

COUNTY OF MARIN

AUDIT REPORT

JUNE 30, 2006

**COUNTY OF MARIN
AUDIT REPORT
For the Year Ended June 30, 2006**

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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, 2006, which collectively comprise the County’s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the County’s management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marin County Redevelopment Agency, which represents the following percentages of assets and revenues/additions as of and for the fiscal year ended June 30, 2006:

<u>Opinion Unit</u>	<u>Assets</u>	<u>Revenues/ Additions</u>
Governmental Activities	0.10%	0.47%
Aggregate Remaining Fund Information	0.30%	0.43%

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

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

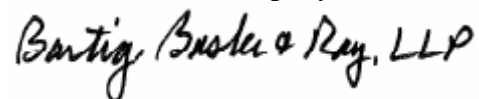
To the Board of Supervisors
County of Marin

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Marin, California, as of June 30, 2006, and the respective changes in financial position and cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated February 1, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

BARTIG, BASLER & RAY, LLP
A Gallina LLP Company



February 1, 2007
Roseville, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

In this section of the County of Marin (County) annual financial report, County management discusses financial results for the fiscal year ended June 30, 2006, and certain financial events subsequent to that date. It should be read in conjunction with the County's financial statements following this section.

I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of fiscal year 2005-06 by \$1,560,793,536.
- At the end of fiscal year 2005-06, unreserved/undesignated fund balance of the General Fund was \$87,280,932.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

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

A. Government-Wide Financial Statements

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

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

The statement of activities presents information on expenses and revenues to show how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported as soon as earned and expenses are reported as soon as incurred even though the related cash flows may not take place until future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

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

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

B. Fund Financial Statements

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

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

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

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

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

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's programs. In the fiduciary fund category, the County maintains several agencies funds and one investment trust fund. The accounting used for fiduciary funds is similar to that used for proprietary funds.

C. Notes to the Financial Statements

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

D. Required Supplementary Information

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

III. FINANCIAL ANALYSIS COUNTY-WIDE

Hereunder is the comparative analysis of government-wide data for fiscal year 2005-06.

Condensed Statement of Net Assets June 30, 2006

	Governmental Activities		Business-type Activities		Total		Percent Change
	2006	2005	2006	2005	2006	2005	
Assets:							
Current and other assets	\$ 404,176,374	\$ 261,201,145	\$ 1,631,103	\$ 1,561,743	\$ 405,807,477	\$ 262,762,888	54.44%
Capital assets, net	1,401,112,426	1,411,260,999	8,112,368	6,692,481	1,409,224,794	1,417,953,480	-0.62%
Total assets	1,805,288,800	1,672,462,144	9,743,471	8,254,224	1,815,032,271	1,680,716,368	7.99%
Liabilities:							
Current and other liabilities	53,283,904	47,321,668	395,290	473,417	53,679,194	47,795,085	12.31%
Noncurrent liabilities	200,455,299	203,785,574	104,242	167,442	200,559,541	203,953,016	-1.66%
Total liabilities	253,739,203	251,107,242	499,532	640,859	254,238,735	251,748,101	0.99%
Net Assets:							
Invested in capital assets, net of related debt	1,353,606,333	1,361,328,015	7,945,295	6,479,735	1,361,551,628	1,367,807,750	-0.46%
Restricted	95,461,868	105,940,775	--	--	95,461,868	105,940,775	-9.89%
Unrestricted	102,481,396	(45,913,888)	1,298,644	1,133,630	103,780,040	(44,780,258)	-331.75%
Total net assets	\$ 1,551,549,597	\$ 1,421,354,902	\$ 9,243,939	\$ 7,613,365	\$ 1,560,793,536	\$ 1,428,968,267	9.23%

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

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

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

Change in Net Assets Fiscal Year Ended June 30, 2006

	Governmental Activities		Business-type Activities		Total		Percent Change
	2006	2005	2006	2005	2006	2005	
Revenues:							
Program revenues:							
Charges for services	\$ 36,107,362	\$ 35,522,669	\$ 2,222,411	\$ 2,234,633	\$ 38,329,773	\$ 37,757,302	1.52%
Operating grants and contributions	200,849,076	188,916,073	--	--	200,849,076	188,916,073	6.32%
Capital grants and contributions	--	--	1,652,309	346,708	1,652,309	346,708	376.57%
General revenues:							
Property taxes	129,167,317	96,073,467	--	--	129,167,317	96,073,467	34.45%
Sales and use taxes	2,204,765	2,610,033	--	--	2,204,765	2,610,033	-15.53%
Other taxes	10,221,974	36,675,385	--	--	10,221,974	36,675,385	-72.13%
Interest and investment earnings	12,126,671	8,084,787	20,347	10,034	12,147,018	8,094,821	50.06%
Other revenue	83,885,177	40,099,801	--	--	83,885,177	40,099,801	109.19%
Total revenues	474,562,342	407,982,215	3,895,067	2,591,375	478,457,409	410,573,590	16.53%
Expenses:							
General government	106,491,393	69,162,557	--	--	106,491,393	69,162,557	53.97%
Public protection	153,128,925	121,678,566	--	--	153,128,925	121,678,566	25.85%
Public ways and facilities	17,253,370	15,768,290	--	--	17,253,370	15,768,290	9.42%
Health and sanitation	105,809,981	81,599,867	--	--	105,809,981	81,599,867	29.67%
Public assistance	53,549,563	51,926,504	--	--	53,549,563	51,926,504	3.13%
Education	10,525,176	9,840,596	--	--	10,525,176	9,840,596	6.96%
Recreation and culture service:	9,106,603	8,091,660	--	--	9,106,603	8,091,660	12.54%
Interest on long-term debt	10,713,008	9,698,538	--	--	10,713,008	9,698,538	10.46%
Airport	--	--	557,785	804,556	557,785	804,556	-30.67%
Marin County Fair	--	--	1,706,708	1,544,819	1,706,708	1,544,819	10.48%
Total expenses	466,578,019	367,766,578	2,264,493	2,349,375	468,842,512	370,115,953	26.67%
Change in net assets	7,984,323	40,215,637	1,630,574	242,000	9,614,897	40,457,637	-76.23%
Net assets, beginning	1,421,354,902	1,381,139,265	7,613,365	7,371,365	1,428,968,267	1,388,510,630	2.91%
Prior period adjustment	122,210,372	--	--	--	122,210,372	--	100.00%
Net assets, beginning as restated	1,543,565,274	1,381,139,265	7,613,365	7,371,365	1,551,178,639	1,388,510,630	11.72%
Net assets, ending	\$ 1,551,549,597	\$ 1,421,354,902	\$ 9,243,939	\$ 7,613,365	\$ 1,560,793,536	\$ 1,428,968,267	9.23%

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

IV. FINANCIAL ANALYSIS OF FUNDS

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

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

At June 30, 2006, the County's governmental funds reported combined ending fund balance of \$272,859,393, a net increase of \$46,263,431 in comparison with the prior fiscal year. Of the increase, \$17,953,540 represents increase in fund balance designated by management for future expenditures, \$13,878,673 is the increase in the amount set aside for State funding uncertainties and \$3,328,954 is the decrease in the amount designated for debt service payments. Fiscal year 2004-05 is the second year the County paid Pension Obligation Bond (POB) semi-annual interest. Prior year interest was partially paid by the fiscal agent. Annual POB principal payment will start in fiscal year 08-09.

Portions of fund balance are also reserved to indicate that funds are not available for new spending because it has been committed: (1) to reflect inventories and thus does not represent available spendable resources (\$602,755), (2) to liquidate contractual commitments (encumbrances) of the prior period (\$5,232,987), (3) to provide funds to various Community Service Districts (Permanent Road Divisions) to spend for local capital projects (\$1,991,022), (4) to convert fiduciary trust funds to governmental funds (\$20,835,349), as required under GASB 34, (5) to reflect a self-insurance reserve established by the Board of Supervisors (\$20,732,020), and (6) to reflect a reserve for tax losses under the Teeter Plan (\$1,486,757).

The general fund is the main operating fund of the County. At June 30, 2006, unreserved and undesignated fund balance of the general fund was \$87,280,932, while total fund balance reached \$209,350,955. As measures of the general fund's liquidity, it is useful to note that unreserved and undesignated fund balance represents 21.5% percent of total fund expenditures, while total fund balance represents 51.6% of that same amount.

