

**COUNTY OF MARIN**

**AUDIT REPORT**

**JUNE 30, 2004**

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

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A Professional Corporation

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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, 2004, which collectively comprise the County's 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 .83 percent and .39 percent, respectively, of the assets and revenues of the County of Marin. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it related to the amounts included for the Marin County Redevelopment Agency, is based on the report of the other auditors.

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

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, 2004, and the respective changes in financial position and cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 and Note 7, the County adopted the positions of GASB Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*.

To the Board of Supervisors  
County of Marin

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated October 14, 2004, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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) and the budgetary comparison information are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BARTIG, BASLER & RAY, CPAs, INC.

*Bartig, Basler & Ray, CPAs, Inc.*

October 14, 2004  
Roseville, California

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004

In this section of the County of Marin (County) annual financial report, County management discusses financial results for the fiscal year ended June 30, 2004, and certain financial events subsequent to that date. It should be read in conjunction with the County's financial statements following this section. All dollar amounts are expressed **in thousands** in the text and tables unless otherwise indicated.

### I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of fiscal year 03-04 by \$1,388,511. The unrestricted portion of these net assets has a negative balance of \$70,180 due mainly to the restatement of the County's tobacco securitization assets and long term debt as required by GASB Technical Bulletin 2004-1. In particular, the restatement requires the inclusion of the Golden Gate Tobacco Funding Corporation debt service fund in the fund statements and the addition of tobacco settlement bonds payable of \$33,552 in the Government-Wide Statement of Activities. The County also reevaluated its calculation of restricted net assets to comply with definitions of net asset types as described in GASB Statement No. 34. Additional information on the County's net assets/fund balances and other restatements can be found in Note 7, paragraph B, of this report.
- At the end of fiscal year 03-04, unreserved/undesignated fund balance of the General Fund was \$45,016, or 13% of total general fund expenditures. This represents a decrease of \$10,565 over the prior fiscal year and is due primarily to fund reclassifications from the General Fund to fiduciary trust and agency funds as required by GASB statement 34.
- The County also set aside \$9,421 as a designation of fund balance in the general fund for State budget funding uncertainties, an increase of \$4,344 over last fiscal year.
- The County's total long-term obligations shown under the Government-Wide Statement of Net Assets increased by \$28,612 during the fiscal year compared with prior year. The increase is due mainly to the addition of tobacco settlement bonds payable required by GASB starting FY 03-04. See bullet #1 above.

### II. OVERVIEW OF THE FINANCIAL STATEMENTS

#### A. New Financial Report Model

The County of Marin has adopted a new financial reporting model that is designed to demonstrate government accountability by presenting both a long-term and a near-term view of its finances. This model is prescribed by Statement Number 34 of the Government Accounting Standard Board (GASB 34). This model is comprised of three parts: 1) Management Discussion and Analysis which provides the financial highlights; 2) The County's basic financial statements, which consist of the Government-Wide financial statements; the Fund financial statements and the Notes to the financial statements; 3) Required Supplementary Information.

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004

### **B. Government-Wide Financial Statements**

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

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

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

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

Certain component units such as the County community service districts, flood control zones areas, 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.

### **C. Fund Financial Statements**

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

**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

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2004

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

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

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

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

#### **D. Notes to the Financial Statements**

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

#### **E. Required Supplementary Information**

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

### **III. FINANCIAL ANALYSIS COUNTY-WIDE**

This is the third year that the County has applied GASB Statement No. 34. The County has restated prior periods for purposes of providing comparative data on the countywide level. Hereunder is the comparative analysis of government-wide data for fiscal year 2003-04.

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004

### Condensed Statement of Net Assets June 30, 2004 (in thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2004	2003	2004	2003	2004	2003	
<b>Assets:</b>							
Current and other assets	\$ 220,297	\$ 247,440	\$ 1,316	\$ 1,122	\$ 221,613	\$ 248,562	-10.84%
Capital assets, net	1,423,512	1,438,090	6,745	6,884	1,430,257	1,444,974	-1.02%
Total assets	1,643,809	1,685,530	8,061	8,006	1,651,870	1,693,536	-2.46%
<b>Liabilities:</b>							
Current and other liabilities	54,475	73,569	470	410	54,945	73,979	-25.73%
Noncurrent liabilities	208,194	179,877	220	269	208,414	180,146	15.69%
Total liabilities	262,669	253,446	690	679	263,359	254,125	3.63%
<b>Net Assets:</b>							
Invested in capital assets, net of related debt	1,369,858	1,380,299	6,483	6,625	1,376,341	1,386,924	-0.76%
Restricted	82,349	80,476	--	--	82,349	80,476	2.33%
Unrestricted	(71,068)	(28,691) <sup>1)</sup>	888	702	(70,180)	(27,989)	150.74%
Total net assets	\$ 1,381,139	\$ 1,432,084	\$ 7,371	\$ 7,327	\$ 1,388,510	\$ 1,439,411	-3.54%

<sup>1</sup> Restricted and unrestricted net assets restated for 2003 for comparative purposes.

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

Restricted net assets represent resources that are subject to external restrictions on how they may be used. Restricted net assets increased by 2% during the current fiscal year. Unrestricted net assets decreased by \$42,191 primarily as a result of the adoption of the provisions of GASB Technical Bulletin 2004-1, which decreased net assets by \$27,248 at the beginning of the fiscal year.

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004

### Change in Net Assets Fiscal Year Ended June 30, 2004 (in thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2004	2003	2004	2003	2004	2003	
Revenues:							
Program revenues:							
Charges for services	\$ 33,065	\$ 32,699	\$ 2,080	\$ 1,958	\$ 35,145	\$ 34,657	1.41%
Operating grants and contributions	173,012	226,660	--	--	173,012	226,660	-23.67%
Capital grants and contributions	774	--	--	--	774	--	100.00%
General revenues:							
Property taxes	89,010	98,176	--	--	89,010	98,176	-9.34%
Sales and use taxes	3,300	3,744	--	--	3,300	3,744	-11.86%
Other taxes	20,931	3,865	--	--	20,931	3,865	441.55%
Interest and investment earnings	5,453	6,814	--	--	5,453	6,814	-19.97%
Other revenue	37,289	39,767	--	--	37,289	39,767	-6.23%
Total revenues	362,834	411,725	2,080	1,958	364,914	413,683	-11.79%
Expenses:							
General government	72,130	62,335	--	--	72,130	62,335	15.71%
Public protection	122,909	118,421	--	--	122,909	118,421	3.79%
Public ways and facilities	16,136	27,726	--	--	16,136	27,726	-41.80%
Health and sanitation	88,972	101,594	--	--	88,972	101,594	-12.42%
Public assistance	50,485	75,733	--	--	50,485	75,733	-33.34%
Education	660	651	--	--	660	651	1.38%
Recreation and culture services	16,384	17,066	--	--	16,384	17,066	-4.00%
Interest on long-term debt	11,327	3,167	--	--	11,327	3,167	257.66%
Airport	--	--	544	246	544	246	121.14%
Marin County Fair	--	--	1,590	1,668	1,590	1,668	-4.68%
Total expenses	379,003	406,693	2,134	1,914	381,137	408,607	-6.72%
Change in net assets before transfers and special items	(16,169)	5,032	(54)	44	(16,223)	5,076	-419.58%
Tobacco tax securitization proceeds	--	27,171	--	--	--	27,171	-100.00%
Pension plan contribution	--	(109,826)	--	--	--	(109,826)	-100.00%
Transfers	(56)	(198)	56	198	--	--	0.00%
Change in net assets	(16,225)	(77,821)	2	242	(16,223)	(77,579)	-79.09%
Net assets, beginning	1,432,084	1,511,901	7,327	4,045	1,439,411	1,515,946	-5.05%
Fund reclassification	--	(277)	--	277	--	--	
Prior period adjustment	(34,720)	(1,719)	42	2,763	(34,678)	1,044	-3421.65%
Net assets, beginning as restated	1,397,364	1,509,905	7,369	7,085	1,404,733	1,516,990	-7.40%
Net assets, ending	\$ 1,381,139	\$ 1,432,084	\$ 7,371	\$ 7,327	\$ 1,388,510	\$ 1,439,411	-3.54%

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004

### 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, 2004, the County's governmental funds reported combined ending fund balance of \$180,723, a net decrease of \$1,894 in comparison with the prior fiscal year. Of the increase, \$26,267 represents fund balance designated by management for future expenditures, \$4,995 represents fund balance designated for future construction projects, \$4,344 is the increase in the amount set aside for State funding uncertainties and \$2,591 is the increase in the amount designated for debt service payments. Fiscal year 03-04 is the first year the County started paying Pension Obligation Bond (POB) semi-annual interest. 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 (\$502), (2) to liquidate contractual commitments (encumbrances) of the prior period (\$6,877), (3) to provide funds to various Community Service Districts (Permanent Road Divisions) to spend for local capital projects (\$121), (4) to convert fiduciary trust funds to governmental funds (\$18,909), as required under GASB 34, (5) to reflect a self-insurance reserve established by the Board of Supervisors (\$15,595), (6) to reflect a reserve for tax losses under the Teeter Plan (\$1,632) and (7) County's prepayment to Marin Humane Society made in June which is due in July 2004 (\$199).

