333,856,085</u>	<u>\$ 66,444,580</u>	<u>\$ 400,300,665</u>

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, 2003

Additions:

Contributions to investment pool	\$ 212,709,268
Interest and investment income	<u>3,407,109</u>
Total additions	<u>216,116,377</u>

Deductions:

Distributions from investment pool	<u>201,003,174</u>
Total deductions	<u>201,003,174</u>

Change in net assets 15,113,203

Net assets, beginning 318,738,997

Net assets, ending \$ 333,852,200

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

**BASIC FINANCIAL STATEMENTS –
NOTES TO THE BASIC FINANCIAL STATEMENTS**

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

A. **Reporting Entity**

The County of Marin, California operates under an elected supervisory 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

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. **Implementation of Governmental Accounting Standards Board Statements**

GASB Statements No. 33 and 36

In December 1998 and in April 2000, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues – an amendment of GASB Statement No. 33*, respectively. These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations).

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

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

GASB Statement Nos. 34 and 37

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

GASB Statement No. 38

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

GASB Interpretation No. 6

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

The County has implemented GASB Statement Nos. 33, 34, 36, 37 and 38 and Interpretation No. 6 and these statements are presented according to those requirements as discussed in Note 1.

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

C. 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 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. The total amount of interest charged to expense for the year ended June 30, 2003 was \$3,123,191. 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.

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.

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

C. **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 *Capital 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.

D. **Basis of Accounting**

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

D. **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 financial sources.

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

E. **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.

COUNTY OF MARIN

Notes to Basic Financial Statements June 30, 2003

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

F. **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.

G. **Receivables**

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

H. **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.

I. **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.

COUNTY OF MARIN

Notes to Basic Financial Statements
June 30, 2003

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

I. 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, 2003 this amount was estimated as \$410,819.

J. 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.

K. 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 \$1,000 and an estimated useful life in excess of one year. Starting in fiscal year 2003-2004, the capital threshold has been raised to \$5,000. 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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

Note 1: Summary of Significant Accounting Policies (continued)

L. **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.

M. **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.

N. **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.

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 2: **Cash and Investments**

Cash and investments at June 30, 2003, consist of the following:

Cash and Investments in County Pool	
Pooled cash	\$ 18,868,579
Pooled investments	585,505,110
Other investments	<u>10,864,891</u>
	615,238,580
Less outstanding warrants	<u>39,378,332</u>
Total Cash and Investments in County Pool	575,860,248
Cash with fiscal agent	<u>33,270,142</u>
Total Cash and Investments	<u>\$ 609,130,390</u>
Pooled cash and investments presented on financial statements	\$ 575,860,248
Treasurer outstanding items	<u>39,378,332</u>
Total Cash and Investments in County Treasury at June 30, 2003	<u>\$ 615,238,580</u>

The County maintains a cash and investment pool for the purpose of increasing interest income through pooled investment activities. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on the daily cash balances. 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.

Cash and investments with the County Treasurer are invested pursuant to investment policy guidelines established by the County Treasurer. The objectives of the policy are, in order of priority, legality of investment, safety of principal, liquidity and yield. The Marin County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code, and the Marin County Treasurer's Investment Policy. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

Pooled Cash and Non-Negotiable Certificates of Deposit

All pooled cash is entirely insured or collateralized. At June 30, 2003, the carrying amount of the County's bank balance was \$18,866,088 and per the bank was \$3,604,619. The difference between the carrying amount and the bank balance is due to deposits in transit, outstanding warrants and other reconciling items. The entire bank balance is collateralized by the custodial bank with pooled securities designating the County as beneficiary in case of default.

The California Government Code requires California banks and savings and loan associations to secure public agency deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of public agency deposits. California law also allows financial institutions to secure public agency deposits by pledging first deed mortgage notes having a value of 150% of total deposits.

The County may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC). However, it is the County's practice not to waive any collateral requirements.