Revenues for governmental funds totaled \$473,990,840 in fiscal year 2005-06, which represents an increase of 16% from fiscal year 2004-05.

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, 2006

County of Marin Revenues in the Governmental Funds For the Year Ended June 30, 2006

	FY 2006		FY 2005		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
Taxes	\$ 141,594,056	29.87%	\$ 135,358,885	33.28%	\$ 6,235,171	4.61%
Licenses and permits	9,631,043	2.03%	9,036,909	2.22%	594,134	6.57%
Intergovernmental revenues	200,849,076	42.37%	188,916,073	46.44%	11,933,003	6.32%
Charges for services	17,615,944	3.72%	16,266,317	4.00%	1,349,627	8.30%
Fines and forfeits	8,860,375	1.87%	9,275,556	2.28%	(415,181)	-4.48%
Use of money and property	11,555,169	2.44%	7,822,100	1.92%	3,733,069	47.72%
Miscellaneous	83,885,177	17.70%	40,099,801	9.86%	43,785,376	109.19%
Total Revenues	<u>\$ 473,990,840</u>	<u>100.00%</u>	<u>\$ 406,775,641</u>	<u>100.00%</u>	<u>\$ 67,215,199</u>	<u>16.52%</u>

Significant changes for major revenue sources are explained below:

- From Use of Money & Property – Interest income from quarterly interests apportionments to the governmental funds increased by approximately \$3,733,069 or 48% mainly due to higher interest rates in FY 2005-06, which averaged 3.5%, an increase of 97% over prior year's rate of 1.78%. Average cash daily balances during FY 2005-06 decreased by 7% from \$750 million in FY 2004-05 to \$695 million. The two factors added together accounted for the total increase in the Use of Money and Property revenues.
- Miscellaneous Revenue – The \$44 million increase in Miscellaneous revenue reflects the reclassification of fiduciary trust funds to governmental funds.

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

	FY 2006		FY 2005		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
Current:						
General government	\$ 99,449,922	22.03%	\$ 63,276,063	17.53%	\$ 36,173,859	57.17%
Public protection	149,987,737	33.23%	121,202,072	33.58%	28,785,665	23.75%
Public ways	7,937,008	1.76%	6,111,429	1.69%	1,825,579	29.87%
Health & sanitation	104,075,435	23.06%	81,456,565	22.57%	22,618,870	27.77%
Public assistance	52,127,970	11.55%	51,891,630	14.38%	236,340	0.46%
Education	10,160,507	2.25%	9,734,227	2.70%	426,280	4.38%
Culture and recreation	8,329,191	1.85%	7,768,144	2.15%	561,047	7.22%
Capital outlay	4,711,677	1.04%	4,811,478	1.33%	(99,801)	-2.07%
Debt service:						
Principal	3,901,055	0.86%	3,754,391	1.04%	146,664	3.91%
Interest	10,732,387	2.38%	10,896,204	3.02%	(163,817)	-1.50%
Total	<u>\$ 451,412,889</u>	<u>100.00%</u>	<u>\$ 360,902,203</u>	<u>100.00%</u>	<u>\$ 90,510,686</u>	<u>100.00%</u>

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

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

- General Government – Significant variance on this sector were due to the 3% general increase in personnel salaries and package compensation, augmentation of the retirement fund, purchase of the new MERIT system, including installation, user's training, and maintenance
- Public Protection – In this sector, there was an increased law enforcement, investigation, and prosecution, supervision and training activities; acquisition of new fire protection and emergency response equipments and launching of new programs towards improvement of county public protection services. These increased activities among others resulted in increased total amount of child support collections, distributions and total percentage of cases with support orders; opening of regional Victim Services Center and training of law enforcement, purchase of 12 lead equipment for cardiac-related medical emergencies and training of personnel to use; implemented intensive supervision of caseloads to target high risk clients on probation
- Public Ways – Variances on this expense category are due to initiated emergency Road and Storm Damage repair program to provide immediate and ongoing emergency response to two declared storm disasters, major flooding and continuous storm conditions, implementation of a five-year Road resurfacing and Bridge repair Program, aggressive implementation of the County's disability access program..
- Health & Sanitation – Significant variance on this sector were mainly due to new advanced health programs and initiatives, such as Elder Abuse Task Force, Marin HIV/Aids CARE Council, Mobile Mammography Van Program, Enhanced Public Health Preparedness for emergency response plans, orientation and training of Medical Reserve Corp, expanded Social Security Insurance Advocacy services, and Child Welfare Redesign activities.

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.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual general fund revenues exceeded final revenue budget estimates by \$71,197,519. Final budgeted general fund expenditures exceeded actual general fund expenditures by \$37,511,470.

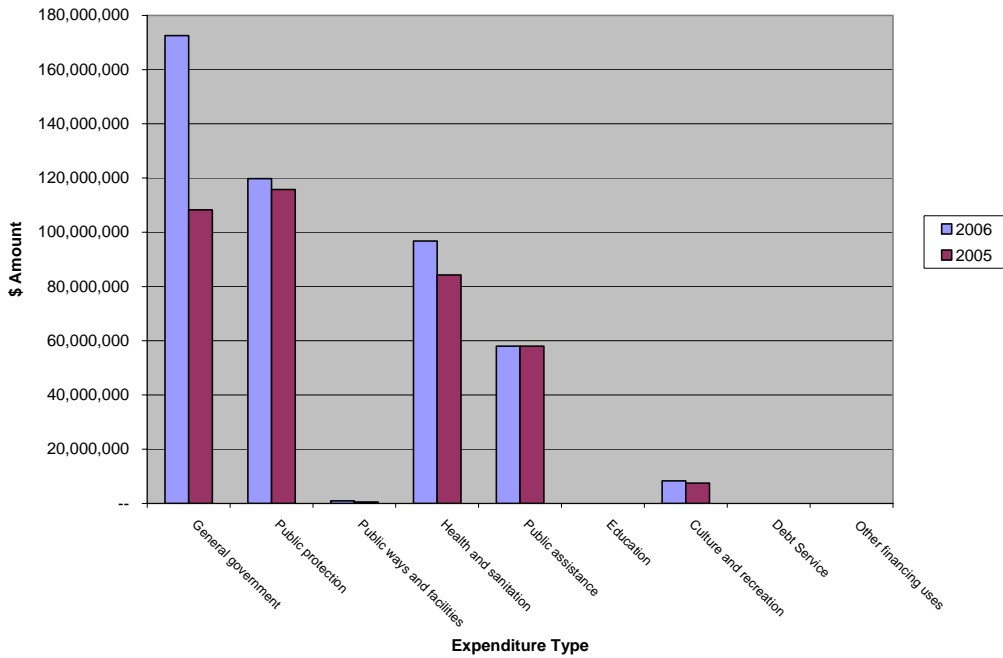
Resources (revenues) and appropriations (expenditures) represent the legal level of budgetary controls. In fiscal year 2005-06, the final budgeted revenue of the general fund is \$383,799,643. This is \$54,835,023 or 16% higher than the original budget of \$328,964,620. The final budgeted appropriation for the General Fund was \$456,430,150 or \$90,606,541 or 24% higher than the original budget of \$365,823,609.