The general fund is the main operating fund of the County. At June 30, 2004, unreserved and undesignated fund balance of the general fund was \$45,016, while total fund balance reached \$120,188. As measures of the general fund's liquidity, it is useful to note that unreserved and undesignated fund balance represents 13% percent of total fund expenditures, while total fund balance represents 37% of that same amount.

Revenues for government functions totaled \$362,660 in fiscal year 2003-04, which represents a decrease of 12% from fiscal year 2002-03.

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, 2004

#### County of Marin Revenues in the Governmental Funds For the Year Ended June 30, 2004 (in \$'s)

	FY 2004		FY 2003		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
Taxes	\$ 113,240,584	31.23%	\$ 105,785,185	25.78%	\$ 7,455,399	7.05%
Licenses and permits	8,503,673	2.34%	8,823,090	2.15%	(319,417)	-3.62%
Intergovernmental revenues	173,786,404	47.92%	226,669,863	55.24%	(52,883,459)	-23.33%
Charges for services	15,536,892	4.28%	15,439,291	3.76%	97,601	0.63%
Fines and forfeits	9,020,909	2.49%	7,320,999	1.78%	1,699,910	23.22%
From use of money and property	5,282,274	1.46%	6,547,280	1.60%	(1,265,006)	-19.32%
Miscellaneous	37,289,448	10.28%	39,766,776	9.69%	(2,477,328)	-6.23%
Total Revenues	\$ 362,660,184	100.00%	\$ 410,352,484	100.00%	\$ (47,692,300)	-11.62%

Significant changes for major revenue sources are explained below:

- Taxes – Property tax revenues including transfer taxes continue to benefit from a robust housing market. Property values are consistently on the upward trend increasing County revenues from property and transfer taxes by \$5,285 compared with prior year. Under GASB 34 requirements, revenues previously included in trust funds until distributed are now recognized as tax revenue when received. Likewise, the County's receipts from funds not required to meet Education Revenue Augmentation Fund (ERAF) obligations has increased by approximately \$1,446 compared to the prior year.
- Intergovernmental revenues – Federal and State revenues collected by the County in FY 03-04 decreased compared to its revenues from prior year. State motor vehicle in lieu fees decreased \$4,226, sales tax realignment, federal CALWORKS, HOPWA and other federal grants also decreased. Road fund State grants for various transportation programs and traffic congestion relief also decreased as these projects are completed in FY 03-04. The decrease in revenue also resulted from prior period adjustments recorded to reclassify funds previously considered as General Fund required by GASB statement 34 which are now classified as Fiduciary Trust funds.
- Fees, Fines and Forfeitures – Compared with FY 02-03, the distribution of the FY 03-04 proceeds of Tax Loss Reserve to the General fund per Revenue and Taxation Code 4703.2 increased by \$1,792. The increase in property values also accounted for the increase in tax loss reserve.
- From Use of Money & Property – Interest income from quarterly interests apportionments to the governmental funds decreased by approximately \$754 due mainly to the continuing decline in interest rates (from 2.10% as of 6/30/2003 to 1.63% on 6/30/2004). Rental income for County-owned buildings also decreased by \$146 compared to prior year.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2004

- Miscellaneous Revenue – the reduction in miscellaneous revenue is almost entirely due to the one time booking of the proceeds of tobacco settlement revenues collected by the County on 4/18/2003 amounting to \$2,145.

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

County of Marin						
Expenditures in the Governmental Funds						
(in \$'s)						
	FY 2004		FY 2003		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
General government	\$ 63,881,499	17.58%	\$ 59,245,720	14.57%	\$ 4,635,779	7.82%
Public protection	119,367,678	32.85%	117,299,939	28.84%	2,067,739	1.76%
Public ways	6,673,242	1.84%	19,609,547	4.82%	(12,936,305)	-65.97%
Health & sanitation facilities	88,454,434	24.35%	101,207,024	24.88%	(12,752,590)	-12.60%
Public assistance	50,272,031	13.84%	75,614,346	18.59%	(25,342,315)	-33.52%
Education	536,861	0.15%	769,929	0.19%	(233,068)	-30.27%
Recreation and cultural services	15,811,829	4.35%	16,408,976	4.03%	(597,147)	-3.64%
Capital outlay	5,585,552	1.54%	10,706,453	2.63%	(5,120,901)	-47.83%
Debt -principal expense	3,398,728	0.94%	2,355,000	0.58%	1,043,728	44.32%
Debt - interest expense	9,339,828	2.57%	2,461,163	0.61%	6,878,665	279.49%
Debt - bond issue costs	--	0.00%	1,052,780	0.26%	(1,052,780)	-100.00%
Total	<u>\$ 363,321,682</u>	<u>100.00%</u>	<u>\$ 406,730,877</u>	<u>100.00%</u>	<u>\$ (43,409,195)</u>	<u>39.57%</u>

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

General Government – The increase in general government expenditures is due mainly to the charging of a portion of the County's pension obligation bond (POB) debt service interest payments to various departments starting on the 7/25/2003 payroll. In addition to the normal cost of retirement already charged to the departments, general and special revenue fund departments with miscellaneous and safety employees were charged 3.10% and 7.02% POB interest, respectively. The total amount charged for FY 03-04 is \$4,622. The County will start charging the principal portion of the debt service when they start paying it in FY 08-09.

Transportation (Public ways) – The costs for the Department of Public Works road division contracts and outside services decreased by \$2,214 compared to prior year as road projects are completed in FY 03-04. Their White Hill slide road repair project was completed and capitalized on 6/30/2004 with actual cost amounting to \$6,169.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2004

Capital Outlay – A number of major capital projects were finally completed in FY 03-04 resulting in the decrease of capital outlay costs as shown on the table of expenditures in the Governmental Funds on the previous page. The Hall of Justice seismic retrofit project was completed on 7/1/2003 resulting in a decrease of \$1,245 over last year. The major improvement of 120 North Redwood building costs dropped by \$2,496 after project was completed in FY02-03. The Civic Center cooling tower and the Hall of Justice Light well repair projects decreased the capital outlay cost by \$845 as these projects near its completion in FY03-04.

Debt–Principal expense – Debt service payment for Certificate of Participation (COP) principal increased when the County started paying its 2001 COP for the acquisition of 120 North Redwood building on 7/15/2003. The scheduled annual principal payment for this COP will end on 7/15/2031.

Debt–Interest payment – Debt service payment for 2001 COP interest was paid on 7/15/2003. This increased the interest expense by \$678. Likewise, the semi-annual interest for the 2003 Pension Obligation Bond (POB) was paid for the first time on 8/1/2003 amounting to \$4,117. The scheduled semi-annual interest for POB will end on 8/1/2026.

Bond Issue cost – There is no new bond issuance in FY 03-04 resulting to a decrease of \$1,053 compared with last year.