Authorized Investments

Under provision of the County's investment policy, and in accordance with Section 53601 of the California Government Code, the County may invest in the following types of investments:

- U.S. Treasury Obligations
- U.S. Agency Obligations
- Federal Instrumentalities
- Certificates of Deposit
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Deposits
- California State Bonds
- Repurchase Agreements
- Bonds, notes, and warrants of a local agency
- Medium Term Notes
- Shares issued by diversified management companies
- Financial institution investment accounts

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

Credit Risk, Carrying Amount, and Market Value of Investments

Investments of the County are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows: Category 1 includes investments that are insured or registered or for which securities are held by the County or its safekeeping agent in the County's name; Category 2 includes uninsured and unregistered investments for which the securities are held by the safekeeping agent in the County's name; Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

Banker's acceptances are collateralized and the underlying collateral is held by the dealer bank's trust department in the County's name.

Pool	Category			Carrying Value	Fair Value	Par Value	Interest Rates
	1	2	3				
Treasury bills	\$ 208,801,422	\$ --	\$ --	\$ 208,801,422	\$ 208,897,242	\$ 210,000,000	1.03% -1.21%
Federal Agency securities	321,754,366	--	--	321,754,366	322,203,199	321,800,000	.90% -3.5%
Negotiable Certificate of Deposit	<u>5,000,000</u>	<u>--</u>	<u>--</u>	<u>5,000,000</u>	<u>5,000,494</u>	<u>5,000,000</u>	1.33%
	<u>\$ 535,555,788</u>	<u>\$ --</u>	<u>\$ --</u>	535,555,788	536,100,934	536,800,000	
Investments not subject to categorization:							
State of California Local Agency Investment Fund				21,603,834	21,665,325	21,603,834	1.77%
Money Market Funds				23,511,023	23,511,023	23,511,023	1.06% -1.11%
Sweep Account				4,834,466	4,834,466	4,834,466	0.70%
Cash in Bank				18,866,088	18,866,088	18,866,088	N/A
Cash on Hand				<u>2,490</u>	<u>2,490</u>	<u>2,490</u>	N/A
Non pooled investments							
State of California Local Agency Investment Fund				<u>10,864,891</u>	<u>10,895,815</u>	<u>10,864,891</u>	1.77%
Total Cash and Investments				<u>\$ 615,238,580</u>	<u>\$ 615,876,141</u>	<u>\$ 616,482,792</u>	

The County adjusts its investment accounting records to "fair value" at fiscal year-end. The County's investment custodian provides market values on each investment instrument on a monthly basis. The investments held by the County are widely traded in the financial markets and trading values are readily available from numerous published sources. Unrealized gains and losses are recorded at fiscal year-end and the carrying values of its investments at fiscal year-end are considered "fair value". The County has determined that cost to fair values are not materially different (fair value is 100.1% of cost) so that no adjustments has been reported on the financial statements.

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

Credit Risk, Carrying Amount, and Market Value of Investments (continued)

At June 30, 2003, the County had no investments in repurchase agreements. At no time during the fiscal year did the County borrow funds through the use of reverse-repurchase agreements. Such transactions are not authorized by the County's investment policy.

The following are condensed statements of net assets and changes in net assets, for the County's investment pool as of June 30, 2003 and for the year then ended:

Statement of Net Assets

Net assets held for pool participants	<u>\$ 575,860,248</u>
Equity of internal pool participants	\$ 245,411,272
Equity of external pool participants	<u>330,448,976</u>
Total Equity	<u>\$ 575,860,248</u>

Statement of Changes in Net Assets

Net assets at July 1, 2002	\$ 504,280,167
Net change in investment by pool participants	<u>71,580,081</u>
Net Assets at June 30, 2003	<u>\$ 575,860,248</u>

Cash and Investments with Fiscal Agents

The County has monies held by trustees or fiscal agent pledged to the payment or security of certain bonds, certificates of participation, and obligations. The California Government Code provides these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolution or indentures specifying the types of investments its trustees or fiscal agent may make. These ordinances, resolutions, and indentures are generally more restrictive than the County's general investment policy. In no instance have additional types of investments, not permitted by the County's general investment policy, been authorized.