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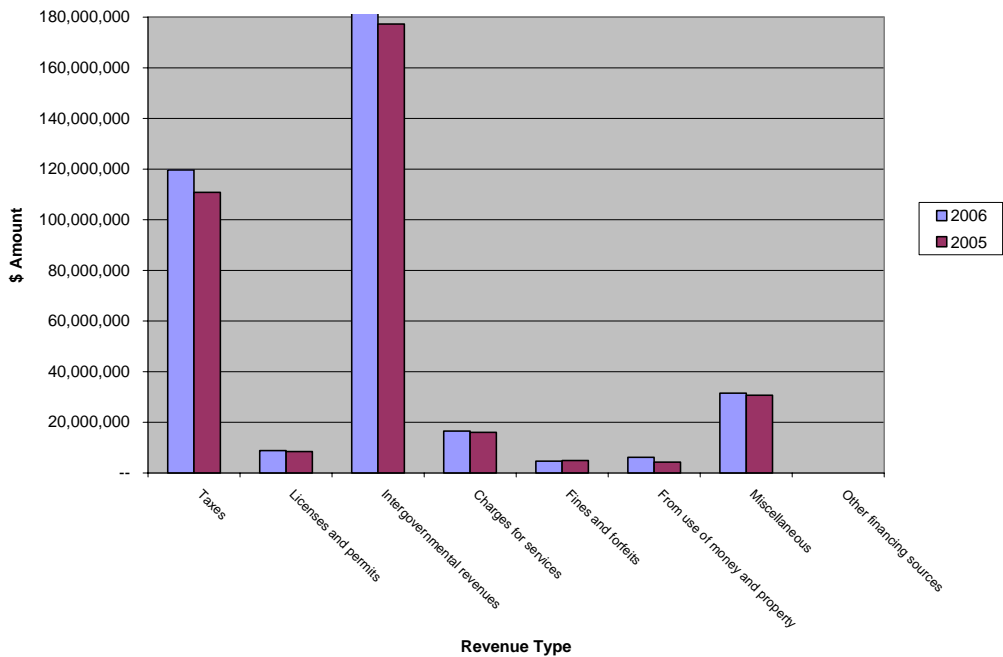
Management's Discussion and Analysis For the Year Ended June 30, 2006

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

Expenditures Budgeted by Function - General Fund



Resources Budgeted by Type - General Fund



COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

V. 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, 2006, amounts to \$1,409,224,794 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment and general infrastructure (roads, bridges, and flood control network and sewage systems).

The following chart provides a comparison of County's capital assets net of accumulated depreciation in fiscal year 2005/06 compared with fiscal year 2004/05:

County of Marin's Capital Assets

(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total		Change Inc (Dec)
	2006	2005	2006	2005	2006	2005	
Land and infrastructure land	\$ 1,216,948,901	\$ 1,216,948,901	\$ 3,541,837	\$ 3,541,837	\$ 1,220,490,738	\$ 1,220,490,738	\$ --
Structures and improvements	85,070,078	88,083,896	2,262,829	2,483,603	87,332,907	90,567,499	(3,234,592)
Equipment	8,405,086	8,461,043	93,724	70,646	8,498,810	8,531,689	(32,879)
Infrastructure	79,539,949	88,962,029	--	--	79,539,949	88,962,029	(9,422,080)
Construction in progress	11,148,412	8,805,130	2,213,978	596,395	13,362,390	9,401,525	3,960,865
Total	\$ 1,401,112,426	\$ 1,411,260,999	\$ 8,112,368	\$ 6,692,481	\$ 1,409,224,794	\$ 1,417,953,480	\$ (8,728,686)

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

B. Long-Term Debt

At June 30, 2006, the County had total long-term debt outstanding of \$215,298,644 consisting of \$201,263,449 in bonds payable, \$44,940,000 in outstanding certificates of participation, \$2,512,780 in capitalized lease obligations, \$213,160 in loans payable, and \$11,309,255 in compensated absences payable.

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

VII. Economic Factors and FY 2006-07 Budget

The County budget for fiscal year 2006-07 reflects the impact of two factors: a stronger economy and the improved relationship with the State.

The economy in Marin County has shown strong growth in the residential real estate sector which has produced steady increases in property tax revenues, a 25% of the County's General Fund budget. Overall, the economy in Marin remains healthy, and Marin County continues to have one of the lowest unemployment rates in California.

COUNTY OF MARIN

Management's Discussion and Analysis For the Year Ended June 30, 2006

With the California economy improving, the State's budget condition has improved. An increase in income taxes has caused an unexpected surge in State revenues resulting in more stable State support for County programs. However, there is always a 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 \$23,553,562 in General Fund balance to address State budget funding uncertainties.

All of these factors were considered in preparing the County's budget for the fiscal year 2006-07.

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, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments in County pool	\$ 234,924,839	\$ 508,372	\$ 235,433,211
Receivables:			
Accounts and other - net	2,658,221	26,478	2,684,699
Interest	2,268,479	3,045	2,271,524
Taxes	11,399,582	--	11,399,582
Due from other agencies	14,521,356	206,373	14,727,729
Employee loans	1,083,599	--	1,083,599
Other loans	213,304	--	213,304
Inventories	602,755	--	602,755
Prepaid items and other assets	3,450	1,290,113	1,293,563
Internal balances	403,278	(403,278)	--
Restricted cash held with trustee	35,655,417	--	35,655,417
Deferred fiscal charges	1,737,724	--	1,737,724
Net pension asset	98,704,370	--	98,704,370
Capital assets:			
Nondepreciable	1,228,097,313	5,755,815	1,233,853,128
Depreciable, net	173,015,113	2,356,553	175,371,666
Total assets	<u>\$ 1,805,288,800</u>	<u>\$ 9,743,471</u>	<u>\$ 1,815,032,271</u>
LIABILITIES			
Vouchers and accounts payable	\$ 2,781,320	\$ 2,203	\$ 2,783,523
Salaries and benefits payable	8,153,019	10,579	8,163,598
Accrued interest payable	3,634,667	622	3,635,289
Deferred revenues	1,951,691	295,990	2,247,681
Estimated claims	22,110,000	--	22,110,000
Compensated absences:			
Due within one year	8,892,665	30,291	8,922,956
Due beyond one year	2,386,299	--	2,386,299
Long-term liabilities:			
Due within one year	5,760,542	55,605	5,816,147
Due beyond one year	198,069,000	104,242	198,173,242
Total liabilities	<u>253,739,203</u>	<u>499,532</u>	<u>254,238,735</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,353,606,333	7,945,295	1,361,551,628
Restricted	95,461,868	--	95,461,868
Unrestricted	102,481,396	1,298,644	103,780,040
Total net assets	<u>1,551,549,597</u>	<u>9,243,939</u>	<u>1,560,793,536</u>
Total liabilities and net assets	<u>\$ 1,805,288,800</u>	<u>\$ 9,743,471</u>	<u>\$ 1,815,032,271</u>

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

COUNTY OF MARIN

Statement of Activities
For the Year Ended June 30, 2006

	<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>
Functions/Programs				
Primary Government				
Governmental Activities:				
General government	\$ 106,491,393	\$ 14,530,721	\$ 27,981,393	\$ --
Public protection	153,128,925	15,379,202	41,264,278	--
Public ways and facilities	17,253,370	94,445	5,378,162	--
Health and sanitation	105,809,981	4,625,829	74,923,075	--
Public assistance	53,549,563	116,126	50,922,313	--
Education	10,525,176	--	376,973	--
Recreation and cultural services	9,106,603	1,361,039	2,882	--
Debt Service:				
Interest and fiscal charges	10,713,008	--	--	--
Total governmental activities	<u>466,578,019</u>	<u>36,107,362</u>	<u>200,849,076</u>	<u>--</u>
Business-Type Activities:				
Airport	557,785	581,770	--	1,652,309
Marin County Fair	1,706,708	1,640,641	--	--
Total business-type activities	<u>2,264,493</u>	<u>2,222,411</u>	<u>--</u>	<u>1,652,309</u>
Total primary government	<u>\$ 468,842,512</u>	<u>\$ 38,329,773</u>	<u>\$ 200,849,076</u>	<u>\$ 1,652,309</u>

General Revenues:

Taxes:

Property taxes

Sales and use taxes

Other

Unrestricted interest and investment earnings

Miscellaneous

Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Prior period adjustment

Net assets, end of year

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

Net (Expenses) Revenues and
Changes in Net Assets

Primary Government		
Governmental Activities	Business- Type Activities	Total
\$ (63,979,279)	\$ --	\$ (63,979,279)
(96,485,445)	--	(96,485,445)
(11,780,763)	--	(11,780,763)
(26,261,077)	--	(26,261,077)
(2,511,124)	--	(2,511,124)
(10,148,203)	--	(10,148,203)
(7,742,682)	--	(7,742,682)
(10,713,008)	--	(10,713,008)
<u>(229,621,581)</u>	<u>--</u>	<u>(229,621,581)</u>
--	1,676,294	1,676,294
--	(66,067)	(66,067)
<u>--</u>	<u>1,610,227</u>	<u>1,610,227</u>
<u>(229,621,581)</u>	<u>1,610,227</u>	<u>(228,011,354)</u>
129,167,317	--	129,167,317
2,204,765	--	2,204,765
10,221,974	--	10,221,974
12,126,671	20,347	12,147,018
83,885,177	--	83,885,177
<u>237,605,904</u>	<u>20,347</u>	<u>237,626,251</u>
7,984,323	1,630,574	9,614,897
1,421,354,902	7,613,365	1,428,968,267
122,210,372	--	122,210,372
<u>\$ 1,551,549,597</u>	<u>\$ 9,243,939</u>	<u>\$ 1,560,793,536</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, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and investments in County pool	\$ 159,836,796	\$ 24,159,752	\$ 33,045,364	\$ 217,041,912
Cash with fiscal agent	28,041,352	921,427	6,589,986	35,552,765
Receivables:				
Taxes	11,399,582	--	--	11,399,582
Interest	2,068,962	3,306	196,211	2,268,479
Other	2,411,443	245,370	1,408	2,658,221
Loans receivable	--	213,304	--	213,304
Employee loans receivable	1,083,599	--	--	1,083,599
Due from other funds	428,995	--	--	428,995
Due from other governmental agencies	13,383,437	28,924	--	13,412,361
Advances to other funds	1,991,022	--	--	1,991,022
Prepaid expenses	3,450	--	--	3,450
Inventory of supplies	421,112	--	181,643	602,755
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 221,069,750</u>	<u>\$ 25,572,083</u>	<u>\$ 40,014,612</u>	<u>\$ 286,656,445</u>
<u>LIABILITIES</u>				
Accounts payable and accrued expenses	\$ 2,322,193	\$ 21,779	\$ 437,348	\$ 2,781,320
Accrued salaries and benefits	7,711,600	--	441,419	8,153,019
Advances payable	--	--	911,022	911,022
Deferred revenue	1,685,002	--	266,689	1,951,691
Total liabilities	<u>11,718,795</u>	<u>21,779</u>	<u>2,056,478</u>	<u>13,797,052</u>
<u>FUND BALANCES</u>				
Reserved for:				
Encumbrances	2,073,018	3,159,969	--	5,232,987
Prepaid expenses	3,450	--	--	3,450
Advances to other funds	1,991,022	--	--	1,991,022
Inventories	421,112	--	181,643	602,755
Self-insurance	20,732,020	--	--	20,732,020
Special programs	19,653,731	269,423	912,195	20,835,349
Tax losses	1,486,757	--	--	1,486,757
Unreserved:				
Designated:				
Subsequent expenditures	52,379,492	14,736,961	163,544	67,279,997
Retirement rate stabilization	4,000,000	--	--	4,000,000
State funding uncertainties	19,329,421	--	4,224,141	23,553,562
Debt service	--	--	3,851,956	3,851,956
Undesignated	87,280,932	7,383,951	28,624,655	123,289,538
Total fund balances	<u>209,350,955</u>	<u>25,550,304</u>	<u>37,958,134</u>	<u>272,859,393</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 221,069,750</u>	<u>\$ 25,572,083</u>	<u>\$ 40,014,612</u>	<u>\$ 286,656,445</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, 2006

Fund Balance - total governmental funds (page 16) \$ 272,859,393

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:

Land	\$ 1,216,948,901	
Construction in progress	11,148,412	
Infrastructure, net of accumulated depreciation	79,539,949	
Buildings and improvements, net of accumulated depreciation	85,070,078	
Equipment, net of accumulated depreciation	<u>8,405,086</u>	
Total capital assets		1,401,112,426

Long-term assets used in Governmental Activities, such as the net pension asset and deferred fiscal charges, are not current financial resources and, therefore, are not reported in the Governmental Funds. 100,442,094

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. 17,988,857

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities are reported in the statement of net assets. Balances as of June 30 are:

Certificates of participation, bonds and loans payable	(201,476,609)	
Capital leases	(2,352,933)	
Accrued interest on long-term debt	(3,634,667)	
Compensated absences	(11,278,964)	
Claims and judgments	<u>(22,110,000)</u>	
Total long-term liabilities		<u>(240,853,173)</u>

Net assets of governmental activities (page 13) \$ 1,551,549,597

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, 2006

	General	Capital Projects	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 118,888,617	\$ --	\$ 22,705,439	\$ 141,594,056
Licenses and permits	9,631,167	--	(124)	9,631,043
Intergovernmental revenues	192,096,539	196,786	8,555,751	200,849,076
Charges for services	17,260,465	--	355,479	17,615,944
Fines and forfeits	7,619,865	1,230,823	9,687	8,860,375
From use of money and property	10,208,936	426,772	919,461	11,555,169
Miscellaneous	76,339,281	3,937,818	3,608,078	83,885,177
Total revenues	<u>432,044,870</u>	<u>5,792,199</u>	<u>36,153,771</u>	<u>473,990,840</u>
Expenditures:				
Current:				
General government	96,608,916	2,685,152	155,854	99,449,922
Public protection	138,246,689	--	11,741,048	149,987,737
Public ways and facilities	481,463	--	7,455,545	7,937,008
Health and sanitation	104,075,435	--	--	104,075,435
Public assistance	52,127,970	--	--	52,127,970
Education	107,573	--	10,052,934	10,160,507
Recreation and cultural services	7,685,669	--	643,522	8,329,191
Capital outlay	--	4,711,677	--	4,711,677
Debt Service:				
Principal	111,055	2,735,000	1,055,000	3,901,055
Interest	5,959,806	2,143,189	2,629,392	10,732,387
Total expenditures	<u>405,404,576</u>	<u>12,275,018</u>	<u>33,733,295</u>	<u>451,412,889</u>
Excess (deficiency) of revenues over (under) expenditures	<u>26,640,294</u>	<u>(6,482,819)</u>	<u>2,420,476</u>	<u>22,577,951</u>
Other Financing Sources (Uses):				
Transfers in	21,978,104	12,206,068	1,514,102	35,698,274
Transfers out	(13,514,104)	(21,234,936)	(949,234)	(35,698,274)
Inception of capital lease	974,188	--	--	974,188
Total other financing sources (uses)	<u>9,438,188</u>	<u>(9,028,868)</u>	<u>564,868</u>	<u>974,188</u>
Net change in fund balances	36,078,482	(15,511,687)	2,985,344	23,552,139
Fund balances, beginning of year	150,797,453	40,834,021	34,964,488	226,595,962
Prior period adjustment	22,475,020	227,970	8,302	22,711,292
Fund balances, beginning of year, restated	<u>173,272,473</u>	<u>41,061,991</u>	<u>34,972,790</u>	<u>249,307,254</u>
Fund balances, end of year	<u>\$ 209,350,955</u>	<u>\$ 25,550,304</u>	<u>\$ 37,958,134</u>	<u>\$ 272,859,393</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, 2006

Net change to fund balance - total governmental funds (page 18)		\$ 23,552,139
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustments	\$ 8,706,987	
Less: current year depreciation	<u>(18,855,560)</u>	(10,148,573)
<p>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.</p>		
Amortization of bond discount	(43,025)	
Repayment of bonds, certificates of participation, and notes	<u>3,802,340</u>	
Net adjustment		3,759,315
<p>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.</p>		
Inception of capital leases	(974,188)	
Repayment of capital lease obligations	<u>879,239</u>	
Net adjustment		(94,949)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds</p>		
Change in compensated absences	(857,544)	
Amortization of net pension asset	(4,700,210)	
Change in self-insurance liability	(649,000)	
Accrued interest on long-term debt	<u>62,404</u>	
Net adjustment		(6,144,350)
<p>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.</p>		
		<u>(2,939,259)</u>
Change in net assets of governmental activities (page 15)	\$	<u><u>7,984,323</u></u>