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

## V. GENERAL FUND BUDGETARY HIGHLIGHTS

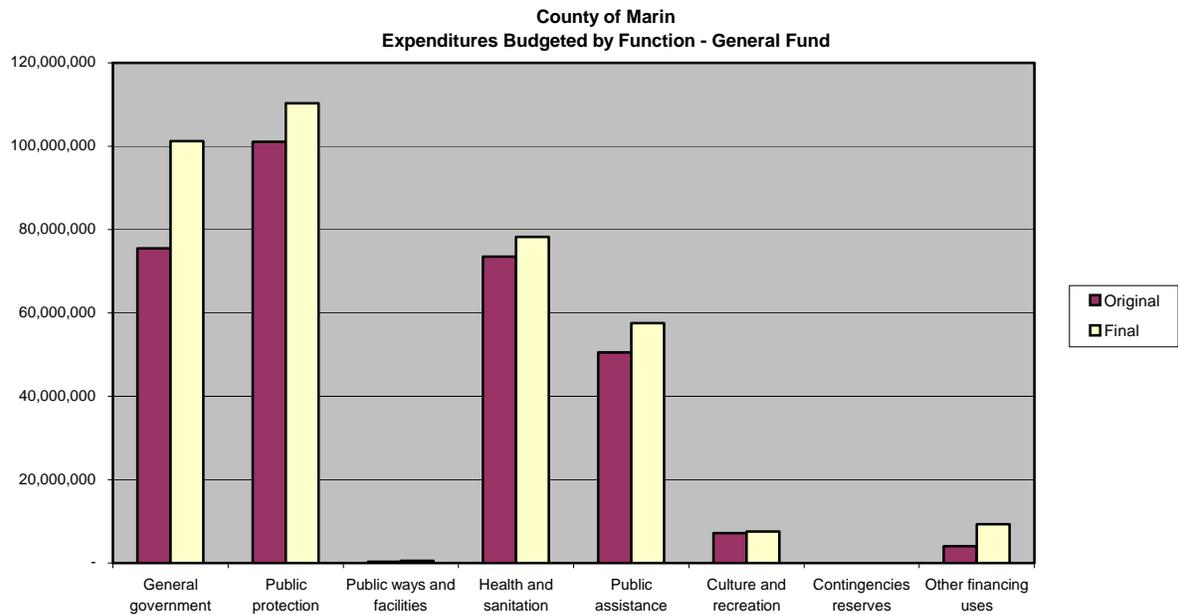
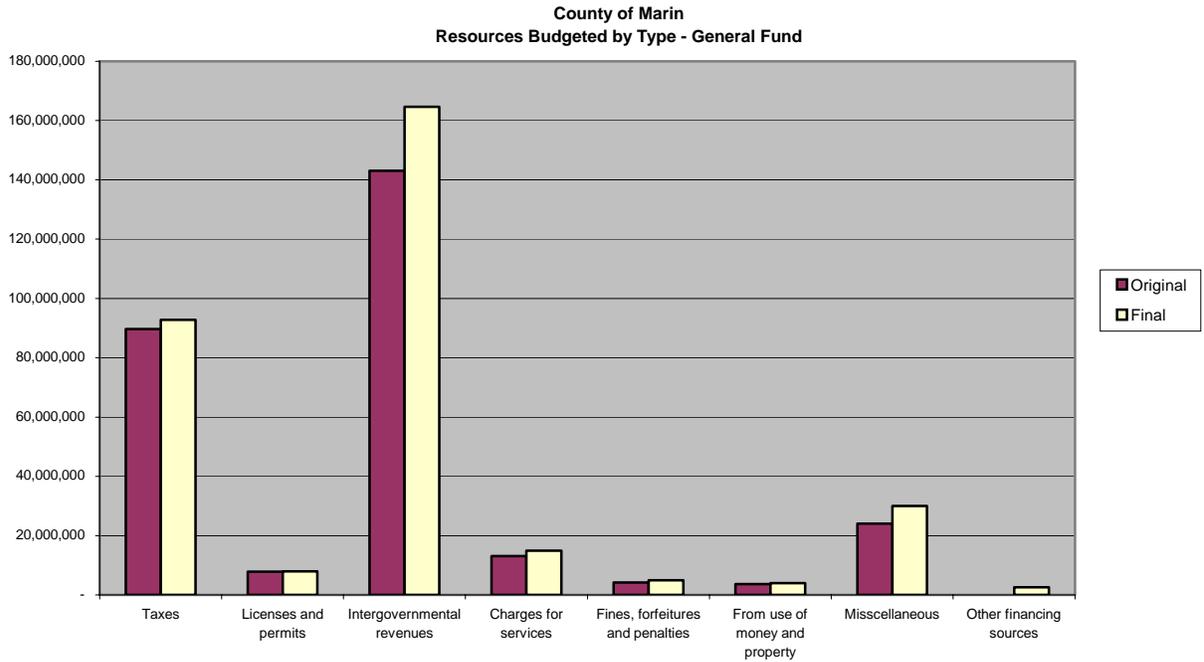
During the year, actual general fund revenues exceeded final revenue budget estimates by \$8,417. Actual receipts of the 114 fiduciary funds were reclassified as revenues of the governmental funds as required by GASB 34. Final budgeted general fund expenditures exceeded actual general fund expenditures by \$33,031.

Resources (revenues) and appropriations (expenditures) represent the legal level of budgetary controls. In fiscal year 03-04, the final budgeted revenue of the general fund is \$321,933. This is \$36,243 or 12.69% higher than the original budget of \$285,690. The final budgeted appropriation for the General Fund was \$364,723 or \$52,578 or 16.84% higher than the original budget of \$312,145.

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

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004



## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2004

#### VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

##### A. Capital Assets

The County's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$1,430,257,650 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment and general infrastructure (roads, bridges, and flood control network and sewage systems).

The net decrease in the County's investments in capital assets for the current period is \$14,716 due mainly to the adoption and approval by the County's Board of Supervisors of the new capital asset control and capitalization policy on July 14, 2003. The new Marin County ordinance #3375 and administrative regulation #4.1, specifically increases the minimum amount for the capitalization of capital assets from \$1,000 to \$5,000.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures. This is another reason why the County's investment in capital assets decreased in FY 03-04 compared with FY 02-03.

The following chart provides a comparison of County's capital assets net of accumulated depreciation in fiscal year 03-04 compared with fiscal year 02-03.

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

	Governmental Activities		Business Type Activities		Total		Change Inc (Dec)
	2004	2003	2004	2003	2004	2003	
Land and infrastructure land	\$ 1,216,949	\$ 1,216,966	\$ 3,542	\$ 3,909	\$ 1,220,491	\$ 1,220,875	\$ (384)
Structures & improvements	90,234	66,858	1,856	2,884	92,090	69,742	22,348
Equipment	9,836	14,947	77	91	9,913	15,038	(5,125)
Infrastructure	98,384	101,637	--	--	98,384	101,637	(3,253)
Land Improvement	--	--	836	--	836	--	836
Construction in progress	8,109	37,682	435	--	8,544	37,682	(29,138)
<b>Total</b>	<b>\$ 1,423,512</b>	<b>\$ 1,438,090</b>	<b>\$ 6,746</b>	<b>\$ 6,884</b>	<b>\$ 1,430,258</b>	<b>\$ 1,444,974</b>	<b>\$ (14,716)</b>

Additional information regarding capital assets can be found in Note 4 on page 41.

##### B. Long-Term Debt

At June 30, 2004, the County had total long-term debt outstanding of \$222,166 consisting of \$158,164 bonds payable, \$50,300 in outstanding certificate of participation, \$3,617 in capitalized lease obligations and \$10,085 compensated absences payable.

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

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2004

### **VII. Economic Factors and FY 2004-05 Budget**

The County budget for fiscal year 2004-05 is overshadowed by uncertainties surrounding the resolution of the State budget crisis. Although the County budget is balanced, there is risk of revenue reductions from State sources during the next and future fiscal years. Consequently, the County developed budget goals that address those risks, in particular by developing contingency plans for possible reductions in State revenues. In addition to contingency planning, the County has designated \$9,421 in General Fund balance to address State budget funding uncertainties.

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

All of these factors were considered in preparing the County's budget for the fiscal year 2004-05.

### **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

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

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## COUNTY OF MARIN

### Statement of Net Assets June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments in County pool	\$ 148,105,267	\$ 564,783	\$ 148,670,050
Receivables:			
Accounts and other - net	311,062	34,602	345,664
Interest	1,179,435	1,734	1,181,169
Taxes	11,463,711	--	11,463,711
Due from other agencies	20,753,070	--	20,753,070
Loans	730,348	--	730,348
Inventories	501,983	--	501,983
Prepaid items and other assets	199,435	869,087	1,068,522
Internal balances	154,126	(154,126)	--
Restricted cash held with trustee	35,074,730	--	35,074,730
Deferred fiscal charges	1,823,464	--	1,823,464
Capital assets:			
Nondepreciable	1,225,056,999	3,976,298	1,229,033,297
Depreciable, net	198,454,988	2,769,365	201,224,353
<b>Total assets</b>	<b>\$ 1,643,808,618</b>	<b>\$ 8,061,743</b>	<b>\$ 1,651,870,361</b>
<b>LIABILITIES</b>			
Vouchers and accounts payable	\$ 7,087,412	\$ 17,282	\$ 7,104,694
Salaries and benefits payable	5,597,913	7,366	5,605,279
Accrued interest payable	4,981,628	1,023	4,982,651
Deferred revenues	6,682,315	376,470	7,058,785
Estimated claims	16,442,461	--	16,442,461
Compensated absences:			
Due within one year	8,644,384	17,560	8,661,944
Due beyond one year	1,415,172	7,607	1,422,779
Long-term liabilities:			
Due within one year	5,039,324	50,324	5,089,648
Due beyond one year	206,778,744	212,746	206,991,490
<b>Total liabilities</b>	<b>262,669,353</b>	<b>690,378</b>	<b>263,359,731</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,369,858,192	6,482,593	1,376,340,785
Restricted	82,349,488	--	82,349,488
Unrestricted	(71,068,415)	888,772	(70,179,643)
<b>Total net assets</b>	<b>1,381,139,265</b>	<b>7,371,365</b>	<b>1,388,510,630</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,643,808,618</b>	<b>\$ 8,061,743</b>	<b>\$ 1,651,870,361</b>