Derivative Financial Products

The County of Marin portfolio includes a fair value investment in Local Agency Investment Fund (LAIF) at June 30, 2003 of \$21,665,325. The total fair value amount invested by all public agencies in LAIF was approximately \$56 billion. LAIF did not hold any investments in derivative financial products as of June 30, 2003.

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

Derivative Financial Products (continued)

The regulatory oversight to the LAIF is the Local Agency Investment Board. The Board consists of five members as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the pooled Treasury's portion in the pool.

Note 3: **Interfund Transactions**

The composition of interfund balances as of June 30, 2003, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Agency	\$ 596,017	For court fees collected in July of 2003
	Internal Service	486,816	Payments to provider of workers' compensation plan
	Enterprise	<u>291,177</u>	Short-term loan to fund County Fair
		<u>1,374,010</u>	
Nonmajor Governmental Funds	Agency	<u>13,998</u>	For property tax apportionment receivables not received as of June 30
Total		<u>\$ 1,388,008</u>	

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Nonmajor Governmental	\$ <u>141,105</u>	Loan to Department of Public Works
Total		<u>\$ 141,105</u>	

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

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:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects	\$ 11,480,195	Transfer funds to finance capital improvements
	Nonmajor Governmental Funds	<u>1,222,562</u>	Provide subsidy to cover portion to operation
		<u>12,702,757</u>	
Capital Projects	Nonmajor Governmental Funds	<u>937,479</u>	Provide subsidy to cover portion of operation
		<u>937,479</u>	
Nonmajor Governmental Funds	General Fund	996,830	To close fund & to correct prior allocation of funds
	Nonmajor Governmental Funds	<u>2,024,252</u>	Provide funds to cover part of operation
		<u>3,021,082</u>	
	Total	<u>\$ 16,661,318</u>	

Note 4: **Capital Assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Balance 6/30/02 (as restated)</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>Audited Balance 6/30/03</u>
Governmental Activities						
Capital assets, not being depreciated:						
Land\$	8,910,279	\$ --	\$ --	\$ --	\$ 3,092,470	\$ 12,002,749
Infrastructure land	1,204,963,424	--	--	--	--	1,204,963,424
Construction in progress	<u>39,760,587</u>	<u>9,643,215</u>	--	<u>7,258,783</u>	<u>(18,980,147)</u>	<u>37,682,437</u>
Total capital assets, not being depreciated	<u>1,253,634,290</u>	<u>9,643,215</u>	--	<u>7,258,783</u>	<u>(15,887,677)</u>	<u>1,254,648,610</u>
Capital assets, being depreciated:						
Infrastructure	276,521,737	--	--	--	--	276,521,737
Structures and improvements	106,724,815	--	--	(2,592,015)	12,682,873	116,815,673
Equipment	<u>42,784,622</u>	<u>5,425,712</u>	<u>(784,997)</u>	<u>(764,720)</u>	<u>(11,685)</u>	<u>46,648,932</u>
Total capital assets, being depreciated	<u>426,031,174</u>	<u>5,425,712</u>	<u>(784,997)</u>	<u>(3,356,735)</u>	<u>12,671,188</u>	<u>439,986,341</u>
Less accumulated depreciation for:						
Infrastructure	(165,659,547)	(9,216,455)	--	(8,290)	--	(174,884,292)
Structures and improvements	(46,926,643)	(2,789,944)	--	(241,354)	--	(49,957,941)
Equipment	<u>(28,556,745)</u>	<u>(4,485,920)</u>	<u>761,818</u>	<u>578,553</u>	--	<u>(31,702,294)</u>
Total accumulated depreciation	<u>(241,142,935)</u>	<u>(16,492,319)</u>	<u>761,818</u>	<u>328,909</u>	--	<u>(256,544,527)</u>
Total capital assets, being depreciated, net	<u>184,888,239</u>	<u>(11,066,607)</u>	<u>(23,179)</u>	<u>(3,027,826)</u>	<u>12,671,188</u>	<u>183,441,815</u>
Government activities capital assets, net	<u>\$ 1,438,522,529</u>	<u>\$ (1,423,392)</u>	<u>\$ (23,179)</u>	<u>\$ 4,230,956</u>	<u>\$ (3,216,490)</u>	<u>\$ 1,438,090,425</u>