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

COUNTY OF MARIN

Statement of Fund Net Assets
Proprietary Funds
June 30, 2006

	Business-Type Activities			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
ASSETS				
Current Assets:				
Cash and investments in County pool	\$ 425,024	\$ 83,348	\$ 508,372	\$ 17,882,927
Cash held with trustee	--	--	--	102,652
Receivables:				
Accounts	26,478	--	26,478	--
Accrued interest	--	3,045	3,045	--
Prepaid items and other assets	92,225	1,197,888	1,290,113	--
Due from other governments	206,373	--	206,373	--
Total current assets	<u>750,100</u>	<u>1,284,281</u>	<u>2,034,381</u>	<u>17,985,579</u>
Noncurrent Assets:				
Capital assets:				
Nondepreciable	3,978,156	1,777,659	5,755,815	--
Depreciable, net	952,564	1,403,989	2,356,553	--
Total noncurrent assets	<u>4,930,720</u>	<u>3,181,648</u>	<u>8,112,368</u>	<u>--</u>
Total assets	<u>\$ 5,680,820</u>	<u>\$ 4,465,929</u>	<u>\$ 10,146,749</u>	<u>\$ 17,985,579</u>
LIABILITIES				
Current Liabilities:				
Vouchers and accounts payable	\$ 1,829	\$ 374	\$ 2,203	\$ --
Interest payable	622	--	622	--
Accrued salaries and benefits	10,579	--	10,579	--
Deferred revenues	--	295,990	295,990	--
Due to other funds	--	400,000	400,000	--
Compensated absences	30,291	--	30,291	--
Total current liabilities	<u>43,321</u>	<u>696,364</u>	<u>739,685</u>	<u>--</u>
Long-Term Liabilities:				
Capital leases	159,847	--	159,847	--
Estimated claims	--	--	--	17,781,000
Total noncurrent liabilities	<u>159,847</u>	<u>--</u>	<u>159,847</u>	<u>17,781,000</u>
Total liabilities	<u>203,168</u>	<u>696,364</u>	<u>899,532</u>	<u>17,781,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,770,873	3,174,422	7,945,295	--
Unrestricted	706,779	595,143	1,301,922	204,579
Total net assets	<u>5,477,652</u>	<u>3,769,565</u>	<u>9,247,217</u>	<u>204,579</u>
Total liabilities and net assets	<u>\$ 5,680,820</u>	<u>\$ 4,465,929</u>	<u>\$ 9,243,939</u>	<u>\$ 17,985,579</u>
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(3,278)	
Net assets of business-type activities			<u>\$ 9,243,939</u>	

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

COUNTY OF MARIN

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds For the Fiscal Year Ended June 30, 2006

	Business-Type Activities			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
Operating Revenues:				
Charges for services	\$ 581,770	\$ 1,640,641	\$ 2,222,411	\$ 5,909,828
Total operating revenues	581,770	1,640,641	2,222,411	5,909,828
Operating Expenses:				
Salaries and employee benefits	111,302	--	111,302	--
Services and supplies	318,845	1,609,427	1,928,272	--
Claims expense	--	--	--	9,420,589
Depreciation	127,638	97,281	224,919	--
Total operating expenses	557,785	1,706,708	2,264,493	9,420,589
Operating Income (Loss)	23,985	(66,067)	(42,082)	(3,510,761)
Non-Operating Revenues (Expenses):				
Investment income	--	20,347	20,347	571,502
Interest expense	(9,248)	--	(9,248)	--
Total non-operating revenues (expenses)	(9,248)	20,347	11,099	571,502
Income (Loss) Before Capital Contributions	14,737	(45,720)	(30,983)	(2,939,259)
Capital contributions	1,661,557	--	1,661,557	--
Change in net assets	1,676,294	(45,720)	<u>\$ 1,630,574</u>	(2,939,259)
Net assets, beginning of year	3,801,358	3,815,285		3,143,838
Net assets, end of year	<u>\$ 5,477,652</u>	<u>\$ 3,769,565</u>		<u>\$ 204,579</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, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Airport</u>	Nonmajor Enterprise	<u>Total</u>	Internal
		<u>Funds</u>		<u>Service Funds</u>
Cash Flows from Operating Activities				
Cash receipts from customers	\$ 410,831	\$ 1,640,641	\$ 2,051,472	\$ --
Cash receipts from internal fund services provided	--	--	--	5,909,828
Cash paid to suppliers for goods and services	(428,579)	(1,872,290)	(2,300,869)	(3,757,761)
Cash paid to employee's for salaries and benefits	<u>(104,762)</u>	<u>--</u>	<u>(104,762)</u>	<u>--</u>
Net cash provided (used) by operating activities	<u>(122,510)</u>	<u>(231,649)</u>	<u>(354,159)</u>	<u>2,152,067</u>
Cash Flows from Noncapital Financing Activities				
Cash paid to other funds	<u>--</u>	<u>268,000</u>	<u>268,000</u>	<u>--</u>
Net cash provided (used) by noncapital financing activities	<u>--</u>	<u>268,000</u>	<u>268,000</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities				
Principal repayments on capital lease	(52,899)	--	(52,899)	--
Capital contributions	1,661,557	--	1,661,557	--
Interest repayments related to capital purposes	(9,453)	--	(9,453)	--
Payments related to the acquisition of capital assets	<u>(1,637,580)</u>	<u>(7,226)</u>	<u>(1,644,806)</u>	<u>--</u>
Net cash provided (used) by capital and related financing activities	<u>(38,375)</u>	<u>(7,226)</u>	<u>(45,601)</u>	<u>--</u>
Cash Flows from Investing Activities				
Interest received	<u>--</u>	<u>23,690</u>	<u>23,690</u>	<u>651,624</u>
Net cash provided by investing activities	<u>--</u>	<u>23,690</u>	<u>23,690</u>	<u>651,624</u>
Net increase (decrease) in cash and cash equivalents	(160,885)	52,815	(108,070)	2,803,691
Cash and cash equivalents, beginning of year	<u>585,909</u>	<u>30,533</u>	<u>616,442</u>	<u>15,181,888</u>
Cash and cash equivalents, end of year	<u>\$ 425,024</u>	<u>\$ 83,348</u>	<u>\$ 508,372</u>	<u>\$ 17,985,579</u>

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

continued

COUNTY OF MARIN

Statement of Cash Flows (continued)
 Proprietary Funds
 For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
				<u>Activities</u>
	<u>Airport</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total</u>	<u>Internal Service Funds</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 23,985	\$ (66,067)	\$ (42,082)	\$ (3,510,761)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	127,638	97,281	224,919	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(170,939)	--	(170,939)	--
Prepaid items and other assets	(92,225)	(185,609)	(277,834)	--
Increase (decrease) in:				
Accounts payable	(17,509)	(15,541)	(33,050)	(53,393)
Salaries payable	3,961	--	3,961	--
Deferred revenue	--	(61,713)	(61,713)	--
Liability for compensated absences	2,579	--	2,579	--
Liabilities for estimated claims	--	--	--	5,716,221
Net Cash Provided (Used) by Operating Activities	<u>\$ (122,510)</u>	<u>\$ (231,649)</u>	<u>\$ (354,159)</u>	<u>\$ 2,152,067</u>

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

COUNTY OF MARIN

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

ASSETS	<u>Investment Trust</u>	<u>Agency Funds</u>
Current Assets:		
Cash and investments	\$ 389,910,988	\$ 48,752,330
Taxes receivable	--	5,391,510
Cash with fiscal agent	--	1,571,221
Interest receivable	2,683,033	389,692
Total current assets	<u>392,594,021</u>	<u>56,104,753</u>
LIABILITIES		
Due to other funds	\$ 16,467	\$ 12,528
Advances from other funds	1,080,000	--
Agency funds held for others	--	56,092,225
Total liabilities	<u>1,096,467</u>	<u>56,104,753</u>
NET ASSETS		
Net assets held in trust for investment pool participants	391,497,554	--
Total net assets	<u>391,497,554</u>	<u>--</u>
Total liabilities and net assets	<u>\$ 392,594,021</u>	<u>\$ 56,104,753</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, 2006

Additions:

Contributions to investment pool	\$ 122,158,739
Total additions	<u>122,158,739</u>

Deductions:

Distributions from investment pool	<u>182,418,281</u>
Total deductions	<u>182,418,281</u>

Change in net assets	(60,259,542)
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Net assets, beginning	<u>451,757,096</u>
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Net assets, ending	<u><u>\$ 391,497,554</u></u>
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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, 2006

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

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

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

B. **Basis of Presentation**

Government-Wide Financial Statements

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

B. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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

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

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

Fund Financial Statements

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

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

The County reports the following major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreation services.
- The *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.

C. Basis of Accounting

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

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

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Property and sales taxes, interest, certain state and federal grants and charges for services are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financing sources.

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

D. **Non-Current Governmental Assets/Liabilities**

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

E. Cash and Cash Equivalents

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

F. Receivables

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

G. Inventories

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

H. Property Tax Revenue

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

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

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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

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

Unsecured property is not part of the Teeter Plan. Unsecured property taxes receivable are accrued to taxing agencies, net of the uncollectible amount which is estimated based on prior year collections. For the fiscal year ended June 30, 2006 this amount was estimated as \$653,180.