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

**COUNTY OF MARIN**

Statement of Activities  
For the Year Ended June 30, 2004

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<u>Functions/Programs</u>				
<b>Primary Government</b>				
Governmental Activities:				
General government	\$ 72,130,131	\$ 14,922,987	\$ 15,717,772	\$ 233,120
Public protection	122,909,289	12,015,877	40,102,157	54,292
Public ways and facilities	16,135,911	20,937	5,515,890	--
Health and sanitation	88,972,261	4,644,017	68,542,135	--
Public assistance	50,485,261	193,321	42,693,336	--
Education	660,288	11,575	--	--
Recreation and culture services	16,383,912	1,256,038	440,855	486,847
Debt Service:				
Interest and fiscal charges	11,326,408	--	--	--
Total governmental activities	<u>379,003,461</u>	<u>33,064,752</u>	<u>173,012,145</u>	<u>774,259</u>
Business-Type Activities:				
Airport	544,024	614,294	--	--
Marin County Fair	1,590,404	1,466,071	--	--
Total business-type activities	<u>2,134,428</u>	<u>2,080,365</u>	<u>--</u>	<u>--</u>
Total primary government	<u>\$ 381,137,889</u>	<u>\$ 35,145,117</u>	<u>\$ 173,012,145</u>	<u>\$ 774,259</u>

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

Change in net assets

Net assets, beginning of year  
Prior period adjustments  
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
\$ (41,256,252)	\$ --	\$ (41,256,252)
(70,736,963)	--	(70,736,963)
(10,599,084)	--	(10,599,084)
(15,786,109)	--	(15,786,109)
(7,598,604)	--	(7,598,604)
(648,713)	--	(648,713)
(14,200,172)	--	(14,200,172)
<u>(11,326,408)</u>	<u>--</u>	<u>(11,326,408)</u>
<u>(172,152,305)</u>	<u>--</u>	<u>(172,152,305)</u>
--	70,270	70,270
--	(124,333)	(124,333)
<u>--</u>	<u>(54,063)</u>	<u>(54,063)</u>
<u>\$ (172,152,305)</u>	<u>\$ (54,063)</u>	<u>\$ (172,206,368)</u>
\$ 89,009,662	\$ --	\$ 89,009,662
3,300,049	--	3,300,049
20,930,873	--	20,930,873
5,452,762	--	5,452,762
37,289,448	--	37,289,448
(56,113)	56,113	--
<u>155,926,681</u>	<u>56,113</u>	<u>155,982,794</u>
(16,225,624)	2,050	(16,223,574)
1,432,084,456	7,327,055	1,439,411,511
(34,719,567)	42,260	(34,677,307)
<u>\$ 1,381,139,265</u>	<u>\$ 7,371,365</u>	<u>\$ 1,388,510,630</u>

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

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**BASIC FINANCIAL STATEMENTS –  
FUND FINANCIAL STATEMENTS**

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# COUNTY OF MARIN

## Balance Sheet Governmental Funds June 30, 2004

	General	Capital Projects	Other Governmental Funds	Total
<b><u>ASSETS</u></b>				
Cash and investments in County pool	\$ 79,864,595	\$ 27,261,221	\$ 26,315,974	\$ 133,441,790
Cash with fiscal agent	27,624,844	941,394	6,448,834	35,015,072
Receivables:				
Taxes	11,289,881	--	173,830	11,463,711
Interest	885,731	82,778	130,928	1,099,437
Other	310,602	--	460	311,062
Loans receivable	500,000	230,348	--	730,348
Due from other funds	166,888	--	--	166,888
Due from other governmental agencies	20,503,213	33,587	216,270	20,753,070
Advances to other funds	121,379	--	--	121,379
Prepaid expenses	199,435	--	--	199,435
Inventory of supplies	331,263	--	170,720	501,983
	<u>\$ 141,797,831</u>	<u>\$ 28,549,328</u>	<u>\$ 33,457,016</u>	<u>\$ 203,804,175</u>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 6,134,371	\$ 347,381	\$ 502,252	\$ 6,984,004
Estimated general liability claims	3,680,000	--	--	3,680,000
Accrued salaries and benefits	5,314,098	--	283,815	5,597,913
Advances payable	--	--	121,379	121,379
Due to other funds	16,040	--	--	16,040
Deferred revenue	6,465,285	--	217,030	6,682,315
Total liabilities	<u>21,609,794</u>	<u>347,381</u>	<u>1,124,476</u>	<u>23,081,651</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	5,100,881	993,291	782,754	6,876,926
Prepaid expenses	199,435	--	--	199,435
Advances to other funds	121,379	--	--	121,379
Inventories	331,263	--	170,720	501,983
Self-insurance	15,594,648	--	--	15,594,648
Special programs	18,909,440	--	--	18,909,440
Tax losses	1,632,037	--	--	1,632,037
Unreserved:				
Designated:				
Contingencies	25,000	--	--	25,000
Future construction projects	--	4,995,010	--	4,995,010
Subsequent expenditures	23,836,540	2,226,618	203,483	26,266,641
State funding uncertainties	9,421,230	--	--	9,421,230
Debt service	--	--	3,294,895	3,294,895
Undesignated	45,016,184	19,987,028	27,880,688	92,883,900
Total fund balances	<u>120,188,037</u>	<u>28,201,947</u>	<u>32,332,540</u>	<u>180,722,524</u>
	<u>\$ 141,797,831</u>	<u>\$ 28,549,328</u>	<u>\$ 33,457,016</u>	<u>\$ 203,804,175</u>
Total liabilities and fund balances	<u>\$ 141,797,831</u>	<u>\$ 28,549,328</u>	<u>\$ 33,457,016</u>	<u>\$ 203,804,175</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, 2004

Fund Balance - total governmental funds (page 18) \$ 180,722,524

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

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

Land	\$ 1,216,948,901	
Construction in progress	8,108,098	
Infrastructure, net of accumulated depreciation	98,384,109	
Buildings and improvements, net of accumulated depreciation	90,234,419	
Equipment, net of accumulated depreciation	9,836,460	
Total capital assets		1,423,511,987

Assets used in Governmental Activities are not financial resources and,  
therefore, are not reported in the Governmental Funds. 1,823,464

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. 14,703,003

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	(208,464,273)	
Capital leases	(3,353,795)	
Accrued interest on long-term debt	(4,981,628)	
Compensated absences	(10,059,556)	
Claims and judgments	(12,762,461)	
Total long-term liabilities		(239,621,713)

Net assets of governmental activities (page 15) \$ 1,381,139,265

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, 2004

	General	Capital Projects	Other Governmental Funds	Total
<b>Revenues:</b>				
Taxes	\$ 94,364,351	\$ --	\$ 18,876,233	\$ 113,240,584
Licenses and permits	8,503,673	--	--	8,503,673
Intergovernmental revenues	167,040,563	774,259	5,971,582	173,786,404
Charges for services	15,175,477	--	361,415	15,536,892
Fines and forfeits	8,013,836	997,046	10,027	9,020,909
From use of money and property	4,582,856	316,634	382,784	5,282,274
Miscellaneous	30,022,520	1,817,840	5,449,088	37,289,448
Total revenues	<u>327,703,276</u>	<u>3,905,779</u>	<u>31,051,129</u>	<u>362,660,184</u>
<b>Expenditures:</b>				
Current:				
General government	63,337,403	481,335	62,761	63,881,499
Public safety	109,021,866	--	10,345,812	119,367,678
Transportation	120,329	--	6,552,913	6,673,242
Health	88,454,434	--	--	88,454,434
Welfare	50,272,031	--	--	50,272,031
Education	--	--	536,861	536,861
Culture and recreation	6,865,407	--	8,946,422	15,811,829
Capital outlay	--	5,585,552	--	5,585,552
Debt Service:				
Principal	88,895	2,515,000	794,833	3,398,728
Interest	4,247,765	2,368,234	2,723,829	9,339,828
Total expenditures	<u>322,408,130</u>	<u>10,950,121</u>	<u>29,963,431</u>	<u>363,321,682</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,295,146</u>	<u>(7,044,342)</u>	<u>1,087,698</u>	<u>(661,498)</u>
Other Financing Sources (Uses):				
Inception of capital lease	56,276	--	--	56,276
Transfers in	2,590,475	9,286,884	1,771,388	13,648,747
Transfers out	(9,283,904)	(2,502,012)	(1,918,944)	(13,704,860)
Total other financing sources (uses)	<u>(6,637,153)</u>	<u>6,784,872</u>	<u>(147,556)</u>	<u>163</u>
Net change in fund balances	<u>(1,342,007)</u>	<u>(259,470)</u>	<u>940,142</u>	<u>(661,335)</u>
Fund balances, beginning of year	129,066,198	28,461,417	25,088,698	182,616,313
Prior period adjustment	(7,536,154)	--	6,303,700	(1,232,454)
Fund balances, beginning of year - restated	<u>121,530,044</u>	<u>28,461,417</u>	<u>31,392,398</u>	<u>181,383,859</u>
Fund balances, end of year	<u>\$ 120,188,037</u>	<u>\$ 28,201,947</u>	<u>\$ 32,332,540</u>	<u>\$ 180,722,524</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, 2004

Net change to fund balance - total governmental funds (page 20)	\$	(661,335)
<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	\$ 3,798,746	
Less: current year depreciation	<u>(18,377,184)</u>	(14,578,438)
<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>		
Deferral of bond issue costs	\$ (64,803)	
Amortization of bond discount	(22,088)	
Repayment of bonds, certificates of participation, and notes	<u>3,290,107</u>	
Net adjustment		3,203,216
<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 lease	(56,276)	
Repayment of capital lease obligations	<u>1,484,295</u>	
Net adjustment		1,428,019
<p>Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.</p>		
Compensated absences	(525,593)	
Accrued interest on long-term debt	<u>(1,899,689)</u>	
Net adjustment		(2,425,282)
<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>(3,191,804)</u>
Change in net assets of governmental activities (page 17)	\$	<u><u>(16,225,624)</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, 2004