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

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

	Balance 6/30/02 (as restated)	Additions	Deletions	Adjustments	Transfers	Audited Balance 6/30/03
Business-Type Activities						
Capital assets, not being depreciated:						
Land	\$ 1,777,659	\$ --	\$ --	\$ 2,131,579	\$ --	\$ 3,909,238
Total capital assets, not being depreciated	<u>1,777,659</u>	<u>--</u>	<u>--</u>	<u>2,131,579</u>	<u>--</u>	<u>3,909,238</u>
Capital assets, being depreciated:						
Structures and improvements	3,715,756	216,316	--	1,567,901	--	5,499,973
Equipment	<u>79,386</u>	<u>7,717</u>	<u>(1,930)</u>	<u>254,173</u>	<u>--</u>	<u>339,346</u>
Total capital assets, being depreciated	<u>3,795,142</u>	<u>224,033</u>	<u>(1,930)</u>	<u>1,822,074</u>	<u>--</u>	<u>5,839,319</u>
Less accumulated depreciation for:						
Structures and improvements	(1,950,772)	(201,785)	--	(464,029)	--	(2,616,586)
Equipment	<u>(57,754)</u>	<u>(12,053)</u>	<u>565</u>	<u>(178,843)</u>	<u>--</u>	<u>(248,085)</u>
Total accumulated depreciation	<u>(2,008,526)</u>	<u>(213,838)</u>	<u>565</u>	<u>(642,872)</u>	<u>--</u>	<u>(2,864,671)</u>
Total capital assets, being depreciated, net	<u>1,786,616</u>	<u>10,195</u>	<u>(1,365)</u>	<u>1,179,202</u>	<u>--</u>	<u>2,974,648</u>
Business-Type activities capital assets, net	<u>\$ 3,564,275</u>	<u>\$ 10,195</u>	<u>\$ (1,365)</u>	<u>\$ 3,310,781</u>	<u>\$ --</u>	<u>\$ 6,883,886</u>

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 4,366,053
Public Protection	1,538,064
Public Ways & Facilities	9,469,098
Health Services	294,227
Public Assistance	93,679
Recreation	337,407
Education	<u>393,791</u>
Total Depreciation Expense – Governmental Functions	16,492,319
Depreciation Expense – Business-Type Activities:	
County Fair	100,609
Airport	<u>113,229</u>
Total Depreciation Expense – Business-Type Activities	<u>213,838</u>
Total Depreciation Expense	<u>\$ 16,706,157</u>

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

The County is self-insured for the first \$300,000 of workers' compensation claims per occurrence. The County provides for excess workers' compensation insurance through an outside administrator up to \$5,000,000. 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:

	<u>Workers'</u> <u>Compensation</u>
Claims liability – July 1, 2002	\$ 8,564,905
Incurred claims and changes in estimates	3,652,789
Claims payments	<u>(3,352,112)</u>
 Claims liability – June 30, 2003	 <u>\$ 8,865,582</u>

Note 6: **Tax and Revenue Anticipation Note**

In September of 2002, the County issued a Tax and Revenue Anticipation Note (TRAN) in the amount of \$37,000,000 to cover cash flow shortfalls prior to the December collection of property taxes. The \$37,000,000 TRAN plus accrued interest of \$922,430 was paid on September 11, 2003.