I. **Long-Term Receivables**

Non-current portions of long-term receivables for governmental fund types are reported on their balance sheets, in spite of their measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources”, since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables is deferred until they become current receivables. Non-current portions of long-term loans receivables are offset by fund balance reserve accounts.

J. **Capital Assets**

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

The estimated useful lives are as follows:

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

K. **Compensated Absences**

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

L. **Interfund Transactions**

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

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

M. **Estimates**

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 2: Cash and Investments

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

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

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

Cash and investments at June 30, 2006, consist of the following:

Cash and Investments in County Pool	
Cash	\$ 5,905,857
Investments	690,913,588
	<hr/>
	696,819,445
Less outstanding warrants and other reconciling items	(27,779,051)
	<hr/>
Total Cash and Investments in County Pool	669,040,394
Cash and Investments Outside County Pool	
Specific investments in treasury	5,056,135
Cash with fiscal agent	3,876,561
Investments with fiscal agent	33,350,077
	<hr/>
Total Investments Outside County Pool	42,282,773
	<hr/>
Total Cash and Investments	\$ 711,323,167

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

Total cash and investments at June 30, 2006 were presented on the County's financial statements as follows:

Primary Government	\$	271,088,628
Investment trust fund		389,910,988
Agency funds		50,323,551
Total Cash and Investments	\$	711,323,167

Investments

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
State of California Obligations	5 Years	None	None
Banker's Acceptances	180 days	30%	30%
Commercial Paper	270 days	40%	10%
Negotiable Certificates of Deposit	5 Years	30%	None
Repurchase Agreements	1 Year	None	None
Medium Term Notes	5 years	30%	None
Mutual Funds/Money Market Mutual Funds	N/A	20%	10%
Time Deposits	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

Investments (continued)

At June 30, 2006, the County had the following investments:

	Interest Rates	Maturities	Par Value	Book Value	Fair Value	WAM (Years)
Pooled Investments						
Treasury Bills - Coupon	2.25% - 7.00%	7/15/06 - 8/31/07	\$ 185,000,000	\$ 183,252,780	\$ 183,019,750	0.52
Federal Agencies - Coupon	2.10% - 5.50%	7/17/06 - 8/15/08	287,955,000	287,716,394	285,718,236	0.47
Federal Agencies - Discount	4.83% - 5.10%	7/05/06 - 7/12/06	14,375,000	14,301,622	14,361,898	0.02
Bankers' Acceptances	5.11% - 5.12%	7/03/06 - 7/10/06	6,662,948	6,648,227	6,659,522	0.01
Commercial Paper-Discount	5.15% - 5.25%	7/05/06 - 7/11/06	20,000,000	19,978,307	19,987,866	0.02
Certificates of Deposit - Negotiable	5.02% - 5.38%	7/03/06 - 9/20/06	117,700,000	117,700,000	117,690,928	0.06
Money Market Mutual Funds	Variable	On Demand	21,856,445	21,856,445	21,856,445	--
California Local Agency Investment Fund (LAIF)	Variable	On Demand	39,459,813	39,459,813	39,388,226	--
Total pooled investments			<u>\$ 693,009,206</u>	<u>\$ 690,913,588</u>	<u>\$ 688,682,871</u>	
Pooled treasury weighted average maturity						0.54
Specific Investments in Treasury						
<i>Non-Pooled Investments</i>						
California Local Agency Investment Fund (LAIF)	Variable	On Demand	<u>\$ 5,056,135</u>	<u>\$ 5,056,135</u>	<u>\$ 5,046,962</u>	0.00
Investments Outside Investment Pool						
<i>Investments With Fiscal Agents</i>						
Federal Agencies - Tap Notes	4.12%	11/15/2006	\$ 2,650,000	\$ 2,664,164	\$ 2,637,578	0.38
Municipal bonds	3.00% - 5.50%	12/1/06 - 12/15/11	11,600,000	12,360,868	11,741,417	2.72
Money Market Mutual Funds	Variable	On Demand	16,282,196	16,282,196	16,282,196	--
California Asset Management Pool (CAMP)	Variable	On Demand	471,628	471,628	471,628	--
California Local Agency Investment Fund (LAIF)	Variable	On Demand	1,571,221	1,571,221	1,568,371	--
Total investments outside investment pool			<u>\$ 32,575,045</u>	<u>\$ 33,350,077</u>	<u>\$ 32,701,190</u>	

At June 30, 2006 the difference between the book and fair value of cash and investments was not material (book value was 98.1% of fair value). Therefore, an adjustment to fair value was not required.

Interest Rate Risk

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2006, the County's investment pool had a weighted average maturity of .54 years, or less than 7 months.

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

Credit Risk

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

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

Concentration of Credit Risk

At June 30, 2006, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in Bankers' Acceptances or Negotiable Certificates of Deposit of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2006.

	S&P	Moody's	% of Portfolio
Investments in Investment Pool			
Treasury Bills - Coupon	AAA	Aaa	26.58%
Federal Agencies - Coupon	AAA	Aaa	41.49%
Federal Agencies - Discount	A-1+	P-1	2.09%
Bankers' Acceptances	A-1+	P-1	0.97%
Commercial Paper - Discount	A-1+	P-1	2.90%
Certificates of Deposit - Negotiable	Unrated	Unrated	17.09%
Money Market Mutual Funds	Unrated	Unrated	3.17%
California Local Agency Investment Fund (LAIF)	Unrated	Unrated	5.72%
			100.00%

Custodial Credit Risk

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

Local Agency Investment Fund

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

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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

Local Agency Investment Fund (continued)

At June 30, 2006, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$39,459,813, which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$63,337,959,989. Of that amount, 97.4% was invested in non-derivative financial products and 2.6% in structured notes and asset-backed securities. Fair value is based on information provided by the State for the Local Agency Investment Fund.

County Investment pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2006:

Statement of Net Assets

Net assets held for pool participants	\$ 669,040,394
Equity of internal pool participants	\$ 284,185,541
Equity of external pool participants	384,854,853
Total net assets	<u>\$ 669,040,394</u>

Statement of Changes in Net Assets

Net assets, beginning of year	\$ 702,623,696
Net change in investments by pool participants	(33,583,302)
Net assets, end of year	<u>\$ 669,040,394</u>

Note 3: **Interfund Transactions**

The composition of interfund balances as of June 30, 2006, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Nonmajor Enterprise Funds	\$ 400,000	Temporary loan to County Fair
	Agency Funds	8,503	Close out Ventura Project
	Agency Funds	4,025	Temporary loan for operations
	Investment Trust Fund	<u>16,467</u>	Temporary loan for operations
Total		<u>\$ 428,995</u>	

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Nonmajor Governmental	\$ 911,022	Loan to Department of Public Works
	Agency Funds	<u>1,080,000</u>	Temporary loan for operations
Total		<u>\$ 1,991,022</u>	

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	\$ 12,000,001	Transfer funds to finance capital improvements
	Nonmajor Governmental Funds	1,504,102	Provide subsidy to cover portion of operation
		<u>10,000</u>	Transfer to Library Fund for ergonomic changes
		<u>13,514,103</u>	
Capital Projects	General Fund	<u>21,234,936</u>	Close capital project reserve funds to General Fund
Nonmajor Governmental Funds	General Fund	743,168	Close trust funds to General Fund
	Capital Projects	<u>206,067</u>	Transfer 20% of tax increment
		<u>949,235</u>	
	Total	<u>\$ 35,698,274</u>	