	Business-Type Activities			Governmental
	Airport	Nonmajor		Activities
		Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>				
Current Assets:				
Cash and investments in County pool	\$ 564,783	\$ --	\$ 564,783	\$ 14,663,477
Cash held with trustee	--	--	--	59,658
Receivables:				
Accounts	34,602	--	34,602	--
Accrued interest	--	1,734	1,734	79,998
Prepaid items and other assets	--	869,087	869,087	--
Due from other funds	--	16,040	16,040	--
Total current assets	<u>599,385</u>	<u>886,861</u>	<u>1,486,246</u>	<u>14,803,133</u>
Noncurrent Assets:				
Capital assets:				
Nondepreciable	2,198,639	1,777,659	3,976,298	--
Depreciable, net	<u>1,187,730</u>	<u>1,581,635</u>	<u>2,769,365</u>	--
Total noncurrent assets	<u>3,386,369</u>	<u>3,359,294</u>	<u>6,745,663</u>	--
<b>Total assets</b>	<u>\$ 3,985,754</u>	<u>\$ 4,246,155</u>	<u>\$ 8,231,909</u>	<u>\$ 14,803,133</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Vouchers and accounts payable	\$ 3,554	\$ 13,728	\$ 17,282	\$ 103,408
Interest payable	1,023	--	1,023	--
Accrued salaries and benefits	7,366	--	7,366	--
Deferred revenues	--	376,470	376,470	--
Due to other funds	--	166,888	166,888	--
Capital leases	50,324	--	50,324	--
Compensated absences	17,560	--	17,560	--
Total current liabilities	<u>79,827</u>	<u>557,086</u>	<u>636,913</u>	<u>103,408</u>
Long-Term Liabilities:				
Compensated absences	7,607	--	7,607	--
Capital leases	212,746	--	212,746	--
Estimated claims	--	--	--	12,762,461
Total noncurrent liabilities	<u>220,353</u>	<u>--</u>	<u>220,353</u>	<u>12,762,461</u>
Total liabilities	<u>300,180</u>	<u>557,086</u>	<u>857,266</u>	<u>12,865,869</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,123,299	3,359,294	6,482,593	--
Unrestricted	<u>562,275</u>	<u>329,775</u>	<u>892,050</u>	<u>1,937,264</u>
Total net assets	<u>3,685,574</u>	<u>3,689,069</u>	<u>7,374,643</u>	<u>1,937,264</u>
<b>Total liabilities and net assets</b>	<u>\$ 3,985,754</u>	<u>\$ 4,246,155</u>		<u>\$ 14,803,133</u>

Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.

Net assets of business-type activities (3,278)

\$ 7,371,365

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

## COUNTY OF MARIN

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

	Business-Type Activities			Governmental Activities
	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>Operating Revenues:</b>				
Charges for services	\$ 614,294	\$ 1,466,071	\$ 2,080,365	\$ 4,791,177
Total operating revenues	614,294	1,466,071	2,080,365	4,791,177
<b>Operating Expenses:</b>				
Salaries and employee benefits	160,951	--	160,951	--
Services and supplies	300,272	1,494,738	1,795,010	--
Claims expense	--	--	--	8,156,747
Depreciation	127,526	95,554	223,080	--
Total operating expenses	588,749	1,590,292	2,179,041	8,156,747
<b>Operating Income (Loss)</b>	25,545	(124,221)	(98,676)	(3,365,570)
Non-Operating Revenues (Expenses):				
Miscellaneous expense	(16,652)	--	(16,652)	--
Investment income	--	--	--	170,488
Interest expense	(12,979)	--	(12,979)	--
Total non-operating revenues (expenses)	(29,631)	--	(29,631)	170,488
<b>Income (Loss) Before Capital Contributions and Transfers</b>	(4,086)	(124,221)	(128,307)	(3,195,082)
Capital contributions	77,522	--	77,522	--
Transfers in	56,434	--	56,434	--
Transfers out	--	(321)	(321)	--
<b>Change in net assets</b>	129,870	(124,542)	5,328	(3,195,082)
Net assets, beginning of year	3,555,704	3,771,351		5,132,346
Prior period adjustment	--	42,260		--
Net assets, beginning of year - restated	3,555,704	3,813,611		5,132,346
Net assets, end of year	\$ 3,685,574	\$ 3,689,069		\$ 1,937,264
Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.			(3,278)	
Change in net assets of business-type activities			\$ 2,050	

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, 2004

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
		Nonmajor Enterprise Funds	Total	Internal Service Funds
	<u>Airport</u>			
<b>Cash Flows from Operating Activities</b>				
Cash receipts from customers	\$ 589,949	\$ 1,466,071	\$ 2,056,020	\$ --
Cash receipts from internal fund services provided	--	--	--	4,791,177
Cash paid to suppliers for goods and services	(303,585)	(1,327,697)	(1,631,282)	(4,257,608)
Cash paid to employee's for salaries and benefits	<u>(152,206)</u>	<u>--</u>	<u>(152,206)</u>	<u>--</u>
Net cash provided (used) by operating activities	<u>134,158</u>	<u>138,374</u>	<u>272,532</u>	<u>533,569</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Non-operating expenses	(16,652)	--	(16,652)	--
Cash paid to other funds	--	(124,289)	(124,289)	(486,816)
Cash received from other funds	--	(16,040)	(16,040)	--
Transfers in (out)	<u>56,434</u>	<u>(321)</u>	<u>56,113</u>	<u>--</u>
Net cash provided (used) by noncapital financing activities	<u>39,782</u>	<u>(140,650)</u>	<u>(100,868)</u>	<u>(486,816)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Principal repayments on capital lease	(43,975)	--	(43,975)	--
Interest repayments related to capital purposes	(13,251)	--	(13,251)	--
Payments related to the acquisition of capital assets	<u>(14,788)</u>	<u>--</u>	<u>(14,788)</u>	<u>--</u>
Net cash provided (used) by capital and related financing activities	<u>(72,014)</u>	<u>--</u>	<u>(72,014)</u>	<u>--</u>
<b>Cash Flows from Investing Activities</b>				
Interest received	<u>--</u>	<u>1,955</u>	<u>1,955</u>	<u>224,026</u>
Net cash provided by investing activities	<u>--</u>	<u>1,955</u>	<u>1,955</u>	<u>224,026</u>
Net increase (decrease) in cash and cash equivalents	101,926	(321)	101,605	270,779
Cash and cash equivalents, beginning of year	<u>462,857</u>	<u>321</u>	<u>463,178</u>	<u>14,452,356</u>
Cash and cash equivalents, end of year	<u>\$ 564,783</u>	<u>\$ --</u>	<u>\$ 564,783</u>	<u>\$ 14,723,135</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, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities
	Nonmajor Enterprise Funds			Internal Service Funds
	Airport	Funds	Total	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ 25,545	\$ (124,221)	\$ (98,676)	\$ (3,365,570)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	127,526	95,554	223,080	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(24,345)	--	(24,345)	--
Prepaid expenses	86	66,651	66,737	--
Increase (decrease) in:				
Accounts payable	(3,399)	(786)	(4,185)	2,260
Salaries payable	1,379	--	1,379	--
Deferred revenue	--	101,176	101,176	--
Liability for compensated absences	7,366	--	7,366	--
Liabilities for estimated claims	--	--	--	3,896,879
	<b>\$ 134,158</b>	<b>\$ 138,374</b>	<b>\$ 272,532</b>	<b>\$ 533,569</b>

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

**COUNTY OF MARIN**

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

<b>ASSETS</b>	<u>Investment Trust</u>	<u>Agency Funds</u>	<u>Total</u>
<b>Current Assets:</b>			
Cash and investments	\$ 368,951,854	\$ 65,139,000	\$ 434,090,854
Cash with fiscal agent	--	2,115,760	2,115,760
Taxes receivable	--	4,392,334	4,392,334
Interest receivable	2,001,057	236,056	2,237,113
Accounts receivable	186,892	237,090	423,982
Other assets	--	650,000	650,000
Loans receivable	598,662	2,282,000	2,880,662
Due from other governmental agencies	--	76,998	76,998
Total current assets	<u>\$ 371,738,465</u>	<u>\$ 75,129,238</u>	<u>\$ 446,867,703</u>
 <b>LIABILITIES</b>			
Accounts payable	722,238	2,174,582	2,896,820
Agency funds held for others	--	72,954,656	72,954,656
Total liabilities	<u>722,238</u>	<u>75,129,238</u>	<u>75,851,476</u>
 <b>NET ASSETS</b>			
Net assets held in trust for investment pool participants	<u>371,016,227</u>	--	<u>371,016,227</u>
Total net assets	<u>371,016,227</u>	--	<u>371,016,227</u>
<b>Total liabilities and net assets</b>	<u>\$ 371,738,465</u>	<u>\$ 75,129,238</u>	<u>\$ 446,867,703</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, 2004

**Additions:**

Contributions to investment pool	\$ 294,772,539
Interest and investment income	<u>2,001,057</u>
Total additions	<u>296,773,596</u>

**Deductions:**

Distributions from investment pool	<u>259,609,569</u>
Total deductions	<u>259,609,569</u>

Change in net assets 37,164,027

**Net assets, beginning** 333,852,200

**Net assets, ending** \$ 371,016,227

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

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

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# COUNTY OF MARIN

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

### 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, 2004

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. The total amount of interest charged to expense for the year ended June 30, 2004 was \$11,239,517. 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, 2004

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, 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, 2004

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, 2004

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, 2004

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, 2004 this amount was estimated as \$535,766.