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
TRAN	\$ <u> --</u>	\$ <u>37,000,000</u>	\$ <u> --</u>	\$ <u>37,000,000</u>

There will be no new Tax and Revenue Anticipation Note issued in the fiscal year ended June 30, 2004.

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

Note 7: Long-Term Debt

The following table summarizes the changes in the County's long-term debt for the fiscal year ended June 30, 2003:

	Balance June 30, 2002	Additions	Deletions	Adjustments	Balance June 30, 2003	Amounts Due Within One Year
Governmental Activities						
Revenue bonds payable	\$ 12,835,000	\$ --	\$ 140,000	\$ --	\$ 12,695,000	\$ 160,000
Taxable pension obligation bonds 2003	--	112,805,000	--	--	112,805,000	--
Loans payable	64,795	--	--	--	64,795	--
Certificates of participation 2001	14,100,000	--	--	--	14,100,000	215,000
Certificates of participation 1998 Series A	22,895,000	--	660,000	--	22,235,000	685,000
Certificates of participation 1998 Series B	18,035,000	--	1,555,000	--	16,480,000	1,615,000
Capital leases payable	4,980,342	1,471,660	1,313,699	(356,489)	4,781,814	1,480,018
Compensated absences	<u>8,875,551</u>	<u>677,013</u>	<u>--</u>	<u>(18,601)</u>	<u>9,533,963</u>	<u>8,664,108</u>
Total Governmental Activities						
Long-Term Liabilities	<u>\$ 81,785,688</u>	<u>\$ 114,953,673</u>	<u>\$ 3,668,699</u>	<u>\$ (375,090)</u>	<u>\$ 192,695,572</u>	<u>\$ 12,819,126</u>
Business-Type Activities						
Capital leases payable	\$ --	\$ --	\$ 49,444	\$ 356,489	\$ 307,045	\$ 47,875
Compensated absences	--	5,187	--	18,601	23,788	14,633
Total Business-Type Activities						
Long-Term Liabilities	<u>\$ --</u>	<u>\$ 5,187</u>	<u>\$ 49,444</u>	<u>\$ 375,090</u>	<u>\$ 330,833</u>	<u>\$ 62,508</u>

The following table summarizes the County's long-term debt liabilities as of June 30, 2003:

	Maturity	Stated/ Effective Interest Rates	Annual Principal Installments	Date of Issue	Amount Authorized	Outstanding Balance at June 30, 2003
Governmental Activities						
Certificates of Participation:						
1998 Series A (finance various capital projects)	2004-2022	4.00%-5.00%	\$685,000-\$1,645,000	1998	\$ 24,725,000	\$ 22,235,000
1998 Series B (advance refund of outstanding 1991 Certificates)	2004-2011	4.00%-5.00%	\$1,615,000-\$2,135,000	1998	22,110,000	16,480,000
2001 Issue (finance capital improvement projects)	2004-2032	4.70%-7.00%	\$215,000-\$880,000	2001	14,100,000	14,100,000
Revenues Bonds:						
1998 Refunding Revenue bonds – Marin County Redevelopment Agency	2004-2025	4.00%-5.50%	\$160,000-\$1,320,000	1998	13,425,000	12,695,000
Pension Obligation Bonds:						
Taxable Pension Obligation Bonds Series A (fund pension liability)	2008-2027	4.60%-5.41%	\$50,000-\$14,940,000	2003	112,805,000	112,805,000
Loans:						
Non-interest bearing loan from Agency funds to Marin County Redevelopment Agency	--	0.00%	--	--	--	64,795