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Audited Balance 6/30/05	Additions	Deletions	Adjustments/ Transfers	Audited Balance 6/30/06
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 11,985,477	\$ --	\$ --	\$ --	\$ 11,985,477
Infrastructure land	1,204,963,424	--	--	--	1,204,963,424
Construction in progress	8,805,130	5,743,418	--	(3,400,136)	11,148,412
Total capital assets, not being depreciated	1,225,754,031	5,743,418	--	(3,400,136)	1,228,097,313
Capital assets, being depreciated:					
Infrastructure	282,690,482	--	--	--	282,690,482
Structures and improvements	149,617,566	--	(2,680,774)	3,400,136	150,336,928
Equipment	37,581,830	3,355,672	(3,499,118)	--	37,438,384
Total capital assets, being depreciated	469,889,878	3,355,672	(6,179,892)	3,400,136	470,465,794
Less accumulated depreciation for:					
Infrastructure	(193,728,453)	(9,422,080)	--	--	(203,150,533)
Structures and improvements	(61,533,670)	(6,413,954)	2,680,774	--	(65,266,850)
Equipment	(29,120,787)	(3,019,526)	3,107,015	--	(29,033,298)
Total accumulated depreciation	(284,382,910)	(18,855,560)	5,787,789	--	(297,450,681)
Total capital assets, being depreciated, net	185,506,968	(15,499,888)	(392,103)	3,400,136	173,015,113
Governmental activities capital assets, net	\$ 1,411,260,999	\$ (9,756,470)	\$ (392,103)	\$ --	\$ 1,401,112,426
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 3,541,837	\$ --	\$ --	\$ --	\$ 3,541,837
Construction in Progress	596,396	1,617,582	--	--	2,213,978
Total capital assets, not being depreciated	4,138,233	1,617,582	--	--	5,755,815
Capital assets, being depreciated:					
Structures and improvements	4,071,663	--	--	--	4,071,663
Equipment	160,333	27,223	--	--	187,556
Land Improvements	1,451,514	--	--	--	1,451,514
Total capital assets, being depreciated	5,683,510	27,223	--	--	5,710,733
Less accumulated depreciation for:					
Structures and improvements	(2,310,068)	(102,092)	--	--	(2,412,160)
Equipment	(89,687)	(8,531)	--	--	(98,218)
Land Improvements	(729,506)	(114,296)	--	--	(843,802)
Total accumulated depreciation	(3,129,261)	(224,919)	--	--	(3,354,180)
Total capital assets, being depreciated, net	2,554,249	(197,696)	--	--	2,356,553
Business-type activities capital assets, net	\$ 6,692,482	\$ 1,419,886	\$ --	\$ --	\$ 8,112,368

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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

Depreciation

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 6,567,509
Public Protection	1,743,746
Public Ways & Facilities	9,584,449
Health and Sanitation	61,301
Public Assistance	21,542
Recreation	761,388
Education	<u>115,625</u>
Total Depreciation Expense – Governmental Functions	<u>18,855,560</u>

Depreciation Expense – Business-Type Activities:

County Fair	97,281
Airport	<u>127,638</u>
Total Depreciation Expense – Business-Type Activities	<u>224,919</u>

Total Depreciation Expense \$ 19,080,479

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

Workers' Compensation

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

	<u>2006</u>	<u>2005</u>
Balance, Beginning of year claims liability	\$ 12,064,779	\$ 12,762,461
Current year claims and changes in estimates	9,030,542	3,006,759
Claims payments	<u>(3,314,321)</u>	<u>(3,704,441)</u>
Balance, End of year	<u>\$ 17,781,000</u>	<u>\$ 12,064,779</u>

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

General Liability

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

The actuarially determined outstanding claims liability and claims including incurred but not reported claims, adjustment expense liability (at 85 percent confidence level, after recognition of anticipated investment income) as of June 30, 2006 is \$4,329,000.

The following represents changes in those aggregate liabilities for the fund at June 30, 2006.

	2006	2005
Balance, Beginning of year claims liability	\$ 3,680,000	\$ 3,680,000
Current year claims and changes in estimates	2,035,257	1,354,585
Claims payments	(1,386,257)	(1,354,585)
Balance, End of year	\$ 4,329,000	\$ 3,680,000

Note 6: **Long-Term Obligations**

The following table summarizes the changes in the County's long-term obligations for the fiscal year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Adjustments	Balance June 30, 2006	Amounts Due Within One Year
Governmental Activities						
Revenue bonds payable	\$ 12,355,000	\$ --	\$ 205,000	\$ --	\$ 12,150,000	\$ 225,000
Taxable pension obligation bonds 2003	112,805,000	--	--	--	112,805,000	--
Tobacco settlement asset-backed bonds payable	33,079,893	--	850,000	--	32,229,893	1,719,893
Less: unamortized discount	(883,532)	22,088	--	--	(861,444)	--
Loans payable	--	--	12,340	225,500	213,160	12,833
Certificates of participation 2001	13,655,000	--	245,000	--	13,410,000	265,000
Certificates of participation 1998 Series A	20,835,000	--	745,000	--	20,090,000	775,000
Certificates of participation 1998 Series B	13,185,000	--	1,745,000	--	11,440,000	1,815,000
Capital leases payable	2,257,984	974,188	879,239	--	2,352,933	947,816
Compensated absences	10,421,420	857,544	--	--	11,278,964	8,892,665
	Total Governmental Activities	\$ 1,853,820	\$ 4,681,579	\$ 225,500	\$ 215,108,506	\$ 14,653,207
	Long-term liabilities	\$ 1,853,820	\$ 4,681,579	\$ 225,500	\$ 215,108,506	\$ 14,653,207
Business-type Activities						
Capital leases payable	\$ 212,746	\$ --	\$ 52,899	\$ --	\$ 159,847	\$ 55,605
Compensated absences	26,330	3,961	--	--	30,291	15,732
	Total Business-type Activities	\$ 3,961	\$ 52,899	\$ --	\$ 190,138	\$ 71,337
	Long-term liabilities	\$ 3,961	\$ 52,899	\$ --	\$ 190,138	\$ 71,337

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

The following table summarizes the County's long-term obligations as of June 30, 2006:

	<u>Maturity</u>	<u>Stated/ Effective Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Date of Issue</u>	<u>Amount Authorized</u>	<u>Outstanding Balance at June 30, 2006</u>
<u>Governmental Activities</u>						
<u>Certificates of Participation:</u>						
1998 Series A (finance various capital projects)	2022	4.00%-5.00%	\$685,000-\$1,645,000	1998	\$ 24,725,000	\$ 20,090,000
1998 Series B (advance refund of outstanding 1991 Certificates)	2011	4.00%-5.00%	\$1,615,000-\$2,135,000	1998	22,110,000	11,440,000
2001 Issue (finance capital improvement projects)	2032	4.70%-7.00%	\$215,000-\$880,000	2001	14,100,000	13,410,000
<u>Revenue Bonds:</u>						
1998 Refunding Revenue bonds – Marin County Redevelopment Agency	2025	4.00%-5.50%	\$160,000-\$1,320,000	1998	13,425,000	12,150,000
<u>Pension Obligation Bonds:</u>						
Taxable Pension Obligation Bonds Series A (fund pension liability)	2027	4.60%-5.41%	\$50,000-\$14,940,000	2003	112,805,000	112,805,000
<u>Asset-Backed Bonds:</u>						
Tobacco Settlement Asset-Backed Bonds Payable (Series 2002A & 2002B)	2021	5.75%-6.25%	\$605,017-\$3,485,000	2002	34,345,000	32,229,893

As of June 30, 2006, annual debt service requirements of governmental activities to maturity are as follows:

<u>Year Ending June 30:</u>	<u>Governmental Activities</u>				<u>Loans Payable</u>	
	<u>Bonds Payable</u>		<u>Certificates of Participation</u>		<u>Principal</u>	<u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2007	\$ 1,944,893	\$ 8,489,419	\$ 2,855,000	\$ 2,021,199	\$ 12,833	\$ 8,294
2008	1,650,000	7,442,719	2,975,000	1,892,364	13,324	7,804
2009	1,855,000	7,386,911	3,105,000	1,755,793	13,876	7,251
2010	2,390,000	7,316,280	3,245,000	1,613,241	14,429	6,698
2011	2,980,000	7,222,266	3,380,000	1,467,096	15,005	6,122
2012-2016	23,415,000	33,853,710	9,395,000	5,744,364	84,472	21,166
2017-2021	47,305,000	26,482,976	9,105,000	3,771,737	59,221	4,162
2022-2026	60,705,000	13,005,767	6,195,000	1,639,320	--	--
2027-2031	14,940,000	404,127	3,805,000	677,944	--	--
2032-2036	--	--	880,000	20,900	--	--
Subtotal	157,184,893	111,604,175	44,940,000	20,603,958	213,160	61,497
Less Unamortized Discount	(861,444)	--	--	--	--	--
	<u>\$ 156,323,449</u>	<u>\$ 111,604,175</u>	<u>\$ 44,940,000</u>	<u>\$ 20,603,958</u>	<u>\$ 213,160</u>	<u>\$ 61,497</u>