### 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. Starting in fiscal year 2003-2004, the capital threshold has been raised from \$1,000 to \$5,000. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and the proprietary funds.

The estimated useful lives are as follows:

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

## COUNTY OF MARIN

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

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, 2004

#### Note 2: **Cash and Investments**

Cash and investments at June 30, 2004, consist of the following:

Cash and Investments in County Pool	
Pooled cash	\$ 40,479,672
Pooled investments	585,569,480
Other investments	<u>11,390,956</u>
	637,440,108
Less outstanding warrants	<u>(54,679,204)</u>
Total Cash and Investments in County Pool	582,760,904
Cash with fiscal agent	<u>37,190,490</u>
Total Cash and Investments	<u>\$ 619,951,394</u>

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

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

#### Pooled Cash and Non-Negotiable Certificates of Deposit

All pooled cash is entirely insured or collateralized. At June 30, 2004, the carrying amount of the County's bank balance was \$40,477,228 and per the bank was \$7,790,748. The difference between the carrying amount and the bank balance is due to deposits in transit, outstanding warrants and other reconciling items. The entire bank balance is collateralized by the custodial bank with pooled securities designating the County as beneficiary in case of default.

## COUNTY OF MARIN

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

#### Note 2: **Cash and Investments**

##### Pooled Cash and Non-Negotiable Certificates of Deposit (continued)

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

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

##### Authorized Investments

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

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

##### Credit Risk, Carrying Amount, and Market Value of Investments

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

## COUNTY OF MARIN

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

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

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

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

Pool	Category			Carrying Value	Fair Value	Par Value	Interest Rates
	1	2	3				
Treasury Bills	\$ 19,885,803	\$ --	\$ --	\$ 19,885,803	\$ 19,912,200	\$ 20,000,000	.98 – 1.33%
Federal Agency Securities	475,811,334	--	--	475,811,334	474,276,989	477,264,000	1.02 – 4.01
Negotiable Certificate of Deposit	20,000,000	--	--	20,000,000	19,996,574	20,000,000	1.05 – 1.45
Bankers Acceptances	17,861,841	--	--	17,861,841	17,888,393	17,901,131	1.01 – 1.08
Commercial Paper	<u>29,971,583</u>	<u>--</u>	<u>--</u>	<u>29,971,583</u>	<u>29,980,765</u>	<u>30,000,000</u>	1.03 – 1.26
	<u>\$ 563,530,561</u>	<u>\$ --</u>	<u>\$ --</u>	563,530,561	562,054,921	565,165,131	
Investments not subject to categorization:							
State of California Local Agency Investment Fund				1,907,261	1,904,179	1,907,261	
Money Market Funds				20,131,658	20,131,658	20,131,658	
Cash in Bank				40,477,228	40,477,228	40,477,228	
Cash on Hand				2,444	2,444	2,444	
<b>Non pooled investments</b>							
State of California Local Agency Investment Fund				<u>11,390,956</u>	<u>11,372,550</u>	<u>11,390,956</u>	
Total Cash and Investments				<u>\$ 637,440,108</u>	<u>\$ 635,942,980</u>	<u>\$ 639,074,678</u>	

The County adjusts its investment accounting records to "fair value" at fiscal year-end. The County's investment custodian provides market values on each investment instrument on a monthly basis. The investments held by the County are widely traded in the financial markets and trading values are readily available from numerous published sources. Unrealized gains and losses are recorded at fiscal year-end and the carrying values of its investments at fiscal year-end are considered "fair value". The County has determined that cost to fair values are not materially different (fair value is 99.77% of cost) so that no adjustments has been reported on the financial statements.

At June 30, 2004, the County had no investments in repurchase agreements. At no time during the fiscal year did the County borrow funds through the use of reverse-repurchase agreements. Such transactions are not authorized by the County's investment policy.

## COUNTY OF MARIN

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

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

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

The following are condensed statements of net assets and changes in net assets, for the County's investment pool as of June 30, 2004 and for the year then ended:

Statement of Net Assets

Net assets held for pool participants	<u>\$ 582,760,904</u>
Equity of internal pool participants	\$213,809,050
Equity of external pool participants	<u>368,951,854</u>
Total Equity	<u>\$ 582,760,904</u>

Statement of Changes in Net Assets

Net assets at July 1, 2003	\$ 575,860,248
Net change in investment by pool participants	<u>6,900,656</u>
Net Assets at June 30, 2004	<u>\$ 582,760,904</u>

Cash and Investments with Fiscal Agents

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

Derivative Financial Products

The County of Marin portfolio includes a fair value investment in Local Agency Investment Fund (LAIF) at June 30, 2004 of \$13,276,729. The total fair value amount invested by all public agencies in LAIF was approximately \$58 billion. LAIF did not hold any investments in derivative financial products as of June 30, 2004, but did hold 1.6% of the portfolio in asset backed securities.

**COUNTY OF MARIN**

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

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

**Derivative Financial Products** (continued)

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

Note 3: **Interfund Transactions**

The composition of interfund balances as of June 30, 2004, 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	\$ 166,888	Temporary loan to County Fair
Nonmajor Enterprise Funds	General Fund	<u>16,040</u>	Temporary Loan to Gift Shop
Total		<u>\$ 182,928</u>	

***Advances to/from other funds:***

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Nonmajor Governmental	\$ 121,379	Loan to Department of Public Works
Total		<u>\$ 121,379</u>	

**COUNTY OF MARIN**

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

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

**Transfers**

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

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects	\$ 5,756,464	Transfer funds to finance capital improvements
	Airport Fund	56,434	Provide subsidy to cover portion of Airport operations
	Nonmajor Governmental Funds	2,593,829	Provide subsidy to cover portion of operation
	Nonmajor Governmental Funds	<u>877,177</u>	Provide subsidy to cover portion of road and library operations
		<u>9,283,904</u>	
Capital Projects	General Fund	<u>402,327</u> <u>402,327</u>	Provide subsidy to cover portion of operation
Nonmajor Governmental Funds	General Fund	1,169,288	To close fund & to cover part of operations
	General Fund	750,000	To transfer Vehicle Replacement Fund into General Fund
	Nonmajor Governmental Funds	850,685	To move receipts restricted for debt Service as debt service payments become due
	Nonmajor Governmental Funds	1,222,130	To transfer 20% of tax increment
	Nonmajor Governmental Funds	<u>26,526</u> <u>4,018,629</u>	Provide funds to cover part of Library costs
Nonmajor Enterprise Funds	General Fund	<u>321</u> <u>321</u>	To close Concession Fund and Gift Shop
	Total	<u>\$ 13,705,181</u>	