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

As of June 30, 2003, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Bonds Payable		Governmental Activities Certificates of Participation	
	Principal	Interest	Principal	Interest
2004	\$ 160,000	\$ 4,890,744	\$ 2,515,000	\$ 2,368,234
2005	180,000	6,596,336	2,625,000	2,258,759
2006	205,000	6,587,763	2,735,000	2,143,189
2007	225,000	6,577,976	2,855,000	2,021,199
2008	255,000	6,566,809	2,975,000	1,892,364
2009-2013	6,110,000	32,311,497	14,630,000	7,356,583
2014-2018	20,510,000	29,266,610	7,875,000	4,995,999
2019-2023	42,430,000	21,272,670	10,045,000	2,836,349
2024-2028	55,425,000	6,288,155	3,290,000	1,181,314
2029-2032	--	--	3,270,000	320,150
	<u>\$125,500,000</u>	<u>\$120,358,560</u>	<u>\$ 52,815,000</u>	<u>\$ 27,374,138</u>

New Debt

The County issued in May 2003, Taxable Pension Obligation Bonds – Series A for \$112,805,000 to fund its pension liability. The bonds carry interest rates ranging from 4.60% to 5.41%.

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	\$ 9,669,026	\$ 489,750
Less: accumulated depreciation	<u>(5,376,205)</u>	<u>(212,225)</u>
	<u>\$ 4,292,821</u>	<u>\$ 277,525</u>

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

Capital Lease Obligation (continued)

	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Date of Issue</u>	<u>Amount Authorized</u>	<u>Outstanding Balance at June 30, 2003</u>
<u>Governmental Activities</u>						
IBM computer equipment	2004	4.90%	\$181,366	1999	\$ 1,632,666	\$ 181,366
Network replacement project Information Services Department	2004-2005	5.15%	\$245,350-\$257,986	2000	1,212,500	503,336
Network replacement project Information Services Department	2004-2005	4.40%	\$116,202-\$126,652	2001	607,700	364,169
Lucent telephone system	2004-2008	5.09%	\$302,463-\$368,907	1998	3,073,968	1,674,304
Ballot counting equipment	2004-2009	5.25%	\$88,895-\$135,708	1999	931,000	630,286
Computer equipment and programs	2004-2007	2.81%	\$38,757-\$42,121	2003	205,000	161,693
IBM mainframe computer equipment	2004-2007	2.55%	\$240,749-\$266,235	2003	1,266,660	1,266,660
<u>Business-Type Activities</u>						
Airport hangar capital lease refinancing	2004-2009	5.00%	\$45,791-\$58,450	1999	489,750	307,045

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, 2003:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2004	\$ 1,681,629	\$ 62,335
2005	1,220,591	62,335
2006	949,317	62,335
2007	817,091	62,335
2008	507,551	62,335
2009-2013	<u>139,844</u>	<u>42,850</u>
Total Debt Service Requirements	5,316,023	354,525
Less Amount Representing Interest	<u>534,209</u>	<u>47,480</u>
Present Value of Remaining Payments	<u>\$ 4,781,814</u>	<u>\$ 307,045</u>

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 8: 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.
- *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.

B. Restatement of Fund Equity/Net Assets

Fund Reclassifications

Nonmajor Governmental Funds – During the current year, the County reclassified the Airport Fund as an enterprise fund. In the prior year, this fund was reported as a special revenue fund.

Airport Fund – During the current year, the County reclassified the Airport Fund as an enterprise fund. In the prior year, this fund was reported as a special revenue fund.

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 8: **Net Assets/Fund Balances** (continued)

B. Restatement of Fund Equity/Net Assets (continued)

Other Restatements

General Fund – the County reevaluated its list of trust funds and determined that several funds which were reported as part of the General Fund in the prior year should remain trust funds.

Capital Projects Fund – To adjust for prior year expense accruals posted in error.

Governmental Activities – To remove beginning of the year balances for long-term debt and capital assets for the Airport Fund which was reclassified from a special revenue fund to an enterprise fund in the current year. To adjust beginning balances for capital assets to agree to capital assets system.

Airport Fund – To adjust for capital assets previously unreported.