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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

Capital Lease Obligation

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 6,507,091	\$ 489,750
Less: accumulated depreciation	<u>(4,466,029)</u>	<u>(359,150)</u>
	<u>\$ 2,041,062</u>	<u>\$ 130,600</u>

	<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, 2006</u>
<u>Governmental Activities</u>						
Lucent telephone system	2004-2008	5.09%	\$302,463-\$368,907	1998	3,073,968	719,947
Ballot counting equipment	2004-2009	5.25%	\$88,895-\$135,708	1999	931,000	349,001
Computer equipment and programs	2004-2007	2.81%	\$38,757-\$42,121	2003	205,000	42,122
IBM mainframe computer equipment	2004-2007	2.55%	\$240,749-\$266,235	2003	1,266,660	259,621
IBM Infoprinter for Treasurer	2004-2007	2.72%	\$11,867	2004	56,276	22,800
Sweeper	2006-2010	3.85%	\$12,675-\$14,745	2006	68,452	53,707
SAP Servers	2006-2011	4.04%	\$167,090-\$195,772	2006	905,735	905,735
<u>Business-Type Activities</u>						
Airport hangar capital lease refinancing	2004-2009	5.00%	\$45,791-\$58,450	1999	489,750	159,847

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

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

Capital Lease Obligation (continued)

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2007	\$ 1,047,384	\$ 62,335
2008	737,844	62,335
2009	338,292	46,751
2010	238,404	--
2011	<u>203,682</u>	<u>--</u>
Total Debt Service Requirements	2,565,606	171,421
Less Amount Representing Interest	<u>212,673</u>	<u>11,574</u>
Present Value of Remaining Payments	<u>\$ 2,352,933</u>	<u>\$ 159,847</u>

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

A. **Fund Balances**

The County has “reserved” fund balances as follows:

- *Reserve for Encumbrances* was created to represent encumbrances outstanding at the end of the year based on purchase order and contracts signed by the County but not yet completed as of the close of the fiscal year.
- *Reserve for Advances to other funds* represents a portion of the fund balance that is not available for expenditure because it is available for certain Community Services Districts for local capital projects.
- *Reserve for Inventories* represents a portion of the fund balance that is not available for expenditure because the County expects to use these resources within the next budgetary period.
- *Reserve for Self-Insurance* represents a portion of the fund balance that is not available for expenditure because the County sets aside these funds to provide for possible losses not covered by insurance policies.

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

A. **Fund Balances** (continued)

- *Reserve for Prepaid Expenses* represents expenses paid in the financial statement year for services not yet performed.
- *Reserve for Special Programs* represents trust funds that are reclassified for purposes of GASB 34 presentation to special revenue and governmental funds.
- *Reserve for Tax Losses* represents a portion of the fund balance that is not available for expenditure because these funds must be available to offset potential losses on property tax accounts (Teeter Plan).
- *Designations of Unreserved Fund Balance* are created to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or service of debt. Such plans or intent are subject to change and might never be legally authorized or result in expenditures.

Note 8: **Retirement Plan**

Plan Description

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

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

Funding Policy

Members are required to contribute to the County's plan, based on their age at the time of entry into the Plan. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. The County's annual contributions are actuarially determined. The following assumptions were used in the most recent actuarial valuation as of June 30, 2006.

COUNTY OF MARIN

Notes to the Basic Financial Statements For the Year Ended June 30, 2006

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

Funding Policy (continued)

- Real rate of return is assumed to be 4.0% per year.
- The salary inflation rate is assumed to be 4.25%.
- Rates of salary increase is assumed to be 6.62% for the general plan (5.13% for the safety plan).

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

Annual Pension Cost

For the fiscal year ended June 30, 2005, the County's annual pension cost was \$22,085,000.

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

Three-Year Trend Information (in thousands)

<u>Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 22,085	100.0%	\$ --
2004	21,254	100.0%	--
2003	21,632	100.0%	--

Note 9: **Commitments and Contingent Liabilities**

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

COUNTY OF MARIN

Notes to the Basic Financial Statements
For the Year Ended June 30, 2006

Note 10: **Restatement of Net Assets and Fund Balances**

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

	Government - Wide Statement of Activities	Governmental Funds		
	Governmental Activities	General	Capital Projects	Other Governmental Funds
Fund balances/net assets, June 30, 2005, as previously reported	\$ 1,421,354,902	\$ 150,797,453	\$ 40,834,021	\$ 34,964,488
Prior period adjustments:				
Net pension asset	103,404,580	--	--	--
Reclassification of self-insurance liability from fund statements to government-wide statements	--	3,680,000	--	--
Trust fund restatements	19,036,048	18,795,020	227,970	13,058
Redevelopment Agency restatement	(4,756)	--	--	(4,756)
Record loan with the California Energy Commission	(225,500)	--	--	--
Total prior period adjustments	122,210,372	22,475,020	227,970	8,302
Fund balances/net assets July 1, 2005 as restated	\$ 1,543,565,274	\$ 173,272,473	\$ 41,061,991	\$ 34,972,790

Note 11: **New Accounting Pronouncements**

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

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

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MARIN

Schedule of Funding Progress
For the Year Ended June 30, 2006

Funded Status of Plan (in thousands)

Valuation Date (Most Recent Data Available) June 30,	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Accrued Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
2005	\$ 858,183	\$ 992,226	\$ 134,043	86%	\$ 141,272	94.9%
2004	843,169	938,211	95,042	90%	143,107	66.4%
2003	828,438	848,983	20,545	98%	138,004	14.9%

COUNTY OF MARIN

**Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ 150,797,453	\$ 150,797,453	\$ 150,797,453	\$ --
Resources (inflows):				
Taxes	111,427,692	119,641,130	118,888,617	(752,513)
Licenses and permits	8,397,203	8,842,864	9,631,167	788,303
Intergovernmental revenues	158,438,667	196,405,014	192,096,539	(4,308,475)
Charges for services	15,270,855	16,571,967	17,260,465	688,498
Fines and forfeits	4,176,846	4,665,120	7,619,865	2,954,745
From use of money and property	3,464,580	6,173,842	10,208,936	4,035,094
Miscellaneous	27,788,777	31,499,706	76,339,281	44,839,575
Other financing sources	--	--	22,952,292	22,952,292
Amounts available for appropriation	<u>328,964,620</u>	<u>383,799,643</u>	<u>454,997,162</u>	<u>71,197,519</u>
Charges to appropriations (outflows):				
Current:				
General government	97,127,199	172,578,193	96,608,916	75,969,277
Public protection	110,410,247	119,810,065	138,246,689	(18,436,624)
Public ways and facilities	304,769	930,777	481,463	449,314
Health and sanitation	82,327,703	96,780,006	104,075,435	(7,295,429)
Public assistance	52,206,221	58,011,587	52,127,970	5,883,617
Education	--	--	107,573	(107,573)
Culture and recreation	7,620,139	8,319,522	7,685,669	633,853
Debt Service	--	--	6,070,861	(6,070,861)
Other financing uses	15,827,331	--	13,514,104	(13,514,104)
Total charges to appropriations	<u>365,823,609</u>	<u>456,430,150</u>	<u>418,918,680</u>	<u>37,511,470</u>
Budgetary fund balances, June 30	<u>\$ 113,938,464</u>	<u>\$ 78,166,946</u>	<u>\$ 186,875,935</u>	<u>\$ 108,708,989</u>

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

Sources/inflows of resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement \$ 454,997,162

Differences - budget to GAAP:

 Transfers from other funds and inceptions of capital leases are inflows of budgetary resources but are not revenues for financial reporting purposes. (22,952,292)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 432,044,870

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement \$ 418,918,680

Differences - budget to GAAP:

 Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes. (13,514,104)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 405,404,576

COUNTY OF MARIN

Note to Required Supplementary Information For the Fiscal Year Ended June 30, 2006

BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

The amounts reported in the budgetary basis equal the amounts in basic financial statements in accordance with generally accepted accounting principles (GAAP). Annual budgets are prepared on the modified accrual basis of accounting. Variances between final budget and actual amounts in the budgetary comparison schedules result mainly from revenues and expenditures in trust funds that are not budgeted, but are reflected in actual amounts.