# COUNTY OF MARIN

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

### Note 4: Capital Assets

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

	Balance 6/30/03	Additions	Deletions	Adjustments	Transfers	Balance 6/30/04
<b>Governmental Activities</b>						
Capital assets, not being depreciated:						
Land	\$ 12,002,749	\$ --	\$ (17,272)	\$ --	\$ --	\$ 11,985,477
Infrastructure land	1,204,963,424	--	--	--	--	1,204,963,424
Construction in progress	<u>37,682,437</u>	<u>5,736,379</u>	<u>(3,218,905)</u>	<u>--</u>	<u>(32,091,813)</u>	<u>8,108,098</u>
Total capital assets, not being depreciated	<u>1,254,648,610</u>	<u>5,736,379</u>	<u>(3,236,177)</u>	<u>--</u>	<u>(32,091,813)</u>	<u>1,225,056,999</u>
Capital assets, being depreciated:						
Infrastructure	276,521,737	--	--	--	6,168,745	282,690,482
Structures and improvements	116,815,673	2,909,811	(97,985)	562,862	25,923,068	146,113,429
Equipment	<u>46,648,932</u>	<u>1,509,077</u>	<u>(9,763,106)</u>	<u>(2,475,214)</u>	<u>--</u>	<u>35,919,689</u>
Total capital assets, being depreciated	<u>439,986,342</u>	<u>4,418,888</u>	<u>(9,861,091)</u>	<u>(1,912,352)</u>	<u>32,091,813</u>	<u>464,723,600</u>
Less accumulated depreciation for:						
Infrastructure	(174,884,292)	(9,422,081)	--	--	--	(184,306,373)
Structures and improvements	(49,957,941)	(5,421,411)	25,239	(524,897)	--	(55,879,010)
Equipment	<u>(31,702,294)</u>	<u>(3,533,692)</u>	<u>9,152,757</u>	<u>--</u>	<u>--</u>	<u>(26,083,229)</u>
Total accumulated depreciation	<u>(256,544,527)</u>	<u>(18,377,184)</u>	<u>9,177,996</u>	<u>(524,897)</u>	<u>--</u>	<u>(266,268,612)</u>
Total capital assets, being depreciated, net	<u>183,441,815</u>	<u>(13,958,296)</u>	<u>(683,095)</u>	<u>(2,437,249)</u>	<u>32,091,813</u>	<u>198,454,988</u>
Governmental activities capital assets, net	<u>\$ 1,438,090,425</u>	<u>\$ (8,221,917)</u>	<u>\$ (3,919,272)</u>	<u>\$ (2,437,249)</u>	<u>\$ --</u>	<u>\$ 1,423,511,987</u>
<b>Business-Type Activities</b>						
Capital assets, not being depreciated:						
Land	\$ 3,541,837	\$ --	\$ --	\$ --	\$ --	\$ 3,541,837
Construction in progress	<u>367,401</u>	<u>92,310</u>	<u>--</u>	<u>--</u>	<u>(25,250)</u>	<u>434,461</u>
Total capital assets, not being depreciated	<u>3,909,238</u>	<u>92,310</u>	<u>--</u>	<u>--</u>	<u>(25,250)</u>	<u>3,976,298</u>
Capital assets, being depreciated:						
Structures and improvements	4,073,709	--	(2,046)	--	--	4,071,663
Equipment	339,346	--	(179,013)	--	--	160,333
Land improvements	<u>1,426,264</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>25,250</u>	<u>1,451,514</u>
Total capital assets, being depreciated	<u>5,839,319</u>	<u>--</u>	<u>(181,059)</u>	<u>--</u>	<u>25,250</u>	<u>5,683,510</u>
Less accumulated depreciation for:						
Structures and improvements	(2,115,671)	(102,092)	2,046	--	--	(2,215,717)
Equipment	(248,085)	(6,692)	171,560	--	--	(83,217)
Land improvements	<u>(500,915)</u>	<u>(114,296)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(615,211)</u>
Total accumulated depreciation	<u>(2,864,671)</u>	<u>(223,080)</u>	<u>173,606</u>	<u>--</u>	<u>--</u>	<u>(2,914,145)</u>
Total capital assets, being depreciated, net	<u>2,974,648</u>	<u>(223,080)</u>	<u>(7,453)</u>	<u>--</u>	<u>25,250</u>	<u>2,769,365</u>
Business-Type activities capital assets, net	<u>\$ 6,883,886</u>	<u>\$ (130,770)</u>	<u>\$ (7,453)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 6,745,663</u>

**COUNTY OF MARIN**

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

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

**Depreciation**

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 6,811,446
Public Protection	1,336,809
Public Ways & Facilities	9,640,906
Health Services	94,936
Public Assistance	25,863
Recreation	368,411
Education	<u>98,813</u>
Total Depreciation Expense – Governmental Functions	<u>18,377,184</u>
Depreciation Expense – Business-Type Activities:	
County Fair	95,554
Airport	<u>127,526</u>
Total Depreciation Expense – Business-Type Activities	<u>223,080</u>
Total Depreciation Expense	<u>\$ 18,600,264</u>

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

**Worker’s Compensation**

The County is self-insured for the first \$300,000 of workers’ compensation claims per occurrence. The County provides for excess workers’ compensation insurance through an outside administrator up to \$5,000,000. Activity related to the collection of premiums and payment of claims is recorded in an internal service fund. There were no significant reductions in insurance coverage from the prior year nor did settlements exceed insurance coverage for the past three fiscal years. Claims liability is based upon the administrator’s estimate of ultimate loss payment. Changes in the balance of claims liabilities during the year are as follows:

	<u>2004</u>	<u>2003</u>
Balance, Beginning of year claims liability	\$ 8,865,582	\$ 8,564,905
Current year claims and changes in estimates	7,778,714	3,652,789
Claims payments	<u>(3,881,835)</u>	<u>(3,352,112)</u>
Balance, End of year	<u>\$ 12,762,461</u>	<u>\$ 8,865,582</u>

**COUNTY OF MARIN**

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

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 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, 2004 is \$3,680,000.

The following represents changes in those aggregate liabilities for the fund at June 30, 2004. Prior year information is not available for comparative purposes, however will be in future years.

	<u>2004</u>
Balance, Beginning of year claims liability	\$ 1,831,000
Current year claims and changes in estimates	3,096,024
Claims payments	<u>(1,247,024)</u>
 Balance, End of year	 <u>\$ 3,680,000</u>

Note 6: **Long-Term Debt**

The following table summarizes the changes in the County's long-term debt for the fiscal year ended June 30, 2004:

	Balance				Balance	Amounts
	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>June 30, 2004</u>	<u>Due Within</u>
						<u>One Year</u>
<b>Governmental Activities</b>						
Revenue bonds payable	\$ 12,695,000	\$ --	\$ 160,000	\$ --	\$ 12,535,000	\$ 180,000
Taxable pension obligation bonds 2003	112,805,000	--	--	--	112,805,000	--
Tobacco settlement asset-backed bonds payable	--	34,345,000	615,197	--	33,729,893	1,144,893
Less: unamortized discount	--	(927,708)	(22,088)	--	(905,620)	--
Loans payable	64,795	--	--	(64,795)	--	--
Certificates of participation 2001	14,100,000	--	215,000	--	13,885,000	230,000
Certificates of participation 1998 Series A	22,235,000	--	685,000	--	21,550,000	715,000
Certificates of participation 1998 Series B	16,480,000	--	1,615,000	--	14,865,000	1,680,000
Capital leases payable	4,781,814	56,276	1,491,496	7,201	3,353,795	1,089,431
Compensated absences	<u>9,533,963</u>	<u>525,593</u>	<u>--</u>	<u>--</u>	<u>10,059,556</u>	<u>8,644,384</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 192,695,572</u>	<u>\$ 33,999,161</u>	<u>\$ 4,759,515</u>	<u>\$ (57,594)</u>	<u>\$ 221,877,624</u>	<u>\$ 13,683,708</u>
<b>Business-Type Activities</b>						
Capital leases payable	\$ 307,045	\$ --	\$ 43,975	\$ --	\$ 263,070	\$ 50,324
Compensated absences	<u>23,788</u>	<u>1,379</u>	<u>--</u>	<u>--</u>	<u>25,167</u>	<u>17,560</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 330,833</u>	<u>\$ 1,379</u>	<u>\$ 43,975</u>	<u>\$ --</u>	<u>\$ 288,237</u>	<u>\$ 67,884</u>

## COUNTY OF MARIN

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

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

The following table summarizes the County's long-term debt liabilities as of June 30, 2004:

	<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, 2004</u>
<b><u>Governmental Activities</u></b>						
<b><u>Certificates of Participation:</u></b>						
1998 Series A (finance various capital projects)	2022	4.00%-5.00%	\$685,000-\$1,645,000	1998	\$ 24,725,000	\$ 21,550,000
1998 Series B (advance refund of outstanding 1991 Certificates)	2011	4.00%-5.00%	\$1,615,000-\$2,135,000	1998	22,110,000	14,865,000
2001 Issue (finance capital improvement projects)	2032	4.70%-7.00%	\$215,000-\$880,000	2001	14,100,000	13,885,000
<b><u>Revenue Bonds:</u></b>						
1998 Refunding Revenue bonds – Marin County Redevelopment Agency	2025	4.00%-5.50%	\$160,000-\$1,320,000	1998	13,425,000	12,535,000
<b><u>Pension Obligation Bonds:</u></b>						
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
<b><u>Asset-Backed Bonds:</u></b>						
Tobacco Settlement Asset-Backed Bonds Payable (Series 2002A & 2002B)	2021	5.75%-6.25%	\$605,017-\$3,485,000	2002	34,345,000	33,729,893

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

<u>Year Ending June 30:</u>	<u>Bonds Payable</u>		<u>Governmental Activities Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,324,893	\$ 8,727,259	\$ 2,625,000	\$ 2,258,759
2006	1,195,000	8,499,206	2,735,000	2,143,189
2007	1,310,000	8,427,918	2,855,000	2,021,199
2008	1,650,000	8,355,501	2,975,000	1,892,364
2009	1,855,000	8,332,275	3,105,000	1,755,793
2010-2014	17,180,000	38,650,618	12,950,000	6,744,031
2015-2019	36,445,000	32,015,938	8,265,000	4,611,879
2020-2024	54,690,000	21,220,021	8,825,000	2,373,908
2025-2029	43,420,000	3,610,365	3,455,000	1,021,909
2030-2034	--	--	2,510,000	182,875
	159,069,893	137,839,101	50,300,000	25,005,905
Less: unamortized discount	(905,620)	--	--	--
Total	<u>\$ 158,164,273</u>	<u>\$ 137,839,101</u>	<u>\$ 50,300,000</u>	<u>\$ 25,005,905</u>