The impact of the restatements on the fund balances/net assets as previously reported is presented below:

	Governmental Activities			Government-Wide Statement of Activities Total Governmental Activities	Business-Type Activities
	Fund Financial Statements		Nonmajor Governmental Funds		Airport Enterprise Fund
	General Fund	Capital Projects			
Fund balances/net assets, June 30, 2002, as previously reported	\$ 100,120,997	\$ 27,038,895	\$ 25,652,456	\$ 1,511,901,465	\$ --
Fund reclassification: Airport Fund	--	--	(277,200)	(277,200)	277,200
Other restatements:					
Capital assets	--	--	--	3,245,070	2,762,775
Miscellaneous	(5,655,959)	691,952	--	(4,964,007)	--
Total restatements	(5,655,959)	691,952	(277,200)	(1,996,137)	3,039,975
Fund balances/net assets, July 1, 2002 as restated	\$ 94,465,038	\$ 27,730,847	\$ 25,375,256	\$ 1,509,905,328	\$ 3,039,975

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2003

Note 9: **Retirement Plan**

Plan Description

The County's retirement plan is administered by the Board of Retirement of the Marin County Employees' Retirement Association (MCERA) and is an agent multiple-employer public employers retirement system (PERS). It covers employees eligible for membership and provides death, disability and service retirement benefits based upon specified percentages of final compensation as well as annual cost-of-living adjustments after retirement. The annual covered payroll for the County of Marin, California for the year ended June 30, 2003 was \$136,974,000. Contributions are made by both the County and the employees.

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

Funding Policy

Members are required to contribute to the County's plan, based on 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 contributions are actuarially determined. The following assumptions were used in the most recent actuarial valuation as of June 30, 2003.

- Net investment yield is assumed to be 8.25% per year.
- Annual inflation rate of 4.25%.
- Rates of salary increase are assumed to be 4.79% to 10.87%.

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

Annual Pension Cost

For fiscal year ended June 30, 2003, the County's annual pension cost was \$21,332,000 and the County contributed \$21,332,000.

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 30 years. This includes amortization of the unfunded present value of credited projected benefits. All administrative costs of the system are borne by MCERA.

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 9: **Retirement Plan** (continued)

Annual Pension Cost (continued)

In May 2003, the County issued pension obligation bonds and remitted \$109,826,000 to MCERA to reduce its portion of the Plan's unfunded accrued actuarial liability.

Three-Year Trend Information (in thousands)

<u>Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 21,332	100.0%	\$ --
2002	18,723	100.0%	--
2001	15,576	100.0%	--

Note 10: **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 11: **Excess of Expenditures Over Appropriations**

For the fiscal year ended June 30, 2003, the County incurred actual expenditures and other financing uses over the appropriations allowed by the Board of Supervisors (BOS), as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Actual Expenditures and Other Financing Uses</u>	<u>Excess Expenditures and Other Financing Uses Over Appropriations</u>
General Fund	\$ 342,518,996	\$ 486,104,439	\$ 143,585,443

Actual general fund expenditures and other financing uses exceeded appropriations allowed by the BOS because disbursements paid from fiduciary trust were reclassified as expenditures of the general fund as required by the GASB statement 34. Fiduciary funds revenues and expenses are not budgeted in the County's financial system.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MARIN

Schedule of Funding Progress
For the Year Ended June 30, 2003

Funded Status of Plan (in thousands)

Valuation Date (Most Recent Data Available) <u>June 30,</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Accrued Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2002	\$ 711,789	\$ 798,404	\$ 86,615	89%	\$ 136,974	63.2%
2001	690,320	701,223	10,903	98%	122,253	8.9%
2000	634,412	644,262	9,850	98%	114,700	9%

COUNTY OF MARIN

Budgetary Comparison Schedule General Fund For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balances, July 1	\$ 80,845,412	\$ 80,900,210	\$ 100,120,997	\$ 19,220,787
Resources (inflows):				
Taxes	82,804,760	86,109,283	87,970,579	1,861,296
Licenses and permits	7,129,300	7,281,685	8,823,090	1,541,405
Intergovernmental revenues	144,264,655	155,139,876	219,744,602	64,604,726
Charges for services	11,384,893	13,797,732	15,147,316	1,349,584
Fines and forfeits	4,229,545	4,236,390	6,321,867	2,085,477
From use of money and property	4,486,063	4,577,348	5,850,967	1,273,619
Miscellaneous	27,314,851	34,210,786	34,402,919	192,133
Other financing sources	--	--	142,444,259	142,444,259
Amounts available for appropriation	281,614,067	305,353,100	520,705,599	215,352,499
Charges to appropriations (outflows):				
Current:				
General government	74,473,054	89,304,271	59,051,246	30,253,025
Public protection	98,280,890	104,337,769	108,859,013	(4,521,244)
Public ways and facilities	604,351	503,020	11,186,693	(10,683,673)
Health and sanitation	73,213,691	74,339,045	101,207,024	(26,867,979)
Public assistance	49,239,657	54,283,781	75,614,346	(21,330,565)
Culture and recreation	6,765,335	7,048,353	6,604,580	443,773
Contingencies reserves	25,000	--	--	--
Debt Service (bond issue costs)	--	--	1,052,780	(1,052,780)
Other financing uses	6,330,328	12,702,757	122,528,757	(109,826,000)
Total charges to appropriations	308,932,306	342,518,996	486,104,439	(143,585,443)
Prior period adjustment	(5,655,959)	(5,655,959)	(5,655,959)	--
Budgetary fund balances, June 30	\$ 47,871,214	\$ 38,078,355	\$ 129,066,198	\$ 90,987,843
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:				
<u>Sources/inflows of resources</u>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement				\$ 520,705,599
Differences - budget to GAAP:				
Debt issuance and tobacco proceeds not budgeted				(141,447,429)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.				(996,830)
Total revenues as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 378,261,340
<u>Uses/outflows of resources</u>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement				\$ 486,104,439
Differences - budget to GAAP:				
Payments to MCERA for pension benefits obligation not budgeted				(109,826,000)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.				(12,702,757)
Total expenditures as reported on the combining statement of revenues, expenditures, and changes in fund balances - governmental funds				\$ 363,575,682

COUNTY OF MARIN

Budgetary Comparison Statement Capital Projects For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
Budgetary fund balances, July 1	\$ --	\$ --	\$ 26,171,035	\$ 26,171,035
Resources (inflows):				
Intergovernmental revenues			78,561	78,561
Fines and forfeits	1,000,000	1,000,000	989,833	(10,167)
From use of money and property			298,152	298,152
Miscellaneous		646,745	2,459,321	1,812,576
Other financing sources	5,482,464	11,480,195	12,679,203	1,199,008
Amounts available for appropriation	6,482,464	13,126,940	16,505,070	3,378,130
Charges to appropriations (outflows):				
General government	--	--	134,885	(134,885)
Capital outlay	6,482,464	24,364,660	10,706,453	13,658,207
Debt Service:				
Principal	--	--	2,215,000	(2,215,000)
Interest	--	--	1,780,683	(1,780,683)
Other financing uses	--	--	937,479	(937,479)
Total charges to appropriations	6,482,464	24,364,660	15,774,500	8,590,160
Prior period adjustment	691,952	691,952	691,952	--
Budgetary fund balances, June 30	\$ 691,952	\$ (10,545,768)	\$ 27,593,557	\$ 38,139,325

Note: Schedule does not include RDA - Capital Project fund

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

\$ 16,505,070

Differences - budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.

(12,679,203)

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

\$ 3,825,867

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement

\$ 15,774,500

Differences - budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.

(937,479)

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

\$ 14,837,021

COUNTY OF MARIN

Note to Required Supplementary Information For the Fiscal Year Ended June 30, 2003

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