**COUNTY OF MARIN**

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

Note 6: **Long-Term Debt** (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	\$ 9,857,528	\$ 319,560
Less: accumulated depreciation	<u>(6,558,486)</u>	<u>244,181</u>
	<u>\$ 3,299,042</u>	<u>\$ 75,379</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, 2004</u>
<b><u>Governmental Activities</u></b>						
Computer equipment and programs for Treasurer and Tax Collector's Office	2004-2005	5.15%	\$245,350-\$257,986	2000	\$ 1,212,500	\$ 257,985
Computer equipment for Treasurer and Tax Collector's office	2004-2005	4.40%	\$116,202-\$126,652	2001	607,700	247,968
Lucent telephone system	2004-2008	5.09%	\$302,463-\$368,907	1998	3,073,968	1,371,841
Ballot counting equipment	2004-2009	5.25%	\$88,895-\$135,708	1999	931,000	548,978
Computer equipment and programs	2004-2007	2.81%	\$38,757-\$42,121	2003	205,000	122,937
IBM mainframe computer equipment	2004-2007	2.55%	\$240,749-\$266,235	2003	1,266,660	759,675
IBM Infoprinter for Treasurer	2004-2007	2.72%	\$11,867	2004	56,276	44,410
<b><u>Business-Type Activities</u></b>						
Airport hangar capital lease refinancing	2004-2009	5.00%	\$45,791-\$58,450	1999	489,750	263,070

**COUNTY OF MARIN**

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

Note 6: **Long-Term Debt** (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, 2004:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2005	\$ 1,232,457	\$ 62,335
2006	961,184	62,335
2007	828,957	62,335
2008	519,418	62,335
2009	119,866	46,751
2010-2014	<u>27,567</u>	<u>--</u>
Total Debt Service Requirements	3,689,449	296,091
Less Amount Representing Interest	<u>335,654</u>	<u>33,022</u>
Present Value of Remaining Payments	<u>\$ 3,353,795</u>	<u>\$ 263,069</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, 2004

#### 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.

##### B. **Prior Period Adjustments**

###### **Fund Reclassifications**

*General Fund* – the County reevaluated its list of funds and determined that several funds which were reported as part of the General Fund for purposes of GASB 34 presentation in the prior year, should be reported as Agency funds.

###### **Other Restatements**

*General Fund* – To adjust for prior year estimated claims liability for the County's general liability self-insurance program which was previously unreported.

*Governmental Activities* – To remove beginning of the year balance for loan payable previously misreported as governmental activity.

*Golden Gate Tobacco Funding Corporation* – The beginning net assets of the governmental activities on the government-wide statement of activities and the beginning fund balance for the governmental funds have been restated to reflect a change in accounting policy as required by Governmental Accounting Standards Board Technical Bulletin 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. The Golden Gate Tobacco Funding Corporation Fund has been added to the governmental funds and to the governmental activities. The related tobacco securitization debt has been added to the governmental activities.

**COUNTY OF MARIN**

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

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

**B. Prior Period Adjustments** (continued)

**Other Restatements** (continued)

*Nonmajor Enterprise Fund* – To adjust capital asset valuations and depreciation not included in prior years.

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

	Governmental Activities			Business-Type Activities
	Fund Financial Statements		Government-Wide Statement of Activities	
	Other Governmental Funds	General Fund	Total Governmental Activities	
Fund balances/net assets, June 30, 2003, as previously reported	\$ 25,088,698	\$ 129,066,198	\$ 1,432,084,456	\$ 3,771,351
Fund reclassification:				
Agency funds	--	(4,969,736)	(4,969,736)	--
Other restatements:				
Addition of Golden Gate Tobacco Debt Service Fund	6,303,700	--	6,303,700	--
General liability claims	--	(1,831,000)	(1,831,000)	--
Miscellaneous	--	(735,418)	(735,418)	42,260
Addition of tobacco settlement bonds payable	--	--	(33,551,908)	--
Long-term debt	--	--	64,795	--
Total restatements	<u>6,303,700</u>	<u>(7,536,154)</u>	<u>(34,719,567)</u>	<u>42,260</u>
Fund balances/net assets, July 1, 2003 as restated	<u>\$ 31,392,398</u>	<u>\$ 121,530,044</u>	<u>\$ 1,397,364,889</u>	<u>\$ 3,813,611</u>

## COUNTY OF MARIN

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

#### 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) and is an agent multiple-employer public employers retirement system governed by the 1937 Act of the state government code. It covers employees eligible for membership and provides retirement, disability, and death and survivor benefits based upon specified percentages of final compensation as well as annual cost-of-living adjustments after retirement. The annual covered payroll for the County of Marin, California for the year ended June 30, 2004 was \$138,004,000. Contributions are made by both the County and the employees.

In addition to the County's retirement plan, the Employees' Retirement Association includes the plans of the City of San Rafael, the Novato Fire Protection District, and several 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 provided by MCERA to qualified retirees.

##### Funding Policy

Members are required to contribute to the County's plan, based on age at the time of entry into the plan. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. The County's contributions are actuarially determined. The following assumptions were used in the most recent actuarial valuation as of June 30, 2004.

- Real rate of return is assumed to be 4.0% per year.
- Annual inflation rate of 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 fiscal year ended June 30, 2004, the County's annual pension cost was \$21,632,000 and the County contributed \$21,632,000.

**COUNTY OF MARIN**

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

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

Annual Pension Cost (continued)

Funding of the Plan is determined under the “entry age normal” method, which provides for funding of annual normal cost and the unfunded prior service costs over a period of 30 years. This includes amortization of the unfunded present value of credited projected benefits. All administrative costs of the system are borne by MCERA.

Three-Year Trend Information (in thousands)

<u>Year Ending June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 21,632	100.0%	\$ --
2002	18,723	100.0%	--
2001	15,576	100.0%	--

Note 10: **Commitments and Contingent Liabilities**

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

Note 11: **New Accounting Pronouncements**

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

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

**COUNTY OF MARIN**

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

Note 11: **New Accounting Pronouncements** (continued)

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

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

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**COUNTY OF MARIN**

Schedule of Funding Progress  
For the Year Ended June 30, 2004

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
2003	\$ 828,438	\$ 848,983	\$ 20,545	98%	\$ 138,004	14.9%
2002	711,789	798,404	86,615	89%	136,974	63.2%
2001	690,320	701,223	10,903	98%	122,253	8.9%

**COUNTY OF MARIN**

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Budgetary fund balances, July 1	\$ 129,066,198	\$ 129,066,198	\$ 129,066,198	\$ --
Resources (inflows):				
Taxes	89,711,163	92,818,598	94,364,351	1,545,753
Licenses and permits	7,826,688	7,947,393	8,503,673	556,280
Intergovernmental revenues	143,138,923	164,692,905	167,040,563	2,347,658
Charges for services	13,103,339	14,938,425	15,175,477	237,052
Fines and forfeits	4,229,545	4,935,024	8,013,836	3,078,812
From use of money and property	3,687,016	3,972,881	4,582,856	609,975
Miscellaneous	23,993,597	30,037,414	30,022,520	(14,894)
Other financing sources	--	2,590,475	2,646,751	56,276
Amounts available for appropriation	<u>285,690,271</u>	<u>321,933,115</u>	<u>330,350,027</u>	<u>8,416,912</u>
Charges to appropriations (outflows):				
Current:				
General government	75,471,362	101,187,089	63,337,403	37,849,686
Public protection	101,052,496	110,300,504	109,021,866	1,278,638
Public ways and facilities	295,982	543,482	120,329	423,153
Health and sanitation	73,509,781	78,259,682	88,454,434	(10,194,752)
Public assistance	50,537,409	57,573,642	50,272,031	7,301,611
Culture and recreation	7,186,152	7,575,037	6,865,407	709,630
Contingencies reserves	25,000	--	--	--
Debt Service	--	--	4,336,660	(4,336,660)
Other financing uses	4,066,684	9,283,904	9,283,904	--
Total charges to appropriations	<u>312,144,866</u>	<u>364,723,340</u>	<u>331,692,034</u>	<u>33,031,306</u>
Prior period adjustment	(5,655,959)	(5,655,959)	(5,655,959)	--
Budgetary fund balances, June 30	<u>\$ 96,955,644</u>	<u>\$ 80,620,014</u>	<u>\$ 122,068,232</u>	<u>\$ 41,448,218</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 \$ 330,350,027

Differences - budget to GAAP:

    Inception of capital lease (56,276)

    Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes. (2,590,475)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 327,703,276

Uses/outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement \$ 331,692,034

Differences - budget to GAAP:

    Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes. (9,283,904)

Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds \$ 322,408,130

## COUNTY OF MARIN

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

#### **BUDGETARY BASIS OF ACCOUNTING**

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the County prepares 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.